

Report for the Quarter Ended 31 December 2016



ASX: KIS

Market Capitalisation	\$8.7 million
Shares on Issue	188.6 million
52 Week High	8.5 cents
52 Week Low	4.0 cents
Share Price	4.6 cents

Board of Directors

Johann Jacobs	Chairman
Allan Davies	Director
Chris Ellis	Director

Tungsten APT USD 19,750 / tonne (27 January 2017)

King Island Scheelite Limited (KIS)

Through its 100% Dolphin Project on King Island, Tasmania, KIS has a 100% interest in one of the world's richest tungsten deposits and could meet a significant proportion of the world's tungsten requirements over a minimum 13 years.

King Island Scheelite Limited

ABN 40 004 681 734

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www.kingislandscheelite.com.au

HIGHLIGHTS

- The Environmental Assessment Report was submitted to EPA in November 2016
- Tungsten markets remain depressed with limited short-term potential for significant price increases
- As a result of the current depressed tungsten market the Board is examining the potential of producing a lesser amount of concentrate at a lower grade – these studies will continue throughout the next two quarters
- A low-cost start-up option of reprocessing tailings from previous mining operations is being reviewed
- Pumping of water out of the open cut void continued so as to maintain a consistent level in the sump located at the bottom of the old open cut
- \$1 million Convertible Notes were converted into shares during the Quarter

31 January 2017

King Island Scheelite Limited (**Company**) is pleased to present its activity report for the quarter ended 31 December 2016.

Environmental Approvals

The Environmental Assessment Report, allowing an eight year opencut mine was completed and submitted to the Environmental Protection Agency for its review and ultimately its approval so as to enable them to issue an Environmental Protection Notice (Amended Approvals), allowing the mine to be operated in accordance with the development plan.

Low Cost Option

One of the low cost options currently being considered is the reprocessing of tailings produced from previous mining operations. Based on previous studies there are substantial quantities of reasonable grade material to be mined at a low cost. A composite tailings sample was prepared from a number of test pits across the resource and submitted for detailed metallurgical assessment involving classification, magnetic separation and flotation processes. Preliminary results are encouraging, but the full test program will not be completed until the end of the March Quarter.

Definitive Feasibility Study (“DFS”)

Work continued on the consolidation of recent studies into a Definitive Feasibility Study. This work can only be completed when the final environmental approvals have been obtained.

Pit Pumping

Consistent with our previous plans, the inflow of water, predominantly from rain water runoff, is being managed on a regular basis with the installed smaller pump utilized to maintain a consistent water level in the sump. After a relatively wet third quarter rainfall of 486 mm, the current quarter experienced 284mm of rain.

APT Market

APT (Ammonium ParaTungstate) is the product used as a benchmark price for the sale of WO_3 concentrate, as it is regularly quoted in industry journals. APT reached an all-time high of \$460-500/mtu in May 2011, however then declined rapidly reaching nine-year lows late in 2015 and remaining depressed throughout most of 2016, averaging US\$190.00 per mtu (A\$250.00 per mtu).

The average price for the September quarter was US\$19,100 per tonne (A\$25,200 per tonne) with the average for the December quarter US\$19,400 per tonne (A\$25,900 per tonne).

Although the prices quoted above are greater than our anticipated production costs, financing the project – both debt and equity – would be extremely difficult and risky. The major impact on the market has been from the drop in specialty steel demand.

Finance

Convertible Notes

During the Quarter, \$1 million of the Convertible Notes plus accrued interest were converted into 23.4 million shares in the Company. Total shares now outstanding amount to 188.6 million.

Cash Balance

As at 31 December 2016 the Company's cash balance was \$1.7 million.

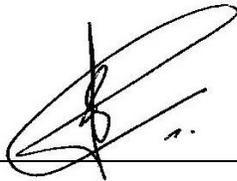
Exploration Activities

KIS group activities have related to exploration, there have been no activities relating to production or development.

