

Report for the Quarter Ended 30 September 2017

KING ISLAND
SCHEELITE



ASX: KIS

| | |
|-----------------------|---------------|
| Market Capitalisation | \$8.0 million |
| Shares on Issue | 209.6 million |
| 52 Week High | 7.0 cents |
| 52 Week Low | 2.5 cents |
| Share Price | 3.8 cents |

Board of Directors

| | |
|---------------|----------|
| Johann Jacobs | Chairman |
| Allan Davies | Director |
| Chris Ellis | Director |

Tungsten APT USD 282.50/mtu
(23 October 2017)

King Island Scheelite Limited (KIS)

through its 100% Dolphin Project on King Island, Tasmania is one of the world's richest tungsten deposits.

King Island Scheelite Limited

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HIGHLIGHTS

- The Tasmanian EPA approved the Dolphin Project EER and accordingly issued EPN 7442-2 on 2 October 2017
- This Notice determines the framework around which the Dolphin Project will be developed
- The Board continues to examine the viability of alternative processing methodologies targeting lower capital and operating costs. Studies which commenced last year will continue throughout the next two quarters to find the optimum development plan
- Further ore sorting tests were conducted in Europe and although some positive results were achieved it was decided to re-visit some earlier work that used a different sensing technology. This work is on-going.
- Crushing test work commenced to investigate more efficient breakage of ore prior to gravity separation. Initial results using a vertical shaft impact (VSI) crusher are encouraging.
- Pumping of water out of the open cut void continues to maintain a consistent level in the sump
- The tungsten market rebounded significantly to a high of US\$312.50 per mtu for APT, since declining to the current level of US\$282.50
- Temporary closure of some Chinese production, resulted in shortage of concentrate in the market

31 October 2017

King Island Scheelite Limited (**Company**) presents its activity report for the quarter ended 30 September 2017.

Environmental Approvals

The Environmental Effects Report ("EER"), allowing for an eight-year opencut mine, was completed and submitted to the Environmental Protection Agency ("EPA") for its review, during the December 2016 quarter. EPA approved the EER and accordingly issued an Environmental Protection Notice 7442-2, on 2 October 2017.

All relevant approvals for the operation of an open cut mine have now been obtained. Prior to commencement of operations, detailed operating plans must be submitted to various authorities. The Company is currently drafting the most important of these.

Ore sorting

Earlier tests on ore sorting conducted in Australia and overseas proved to be inconclusive, it was therefore decided to test additional samples from a different part of the orebody. The splits from these samples were also not at the level required. A different mineral detection method for sorting is currently being investigated. If thought to be applicable this method will be tested in the next quarter/s.

Crushing test work

Scheelite is softer than the rock in which it is hosted and breaks up preferentially in processing. KIS is trialing a fine crushing machine (VSI) in place of grinding, to assess the possibility of producing a feed to gravity separation that has less fine scheelite than produced in a conventional grinding circuit. Less fine scheelite would lead to better recovery of scheelite into concentrate. This work will be conducted over the next 2 quarters.

Development Plan

The additional testwork currently being undertaken to develop the optimum flow sheet is anticipated to be complete by the end of the first quarter 2018. The Company will continue discussions with potential offtake partners during this time, anticipating an investment decision in the third quarter.

Pit Pumping

Consistent with our previous plans, the inflow of water, from predominantly rain water runoff, is being managed with the installed smaller pump utilized on a regular basis to maintain a consistent water level in the sump. After a moderate June 2017 quarter, with rainfall of 268mm, the current quarter experienced a wetter 482mm of rain.

APT Market

APT (Ammonium ParaTungstate) is the product used as a benchmark price for the sale of WO₃ concentrate, as it is regularly quoted in industry journals. APT reached an all-time high of US\$460-500/mtu in May 2011 however then declined rapidly, reaching nine-year lows late in 2015 and remaining depressed throughout most of 2016 and into 2017, averaging US\$190 per mtu (A\$250 per mtu).

Tungsten markets rebounded significantly during the quarter with the average price for the September quarter being US\$260 per mtu (A\$329 per mtu) compared to the average for the June 2017 quarter of US\$219 per mtu (A\$292 per mtu). The high for the quarter was US\$312.50 per mtu.

After peaking in early September, tungsten concentrate prices in China have fallen steadily on destocking and profit taking by suppliers, and a lack of buying interest. A resumption of the recent price rises in the next six-month period will depend on the amount of Chinese production capacity that is permanently removed from the market after environmental and “illegal” mining crackdowns are finished.

