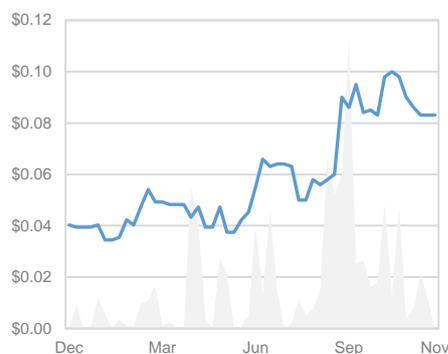


14th September 2018

Rating: **Outperform**

Target Price: **\$0.62**

KIS 12-month share price



KIS AU **Outperform**
Price A\$0.083

Valuation	A\$	0.61
12-month target	A\$	0.62
12-month TSR	%	647%
GISC sector		Materials
Market cap	A\$m	21.72
30-day avg turnover	A\$m	89,266
Shares on issue	m	260

Key investment economics

Metric	LOM
Revenue/mtu	A\$325/mtu
EBITDA/mtu	A\$172/mtu
EBIT/mtu	A\$145/mtu
NPAT/mtu	A\$103/mtu
Opex/mtu	A\$153/mtu
AISC/mtu	A\$162/mtu
AIC/mtu	A\$185/mtu
Average APT Price	U\$315/mtu
EV/EBITDA	0.049x
P/EV	0.004x
EV/Resource	1.931x

King Island Scheelite (KIS AU) High-grade tungsten in our own backyard

Key Points

- ▶ We are initiating coverage of KIS with a Outperform rating and a 12-month target price of \$0.62/share.
- ▶ KIS has defined a high-grade 3.14Mt open pit Ore Reserve at the Dolphin Project. At 0.73%, Dolphin is the highest WO₃ grade globally.
- ▶ Current Feasibility Study estimated to be officially released by the end of 4Q18.
- ▶ Tight capital structure; Management and Board and Top 20 account for 27.2% and 82.2% of ownership structure respectively.

High-grade tungsten pedigree – shovel ready

- ▶ We are initiating coverage on King Island Scheelite (KIS.ASX) with an Outperform recommendation and a target price of \$0.62/sh as our base case scenario. KIS has already completed a Definitive Feasibility Study on its flagship development product, the Dolphin Project, with another Feasibility Study estimated to be officially released by the end of 4Q18. KIS is well-funded and shovel ready for first production to resume at the Dolphin Scheelite Mine in 2020.

3.14Mt high-grade Ore Reserve – highest amongst peers globally

- ▶ Since restarting the current Feasibility Study in 2015, several drilling programs have discovered 9.16Mt of Indicated Resource and 3.14Mt of open-pit Ore Reserve at a world-class 0.73% grade. Operationally, the Dolphin Scheelite Mine will extract 400,000tpa over an 8-year open-cut LOM with potential to extend operations underground for an additional 9-years.

\$0.61/sh valuation based on standalone Dolphin redevelopment scenario

- ▶ We base our target price on a re-development scenario for the Dolphin Scheelite Mine that envisages a 3.14Mt open-cut mining inventory at a 0.73% grade producing on average 3,235 tpa of scheelite concentrate at 65% over an 8-year LOM. We assumed A\$10m of sustaining capital and A\$60m of developmental capex to redevelop the existing Old Grassy processing plant. Our standalone post-tax NPV valuation for the Dolphin Project is A\$157.48.

Tight capital structure

- ▶ KIS boast a tight capital structure with a strong alignment between management and shareholders. 82.2% of the share registry is attributable to the top 20, with Management and Board contributing 27.2% of share ownership, indicating strong conviction in the project to deliver success for its shareholders

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INVESTMENT SUMMARY

Dolphin Tungsten Project is near-development and ready to fire

- ◆ The Dolphin Tungsten Project is King Island Scheelite's 100% owned flagship asset on King Island – situated in Bass Strait between Tasmania and mainland Australia.
- ◆ KIS are looking at a world- class 400,000 tpa open-pit tungsten operation at 0.73% WO3 over an initial 8-year life of mine (LOM).
- ◆ Dolphin's open pit operation has capacity to produce on average 3,235 tpa of scheelite concentrate at 65%, converting to a healthy tradable 194,095 mtu/annum of WO3.
- ◆ Potential for an additional nine-year mine life with underground Indicated Resources of 4.16Mt @ 1.20% WO3.

Valuation and risks: Offtakes key for KIS realising potential

- ◆ We value KIS using a discounted cashflow approach, yielding a base case \$0.61/share in equity valuation.
- ◆ KIS's investment case is dependent upon the tungsten spot price and their ability to lock in offtake agreements with end- users of WO3. Better visibility in production contract prices are crucial to increasing investor confidence.
- ◆ Our Blue-Sky case scenario implies KIS can execute their strategy to improve recoveries by 2.5% and reduce OPEX by 5%. Additionally, it infers forecasts for a sustainable APT price of between \$310mtu - \$320mtu in the medium-term. Overall, if all eventuates, we estimate a potential uplift to \$0.93/sh.

Tungsten market: Medium-term fundamentals remain intact

- ◆ Global tungsten demand is likely to face uncertainty in the short-term due to uneven economic growth on the back of a hawkish interest rate environment and the gradual unwinding of OECD country balance sheets.
- ◆ We expect overall global tungsten production to soften with growth of the two largest tungsten consumers (China and Europe) stabilising to 2.8% pa by 2021, reducing global demand growth to 4.7% CAGR - This compares to a CAGR of 5.4% in 2000-2013. Still, despite the weaker growth, this still implies incremental tungsten demand of ~ 3000 t W per annum.
- ◆ Supply disruptions in China - historically accounted for ~ 83% pa of tungsten production - provide opportunity for tungsten miners to take market share.

