

29th April 2011

KING ISLAND SCHEELITE LIMITED ("KIS")

REPORT FOR THE QUARTER ENDED 31st MARCH 2011

Key points

- *\$5 million capital raised through rights issue and placement.*
- *Staged mine development plan.*
- *Tailings recovery plan advanced.*

Capital Raising

The 1:4 renounceable rights issue announced on 11th March 2011 at \$0.26 a share, closed on the 7th April 2011 with strong support from eligible shareholders taking up 10.2 million new shares and the underwriter a further 5.4 million shares that raised a total of approximately \$4 million.

A further \$1 million was raised through a placement of 3.8 million shares to new institutional and sophisticated investors at \$0.26 per share on 13th April 2011.

This additional capital will enable KIS to progress the development of the Dolphin Project on King Island ahead of any strategic partnership or off-take commitments. Key elements of the mine development include a detailed plan for re-treating the tailings and undertaking exploration drilling at Dolphin South.

Dolphin Project (100%)

The current staged development plan:

- Build the back-end of the processing facility and from late 2012 commence tailings re-treatment to produce 1,000 tonnes WO₃ per annum in a 65% concentrate.
- Construct the front-end of the processing facility, and simultaneously re-habilitate the former underground mine with production sourced from pre-existing stope blocks.
- From early 2014 commence underground operations producing 3,500 tonnes WO₃ per annum in a 65% concentrate.

This is expected to provide a 10 year mine life and NPV of \$79 million based on a concentrate price of US\$270 per MTU (US\$17,550 per tonne) at US\$/ A\$ parity, before any additional mineralisation from Dolphin South.

During this quarter KIS has:

- a) Drilled 110 holes into the tailings, delivering approximately 1,200 samples to the Burnie laboratory for assay and metallurgical test work.
- b) Compiled representative tailings samples and a programme for metallurgical test work to be conducted in China.
- c) Engaged a contract driller to undertake diamond drilling at Dolphin South.
- d) Commenced work on tailings extraction methods and flow sheet design.
- e) Updating dewatering plans, underground rehabilitation and production schedules to accelerate plans for first production.

Anticipated next quarter are the following:

1. Analytical results for the tailings samples.
2. Resource estimate for the tailings.
3. Initial tailings resource recovery test results.
4. Confirm process facility design specifications and commence detailed design work.
5. Commence exploration at Dolphin South to demonstrate additional high-grade tungsten mineralisation down-plunge from the current Dolphin resource.

[Balfour Joint Venture \(BJV\) \(70%\)](#)

During the quarter a prospectivity review was undertaken by a KIS consulting geologist on the tin-tungsten and copper-gold targets within BJV tenements. This review provides the basis for developing future drilling programmes. KIS has a 70% interest in the BJV with Pleiades Resources Pty Ltd (30%).

[Markets](#)

Tungsten prices continued to strengthen this quarter with prices for WO₃ contained in 65% concentrate up a further 18% over the quarter. The current price is approximately US\$340 per MTU.

[Financial](#)

At 31st March 2011 the cash balance was \$1.67 million (December 2010 \$2.13 million). As a result of the recent capital raising activities the current cash balance is \$6.31 million.

[Outlook](#)

KIS is currently completing the Dolphin feasibility study, incorporating the tailings retreatment plan with reopening of the mine.

The short-term objective is to secure the funding necessary to bring the tailings into production and to secure early cash flow for the Dolphin Project.

Dewatering and underground rehabilitation at Dolphin is anticipated to commence by the end of this year.

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

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