

31st JANUARY 2011

KING ISLAND SCHEELITE LIMITED ("KIS")

REPORT FOR THE QUARTER ENDED 31 DECEMBER 2010

Key points

- *Restored full ownership and control of the Dolphin Project.*
- *Appointed Pacific Road Corporate Finance as Corporate Advisor.*

Having regained 100% interest in this project KIS engaged Pacific Road to assist with strategies to fund the redevelopment of this world class tungsten deposit. The current climate for mining investment provides a positive outlook for this project.

Dolphin Project

Key aspects of the base case mine concept include;

Mine	Underground operation producing average grades of 1.30% WO ₃ based on plans developed by the former underground manager to mine the stopes and pillars left from previous operations.
Metallurgy	Recover 91% into a 65% WO ₃ concentrate based on extensive whole-ore-flotation test work conducted in China.
Processing	Milling 300,000t of ore a year to produce in excess of 3,300t of WO ₃ per annum
Financial	Expecting to generate an IRR of >28% and NPV exceeding \$60m based on current prices and exchange rates.

Our advisors Pacific Road have reviewed our base case assumptions and are working with us to further reduce the risk while increasing the value of this project. These strategies include reducing risk by staging aspects of the development and incorporating additional tonnes from Bold Head, down plunge extensions at Dolphin South and retreatment of the existing tailings dam.

Balfour Project

This project involves a joint venture in which KIS now holds a 70% interest, with Pleiades Resources Pty Ltd holding 30%, to explore the Balfour tenements in NW Tasmania.

We are reviewing results of recent down-hole magnetic surveys conducted after the earlier copper-gold intercepts at Roaring 41S before committing to further drilling of this target.

In conjunction, a review is being undertaken for further tin-tungsten or copper-gold targets within these tenements.

Markets

Tungsten prices continued to improve with AUD equivalent prices for WO₃ concentrate up a further 16% over the quarter. AUD price currently at \$268/mtu has increased 45% in the last 12 months.

Financial

At 31 December the cash balance was \$2.13 million (Sep \$2.33 million). With the Hunan loan and accumulated interest now forgiven, the Company is debt free. A non-cash book profit of \$1.9m was recorded on reversal of the outstanding loan balance. As a result, an (unaudited) profit of \$1.5m is expected for the half year, compared to a \$0.3m loss for the corresponding period last year.

Outlook

Currently we are finalising a short to medium term work programme aimed at further de-risking the project while improving returns, ahead of securing funding for the redevelopment of the mine at Dolphin.

We look forward to advising of the funding strategy being developed to progress the Dolphin project and maximise shareholder value.

For further information see the company's website www.kingislandscheelite.com.au

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