Management: Experience personnel with healthy shareholdings

- ◆ King Island Scheelite boasts an experienced board and management with relevant experience in operating successful projects. Somewhat more alluring is that company personnel have major holdings in KIS – Management and Board hold 27.2% of share registry ownership, indicating strong alignment of interests.

Feasibility Study: Results imminent

- ◆ Coming out from halted progress in 2014 due to low tungsten prices, we're now expecting the official release of the feasibility study outlining the finalised mine design and plan in 4Q18

KING ISLAND SCHEELITE

King Island Scheelite: Overview and Strategy

- King Island Scheelite Limited (“KIS”) is an Australian-based mineral exploration and development company whose primary asset is a 100% interest in the high-grade, low capex and robust Dolphin Project operation – located on King Island. Dolphin is technically shovel ready after a recent \$1.375 million capital raising, but further financing and offtake negotiations are expected to be wrapped up before 2H19 allowing for first production to proceed in line with expectations for 2020.

Figure 1: King Island (Dolphin Project) location – indicated by red circle on map



DOLPHIN PROJECT OVERVIEW

- The Dolphin Project is the highest-grade tungsten development project globally. The current feasibility study (“FS”) – estimated completion by end of 4Q18 – outlines an initial eight-year open cut 400,000tpa operating scenario, with an enticing 73% WO₃ grade. The operations processing capacity permits 100,000t per quarter with expected 65% recoveries. Overall, the project should average 3,235 tpa of scheelite concentrate with 65% contained WO₃, converting to a healthy tradable 194,095 mtu/annum of WO₃.
- KIS currently has an exploration license (EL 19/2001 at Grassy, King Island, 91 sq kms) expiring 14 December 2018) – 100% interest. They also hold a mining lease (1M/2006 at Grassy, King Island, 5444 hectares) expiring 5 June 2029 – 100% interest. The exploration license is to be renewed in full according to latest annual report (Annual Report 2018).

Dolphin Project - Mineral Resource

- ◆ Scheelite (Ca WO₄) is the main mineral of economic importance to the Dolphin Project. The resource estimate outlined in the Definitive Feasibility Study (“DFS”) in 2012 were compiled by an independent consultant – T Callaghan of Resource and Exploration Geology Pty Ltd – and included 681 drill holes for 62,326 meters undertaken by a subsidiary of Rio Tinto, GeoPeko.
- ◆ The Mineral Resource Estimates (“MRE”) for Dolphin are summarised in Table 1 and were completed according to guidelines of the 2012 JORC code. The MRE is an updated version of the initial JORC 2004 MRE outlined in the 2012 DFS.
- ◆ The upgrading of the remnant Dolphin MRE was a result of a 42 hole, 1,660m diamond drilling infill and verification programme.
- ◆ The MRE has been classified as Indicated Resource as there is a high-degree of confidence in the simple geological model and the deposit has been well-drilled and understood. Much of the resource is located east of the main Dolphin pit in remnant resources accessed by the historical Dolphin underground mine.

Table 1: Updated Dolphin JORC Mineral Resource at 2015 (Inc. of Ore Reserves)

	0.20% WO ₃ % cut off			0.50% WO ₃ % cut off		
	Mt	WO ₃ %	Tonnes WO ₃ %	Mt	WO ₃ %	Tonnes WO ₃ %
Indicated	9.6	0.9	86,400	6.62	1.14	75,470
Total	9.6	0.9	86,400	6.62	1.14	75,470
	Open Cut 0.20% WO ₃ % cut off			Underground 0.50% WO ₃ % cut		
Total	4.12	0.74	30,490	4.16	1.2	49,290

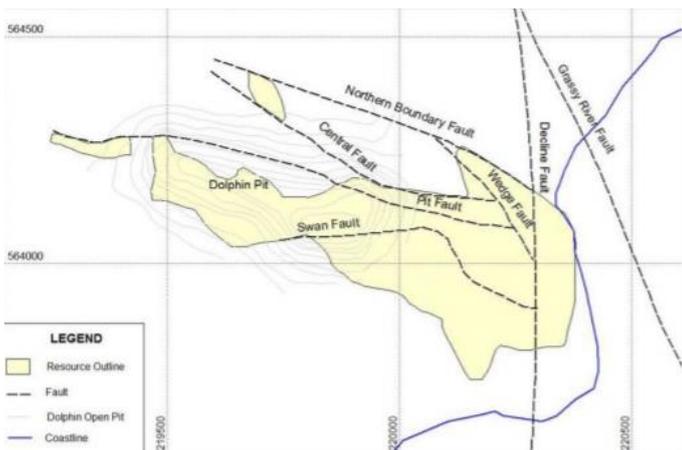
Dolphin Project – Ore Reserve

- ◆ In accordance with the JORC 2012 guidelines, the Ore Reserves estimates were conducted by SRK consulting. The open-cut Ore Reserves were estimated by applying modifying factors to the existing MRE; these included practical pit limits based on the Breakeven Strip Ratio (BESR). Other key modifying factors included geotechnical parameters, recovery and dilution factors.
- ◆ The updated Ore Reserves, summarised in Table 2, were based on the inclusion of a 2nd stage cut back, extending the ultimate pit limits to the east and maximum depth of RL – 140.
- ◆ It needs to be noted that are JORC-2004 compliant historic tailings, however, due to them not being economically viable to process at current tungsten prices they won't be included in the valuation.