	Tenement reference	Nature of interest
Mining tenements held at the end of the quarter	Exploration Licence EL 19/2001 at Grassy, King Island, TAS (91 sq kms)	100% ownership
	Mining Lease Application MLA 1M/2006 at Grassy, King Island, TAS (544 hectares)	100% ownership
Mining tenements acquired during the quarter	Nil	Nil
Mining tenements relinquished during the quarter	Nil	Nil
Beneficial percentage interests held in farm-in or farm-out agreements at the end of the quarter	Nil	Nil
Beneficial percentage interests in farm-in or farm-out agreements acquired or disposed during the quarter	Nil	Nil

Following is a summary of the expenditure incurred on exploration activities during the quarter:

	\$'000
Dewatering	25
Project management	16
Mine planning & geological work	38
Environmental	44
Water & tailings management	5
Other Feasibility Study work	2
	<u>130</u>



Johann Jacobs

Chairman

31 January 2017

King Island Scheelite Limited

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

Competent Person's Statement

Previously Released Information

This Quarterly Activities Report refers to information extracted from the following reports, which are available for viewing on the Company's website www.kingslandscheelite.com.au:

- 24 April 2015 Updated Resource Statement.
- 21 September 2015 Updated Reserve Statement
- 20 October 2015 Updated Reserve Statement Released 21 September 2015

The Company confirms it is not aware of any new information or data that materially affects the information included in the original market announcement, and, in the case of estimates of Mineral Resources and Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcements continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings presented have not been materially modified from the original market announcement.

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Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

KING ISLAND SCHEELITE LIMITED

ABN

40 004 681 734

Quarter ended ("current quarter")

31 December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(130)	(221)
(b) development	-	-
(c) production	-	-
(d) staff costs	-	-
(e) administration and corporate costs	(151)	(407)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4	8
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)	47	66
1.9 Net cash from / (used in) operating activities	(230)	(554)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	(1)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	(1)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(12)	(12)
3.5	Proceeds from borrowings	-	1,000
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	(12)	988

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,950	1,275
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(230)	(554)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	(1)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(12)	988
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	1,708	1,708

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	25	12
5.2 Call deposits	1,683	1,938
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,708	1,950

6. Payments to directors of the entity and their associates

	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	43
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Payment made to Directors and their associate entities – Directors' fees \$35,000; reimbursement of expense \$8; and consulting fees \$Nil.

7. Payments to related entities of the entity and their associates

	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-

7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

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Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other – Unsecured redeemable convertible notes	1,022	1,022

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

The Company obtained \$2,000,000 committed funding (excluding interest) through the issue of four \$500,000 unsecured redeemable convertible notes (Notes).

The Company drew \$1,000,000 during December 2015 (Tranche 1) and the remaining \$1,000,000 during August 2016 (Tranche 2). Conversion or repayment is at the Company's sole discretion.

Principal terms of the Notes are:

1. Face value of \$500,000 each Note
2. Interest rate of 8% per annum
3. Unsecured
4. Maturity date is 31 December 2017 or on being repaid, whichever is earlier
5. Conversion or repayment is at the Company's sole discretion:
 - a. The number of Share to be issued on conversion of Notes is (Face value of the Notes being converted plus interest accrued) / Conversion Price
 - b. Conversion Price is the lower of:
 - i. the VWAP of Shares over the 30 trading days ending on trading day before the conversion date, discounted by 15%; and
 - ii. if, at any time during the conversion period, the Company raises at least \$10,000,000 in gross proceeds through equity markets (Capital Raise) and conversion is within three months of the Capital Raise, the price that is equal to the issue price under the Capital Raise discounted by 15%.

At the Company's Annual General Meeting held on 2 November 2016, members resolved to approve the issue of Company shares on any conversion of up to four Notes, each with a face value of A\$500,000 convertible into shares.

A part conversion of the Notes was made on 7 December 2016 for a total value of \$1,094,980 (23,397,000 shares at 4.68 cents each). Convertible Notes at 31 December 2016 total \$1,021,721.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	94
9.2 Development	-
9.3 Production	-
9.4 Staff costs	-
9.5 Administration and corporate costs	224
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	318

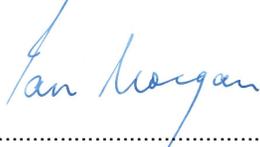
Mining exploration entity and oil and gas exploration entity quarterly report

10.	Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2	Interests in mining tenements and petroleum tenements acquired or increased	Exploration Licence EL19/2001 at Grassy, King Island, TAS (91 sq kms)	Ownership of mining tenement	100%	100%
		Mining Lease Application 1M/2006 at Grassy, King Island, TAS (544 hectares)	Ownership of mining tenement	100%	100%

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:



 (Director/Company secretary)

Date: 31 January 2017

Print name: Ian Morgan

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.