In July 2016, the government launched environmental checks on tungsten producers in Jiangxi province, leading all APT producers in Ganzhou to stop production. The plants are not allowed to reopen until their facilities meet environmental standards and to date, only larger producers have managed to restart with a lot of metal producers in the region apparently still not compliant.

Johann Jacobs attended the Annual General Meeting of the industry body, International Tungsten Industry Association and had positive meetings with industry participants.

Finance

Cash Balance

As at 30 September 2017 the Company’s cash balance was \$1.3 mil. 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 project activities during the quarter:

| | \$'000 |
|--------------------------------------|-------------|
| Dewatering | 35 |
| Project management | 16 |
| Mine planning & geological work | 6 |
| Metallurgical and laboratory testing | 7 |
| Environmental | 6 |
| | <hr/> |
| | 70 |
| | <hr/> <hr/> |



Johann Jacobs

Chairman

31 October 2017

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

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")

30 September 2017

| Consolidated statement of cash flows | Current quarter \$A'000 | Year to date (3 months) \$A'000 |
|---|------------------------------------|--|
| 1. Cash flows from operating activities | | |
| 1.1 Receipts from customers | - | - |
| 1.2 Payments for | | |
| (a) exploration & evaluation | (70) | (70) |
| (b) development | - | - |
| (c) production | - | - |
| (d) staff costs | - | - |
| (e) administration and corporate costs | (178) | (178) |
| 1.3 Dividends received (see note 3) | - | - |
| 1.4 Interest received | 3 | 3 |
| 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) | - | - |
| 1.9 Net cash from / (used in) operating activities | (245) | (245) |
| 2. Cash flows from investing activities | | |
| 2.1 Payments to acquire: | | |
| (a) property, plant and equipment | - | - |
| (b) tenements (see item 10) | - | - |
| (c) investments | - | - |
| (d) other non-current assets | - | - |

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Mining exploration entity and oil and gas exploration entity quarterly report

| Consolidated statement of cash flows | | Current quarter \$A'000 | Year to date (3 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 | - | - |

| | | | |
|-------------|---|------------|------------|
| 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 | (5) | (5) |
| 3.5 | Proceeds from borrowings | - | - |
| 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 | (5) | (5) |

| | | | |
|------------|--|--------------|--------------|
| 4. | Net increase / (decrease) in cash and cash equivalents for the period | | |
| 4.1 | Cash and cash equivalents at beginning of period | 1,502 | 1,502 |
| 4.2 | Net cash from / (used in) operating activities (item 1.9 above) | (245) | (245) |
| 4.3 | Net cash from / (used in) investing activities (item 2.6 above) | - | - |
| 4.4 | Net cash from / (used in) financing activities (item 3.10 above) | (5) | (5) |
| 4.5 | Effect of movement in exchange rates on cash held | - | - |
| 4.6 | Cash and cash equivalents at end of period | 1,252 | 1,252 |

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| 5. Reconciliation of cash and cash equivalents | Current quarter \$A'000 | Previous quarter \$A'000 |
|---|------------------------------------|-------------------------------------|
| at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts | | |
| 5.1 Bank balances | 5 | 34 |
| 5.2 Call deposits | 1,247 | 1,468 |
| 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) | 1,252 | 1,502 |

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 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

| Current quarter \$A'000 |
|------------------------------------|
| 65 |
| - |

Payment made to Directors and their associate entities – Directors' fees \$31,000; reimbursement of expense \$9,000; and consulting fees \$25,000.

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

- 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

| Current quarter \$A'000 |
|------------------------------------|
| - |
| - |

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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 | 79 | 79 |
| 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). 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 Shares 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).

A further part conversion of the notes was made on 26 June 2017 for a total value of \$825,824 (20,960,000 shares at 3.94 cents each).

Convertible Notes at 30 June 2017 totalled \$239,036.

| 9. Estimated cash outflows for next quarter | \$A'000 |
|--|------------|
| 9.1 Exploration and evaluation | 186 |
| 9.2 Development | - |
| 9.3 Production | - |
| 9.4 Staff costs | - |
| 9.5 Administration and corporate costs | 268 |
| 9.6 Other (provide details if material) | - |
| 9.7 Total estimated cash outflows | 454 |

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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 1ML/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 October 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.