Table 2: Updated Dolphin JORC Ore Reserves at 2015

	0.20% WO ₃ % cut off			0.50% WO ₃ % cut off		
	Mt	WO ₃ %	Tonnes WO ₃ %	Mt	WO ₃ %	Tonnes WO ₃ %
Indicated	9.6	0.9	86,400	6.62	1.14	75,470
Total	9.6	0.9	86,400	6.62	1.14	75,470
	Open Cut 0.20% WO ₃ % cut off			Underground 0.50% WO ₃ % cut		
Total	4.12	0.74	30,490	4.16	1.2	49,290

Figure 2: Dolphin Resource Projections



Source: KIS

Figure 3: Dolphin Open-Cut JORC Reserves – Site Layout



Source: KIS

Dolphin Project - Current Mine Plan

- ◆ The current mine plan for Dolphin in our valuation is aligned with the updated Ore Reserve Statement (2015). There has been no meaningful change in the pit designs from the initial MRE-2004.
- ◆ The updated Dolphin OC (Reserve Statement 2015) is planned to mine 400,000tpa for eight years to produce WO₃ concentrate (Figure 4). This has been estimated utilising a twenty-four hour, seven days per week operation. The previous operation’s production rate was estimated at 300,000tpa. The mine design uses a strip ratio of 9:7:1 – with waste disposed of into the sea (Figure 3). The final mine plan is still to be finalised, estimated for a 4Q18 official release.

Figure 4: Dolphin Project production schedule: calculations based on 400,000tpa sourced from Reserve Statement 2015

Source: KIS Updated Reserve Statement (2015), Analyst Calculations



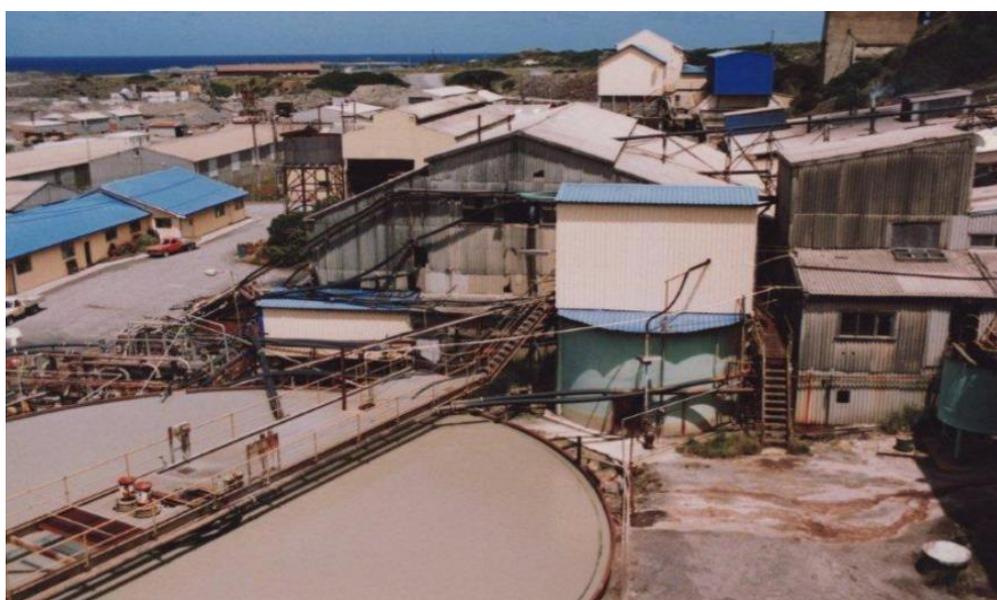
Dolphin Project – Current Mining Status

- ◆ Historical mining at the Dolphin Scheelite Mine yielded 2.6Mt at 1.0% WO₃ from intermittent operations between 1917 and its closure in 1990 on the back of low tungsten prices.
- ◆ Dolphin is in re-development and mining scheduled to restart in 2020. The operations rely on extracting and milling 400,000tpa of WO₃ at 73%, processed at 67.5% recoveries into 3,235 tpa of scheelite concentrate with 65% contained WO₃.

Dolphin Project – Processing Plant

- ◆ The Dolphin Project plans to re-develop the processing plant on site with an annual capacity of 400,000 tonnes, with base case expectations of 67.5% recoveries.
- ◆ Laboratory test work is still in progress, but recent results point to a simple and cost-effective gravity-based flowsheet (up the front), together with a small flotation circuit (down the back), being employed for project start up. The replacement the old work based on the flotation of 100% of the RoM ore is expected to yield appreciable savings in both opex and sustainable capex.
- ◆ Once in production the processing plant may be expanded to increase current 67.5% plant recovery – we've used a 2.5% recovery increase for our blue-sky scenario during valuation, implying recoveries of 70% in best-case.

Figure 5: Old Grassy Processing Plant (Dolphin Scheelite Mine)



Source: KIS (from TMEC presentation in 2015)

Dolphin Project – Infrastructure and Logistics

- ◆ The estimated mine demand of 8 megawatts will be provided by a diesel power station, under a build-own-operate contract. King Island Scheelite are also considering the feasibility of incorporating renewable power generation to augment power supply – potential for reduction in power costs by 20%.
- ◆ The Dolphin Scheelite Mine's raw water supply will be drawn from the existing Lower Grassy Dam – there is enough raw water capacity to meet site requirements.
- ◆ Fuel will be supplied via King Island Ports who currently purchase liquid fuels in bulk and distribute to the power station and re-sellers. According to the DFS, the current plan is for KIS to construct fuel storage and distribution systems.
- ◆ The workforce is predominantly FIFO. The Regional Express Airline (REX) flies daily services between King Island and Melbourne, with adjacent semi-regular flights also being flown from Launceston and Burnie to the island.
- ◆ Given the average 3,235 tpa concentrate production, transport isn't a major factor.

FEASIBILITY STUDY – Key technical activities as part of study

- ◆ The current FS commenced in 2014 but was put on hold as depressed environment surrounding the tungsten spot market – the weekly U.S spot price for tungsten ore concentrate viciously trended downwards from \$321-\$353 p/mtu in January 2015 to \$125-\$130 p/mtu by December 2015. The current FS is scheduled to be completed and officially released in 4Q18, providing the foundation to start looking forward to production.

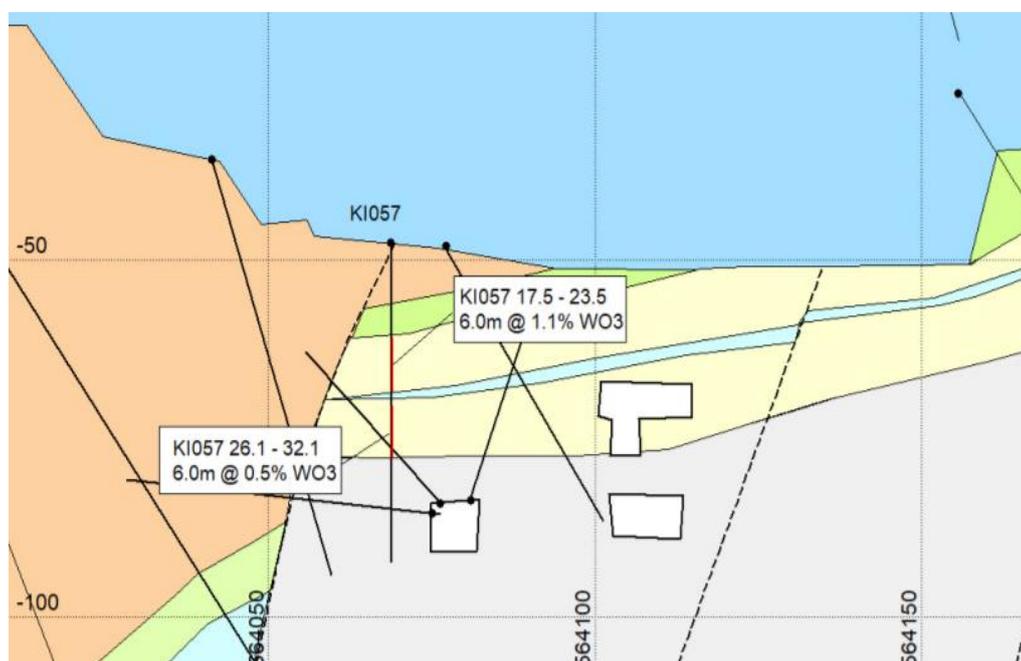
Drilling Programme and Updated Reserve Statement (April 2015)

- ◆ A 42 hole, 1,660m diamond drilling programme completed in 4Q14, which paved the way for a resource upgrade in the open cut Ore Reserve (refer to updated Reserve Statement 2015). The intercepts returned from the program are as follows:
 - **KIS017** – 8m @ 0.70% WO₃ from 5m;
 - **KIS024** – 26.5m @ 0.70% WO₃ from 2.5m;
 - **KIS026** – 12m @ 0.80% WO₃ from 3m; and,
 - **KIS044** – 8m @ 0.60% WO₃ from 17m.

Metallurgical Drilling and Exploration Programme (April 2018)

- ◆ A metallurgical drilling and exploration programme in the de-watered void of the previous Dolphin Scheelite mining operation. Ore was recovered from three locations below the current pit floor – “B-Lens”, “C-Lens” and “Banded Footwall Beds”. The results were positive, confirming tenor of resource (refer to Dolphin Project Results April 2018):
 - **KIS056** – 17.3m @ 0.82% WO₃ from 8.7m and 8.5m @ 0.53% from 51.5m;
 - **KIS057** – 14.6m @ 0.71% WO₃ from 17.5m and 6m @ 1.13% from 17.5m;
 - **KIS058** – 7.3m @ 0.87% WO₃ from 6.8m; and,
 - **KIS059** – 6.6m @ 0.1.23% WO₃ from 7.7m.

Figure 6: Dolphin Section 219920E – Hole 2 (KIS057)



Geotechnical Drilling Programme (October 2018)

- ◆ In August 2018, KIS embarked on a two-hole geotechnical drilling program. The results from both holes were positive (refer to Dolphin Geotechnical Drilling Update October 2018) – Figure 4 and 5. Results were as followed:
 - ◆ **K1064**
 - “B Lens”: 2.0m @ 0.70% WO₃ from 122.6m;
 - “C Lens”: 7.4m @ 1.4% WO₃ from 152.5m; and,
 - “C Lens”: 615.6m @ 0.4% WO₃ from 159.9m.
 - ◆ **K1070**
 - “B Lens”: 4.4m @ 1.9% WO₃ from 126.9m;
 - “C Lens”: 4.3m @ 0.4% WO₃ from 152.0m; and,
 - “C Lens”: 6.6m @ 2.2% WO₃ from 156.3m.

Figure 7: Dolphin Open Pit, Resource Outline and Geotechnical Hole Drill Collars (ISG)

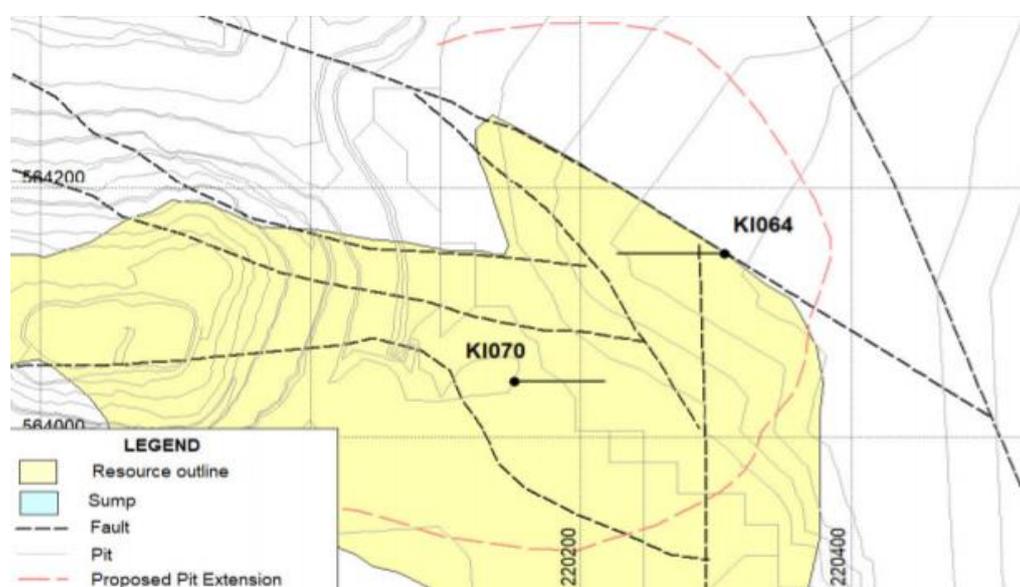
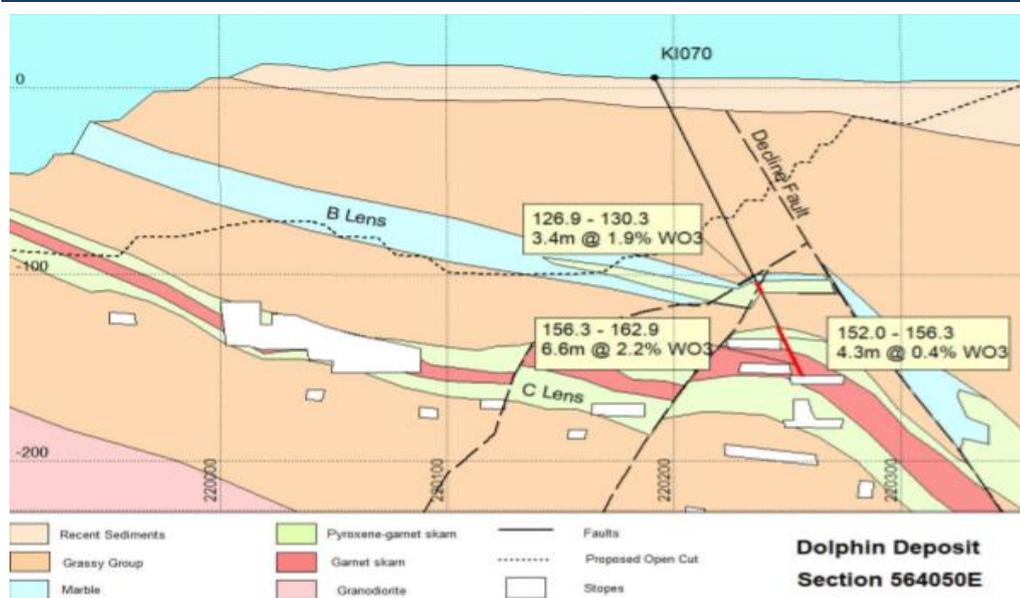


Figure 8: Dolphin Section 564050N (ISG) – Hole 2 (KIS070)



CORPORATE & FINANCE

Capital Structure

- ◆ King Island Scheelite (“KIS”) currently has 260m ordinary shares on issue, including the recent 17.18m capital raising @ \$0.08 per share (a 10% discount to the 5-day VWAP).
- ◆ A recent renounceable rights offer (closed 25 July 2018) raised 1.494m. Each rights issue had a 1:2 attached listed option (13.58m options), with expiration date of August 1, 2021 and an exercise price of A\$0.10/option.
- ◆ In addition to the listed options, there are also 18 million unlisted options (6m ITM; 3m @ \$0.06 & 3m \$0.08, both expiring 31 December 2022). The full list of unlisted options contributing to KIS’s capital structure can be seen in Figure 9 below.

Figure 9: KIS Unlisted Options

Expiry Date	Quantity	Exercise Price	Cash on Exercise
31/12/2018	2,000,000	A\$0.15	A\$300,000
31/12/2019	3,000,000	A\$0.22	A\$660,000
31/12/2020	4,000,000	A\$0.28	A\$1,120,000
31/12/2022	3,000,000	A\$0.06	A\$180,000
31/12/2022	3,000,000	A\$0.08	A\$240,000
31/12/2022	3,000,000	A\$0.10	A\$300,000
Total	18,000,000		\$2,800,000

Major Shareholders

- ◆ The substantial shareholders of KIS are listed in Figure 10 below. The company’s largest shareholder is Chris Ellis – Executive Director – with 24 ownership shares. Board and Management hold a combined interest representing 27.2% - significant alignment of Board and Management with shareholder interests.

Figure 10: KIS Unlisted Options

Name of Entity	%
Mr Chris Ellis (Chyialis Investments)	24.0%
Mr and Mrs Chadwick	23.9%
Mrs Catherine Morrirt	6.5%
Mr Anthony Haggarty and HFFT P/L	6.1%
Board and Management	27.2%
Top 20	82.4%

Balance Sheet & Cashflow

- ◆ KIS reported a cash balance of as of September 30, 2018 of A\$1.24m, with no debt financing.
- ◆ KIS have estimated that the total capital requirements (including LOM sustainable capital and 90-days’ worth of working capital) is A\$70m, A\$10m of which is attributable to the sustaining capex.
- ◆ We estimate the LOM capex to be funded through a debt/equity (50:50) financing round some time in 1H19. There is the option to attract a JV partner. We haven’t modelled the expected financing round, as the structure of the financing will depend on the share price of KIS at the time.

VALUATION SUMMARY

- King Island Scheelite (“KIS”) was valued using a DCF valuation using its flagship operational asset, the Dolphin Scheelite Mine. Our valuation results for KIS is based on our modelled development scenario and the 8-year, 400,000tpa, mining schedule of the total 3.14Mt Ore Reserve – Key project model assumptions are in Figure 12 below. A substantial portion of the inputs were sourced from company reports including, the DFS 2012 and the updated Ore Reserve Statement 2015.

Figure 12: KIS Key Model Assumptions – 100% Ownership Basis

Parameter	Unit	Figure	Comment
Mining Inventory	Mt	0	Current tailings not economically feasible
Mine Life	yrs	8	Excludes underground potential
Establishment Capex	A\$m	60	Will be provided through funding by 2H19
Sustaining Capex	A\$m	10	
Ore Mined	Mtpa	0.40	2015 open cut reserve statement
Grade	%	73%	2015 open cut reserve statement
Strip Ratio	x	9.7x	2015 open cut reserve statement
Plant Feed	Mtpa	0.40	
Avg Recovery	%	67.50%	Potential for improvement
Avg Production	tonnes	492.75	
Avg Concentrate Contained	%	60%	
Avg WO ₃ Concentrate Produced	Mtu	82,125	
Average APT Price - USD	\$US/mtu	315	Analyst Projections
AUD/USD Exchange Rate		0.73	Analyst Projections
Average APT Price - AUD	A\$/mtu	432	
LOM Opex/mtu	A\$/mtu	155	In-line with DFS estimates
LOM ASIC/mtu	A\$/mtu	164	In-line with DFS estimates
LOM AIC/mtu	A\$/mtu	187	

- Figure 13 illustrates our modelling for FCF, with our EBITA, capex, taxation, abandonment costs, stockpile adjustments and changes in net working capital. Overall, the FCF generated from the Dolphin Scheelite Mining Project is positive, as expected from the high-quality grade and Ore Reserve boasted by the project. This model doesn't include the potential for underground expansion over 9-years.

Figure 13: Dolphin Scheelite Mine FCF and ASIC forecasts – 100% Ownership

Source: Analyst Estimates (Abandonment Costs, Stockpile Adjustments and change in NWC excluded from legend)

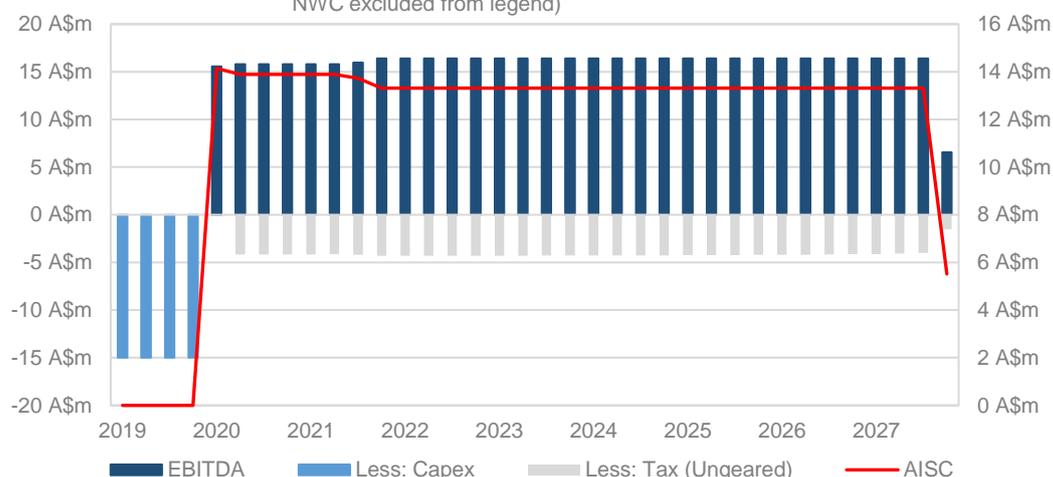
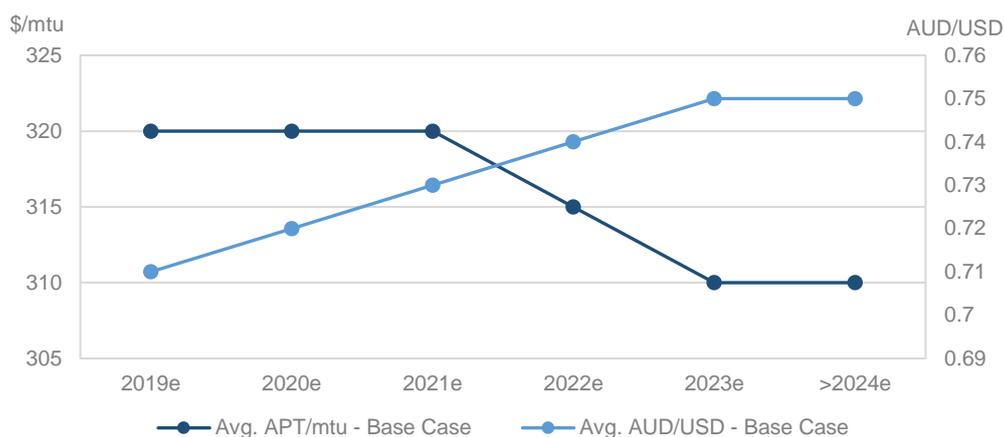


Figure 14: Modelling Projections for APT/\$mtu and AUD/USD

Source: Analyst Estimates



- ◆ Based on our project model assumptions – APT and AUD/USD forecasts (Figure 14) – we estimate that the Dolphin Project has substantial potential to generate total LOM EBITDA of A\$443.26m, generating a cumulative free-cash flow of A\$275.30.
- ◆ Based on the above FCF and project model assumptions, we estimate a post-tax NPV at a discount rate of 10% for the Dolphin Project to be A\$157.48. For an implied share price of \$0.61/share. This has a 647% potential upside (speculative)

Figure 15: Net-Asset-Valuation for Dolphin Project – Ungeared & Post-Tax

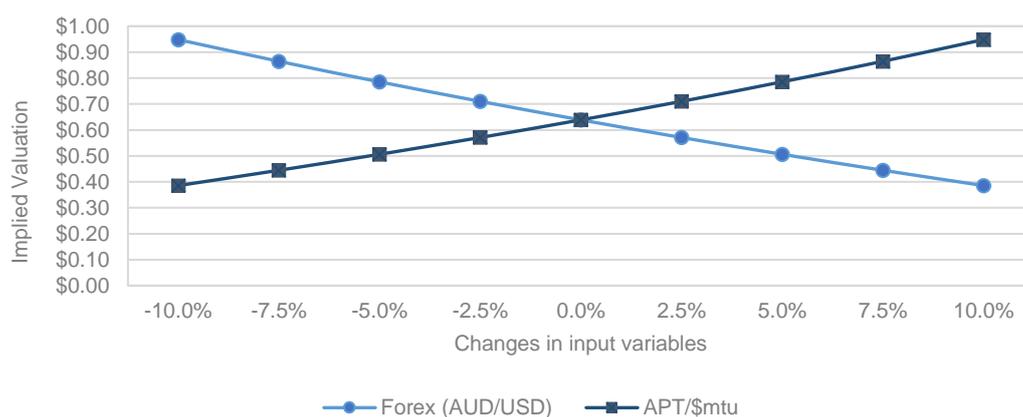
Equity Valuation	A\$m	Equity	A\$m	Diluted/Sh
Dolphin Scheelite Project	157.48	100%	157.48	\$0.61
Add: Undeveloped Assets (Exploration)	-	-	-	-
Add: Cash	1.24	-	1.24	\$0.0048
Less: Debt	-	-	-	-
Add: ITM Options	0.42	-	0.42	\$0.0016
Total Post-Tax NAV	167.77		167.77	\$0.61
			Target	\$0.62

Source: Analyst Estimates

- ◆ Our modelling of the Dolphin Project indicates that the NAV per share, or implied equity valuation per share, has a high exposure to the APT \$/mtu and the AUD/USD exchange rate assumptions inputted. The illustration of the sensitivity of our implied share price for KIS against APT \$/mtu and AUD fluctuations can be seen in Figure 16.

Figure 16: Implied Share Price Sensitivity to APT \$/mtu and AUD/USD

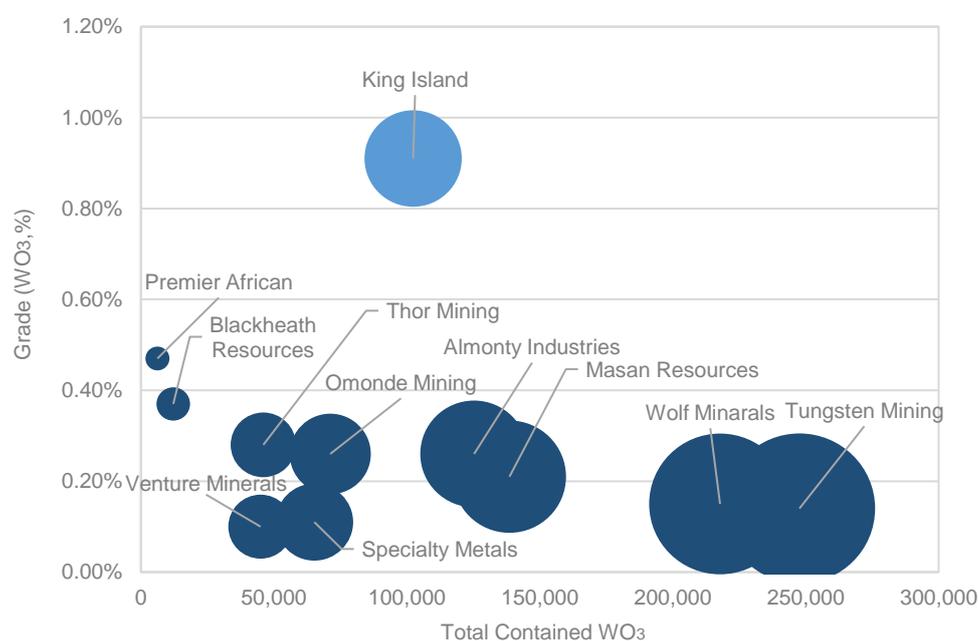
Source: Analyst Estimates



PEER ANALYSIS

Figure 17: Tungsten Contained WO₃ – Comparison of Resource and Grade

Source: Company Reports, Analyst Estimates



- ◆ Figure 17 illustrates the high-grade deposit contained in the Dolphin Scheelite Mine relative to its peers in the tungsten production industry. Even though it's only a resource comparison, Dolphins ore reserve would still be the highest grade at 0.73% relative to peers in the tungsten galaxy - the next highest-grade resource deposit is 0.47% by Premier African, 0.244% less grade quality than Dolphin resource deposit.

Figure 18: Global Tungsten Comparison – Data used in Figure 17

Mining Company	WO ₃ Grade	Resource t	Contained WO ₃
Premier African	0.47%	1,325,000	6,228
Almonty Industries	0.26%	48,188,000	125,289
Tungsten Mining	0.14%	176,900,000	247,660
Wolf Minerals	0.15%	145,200,000	217,800
Omonde Mining	0.26%	27,390,000	71,214
Venture Minerals	0.10%	45,000,000	45,000
King Island	0.91%	11,250,000	102,375
Specialty Metals	0.11%	59,300,000	65,230
Thor Mining	0.28%	16,440,000	46,032
Blackheath Resources	0.37%	3,292,000	12,180
Masan Resources	0.21%	66,000,000	138,600

- ◆ In terms of ASIC, we haven't conducted a cost-curve comparison until the current feasibility study results are released sometime in December 2018.

IN-DEPTH TUNGSTEN MARKET OUTLOOK

During 1H18, the domestic tungsten supply in China was significantly impacted by environmental protection factors, most notably, the disruptive presence of China's national environmental department, directly resulting in a wide-spread decommissioning of APT plants across the Middle Kingdom. A staged supply squeeze pressure more than offset a downstream in demand for tungsten in 1H18, with stricter enforcement on operation rates for mining and smelting enterprises acting as a stimulus for the tungsten price outlook and an overall rebounding in the domestic (Chinese) tungsten market.

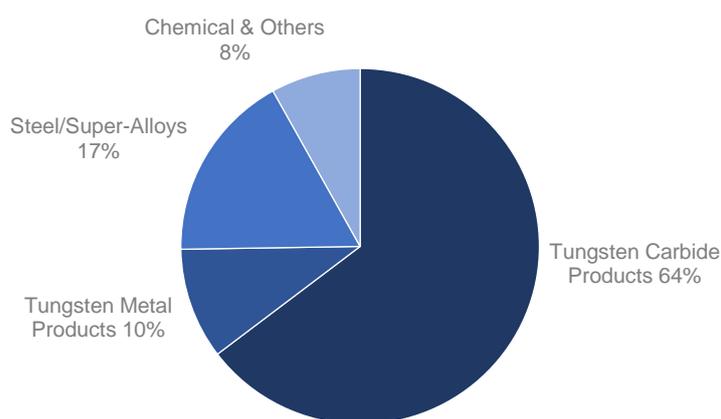
Tungsten: A unique yet strategic industrial metal

Tungsten (W) is a strategic metal directly involved in a variety of highly specialised industrial end-use applications. Tungsten's unique yet outstanding chemical and physical characteristics; boasting the highest melting point among all non-alloy metals at 3,422 °C; the highest density at 19.3 g/cm³; the highest tensile strength at 9 on the Mohs scale; and the lowest coefficient of thermal expansion for any pure metal. It's easy to grasp why Tungsten has a poor substitutability in end-use industrial applications.

Cemented carbides embody 64% of the total global tungsten demand. This composite material consists of tungsten carbide (WC) as the hard phase and cobalt (Co) as the binder phase; a combination that forms the basis of a cemented carbide structure capable of withstanding deformation, high pressures, heavy loads, corrosion and intense temperatures. The inherent benefits of a composite material with such unique characteristics is what underpins the wide-spread demand for uses in the production of high-tech metal cutting and rock drilling tools – the development of coated cemented carbide tools boast steel cutting speeds of 100 to 150 m/min, roughly four times faster than its high-speed steel predecessor.

Exhibit 6: Sandvik's mining related order-intake indicating improved sentiment

Source: SMR GmbH for ITIA



The second-most applicable first-use tungsten consumption is steel/super-alloys, accounting for 17% of total tungsten demand, where by tungsten is incorporated into steel properties to improve its durability. The application of steel/super-alloys are widely used in aerospace, gas and marine turbine industries due to its corrosive resistant properties. The remaining 19% of first-use tungsten consumption is attributable to chemical and other tungsten metal/milling products including, light bulb filaments that require a heat resistant metal with a high-melting point.

TUNGSTEN DEMAND: GLOBAL END-USE CONSUMPTION

The cemented carbides demand in the global end-user market, valued at an estimated US\$16.5bn in 2017, is dominated by two primary public producers of tooling equipment and more broadly speaking tungsten-related engineering solutions; US-based Kennametal's and Sweden based Sandvik. Both Kennametal's 2018 total revenues of US\$0.587 and Sandvik (3Q18 total revenues of US\$24.28bn) provide an insight into the end-user demand composition of global tungsten (cemented carbide), allowing us to use them as a proxy barometer in understanding consumption patterns in a traditionally opaque market – a breakdown is included in Exhibit 2 & 3 below.

Exhibit 2: Kennametal end-use total revenue

Source: Kennametal

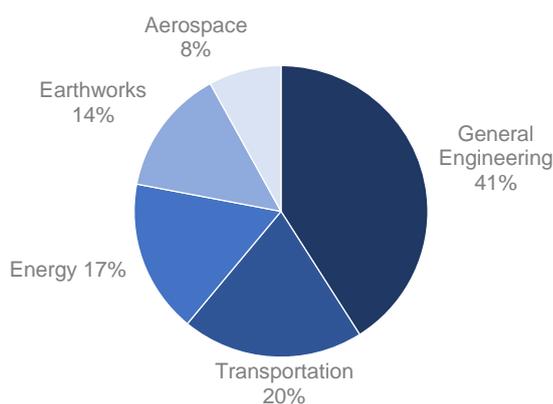
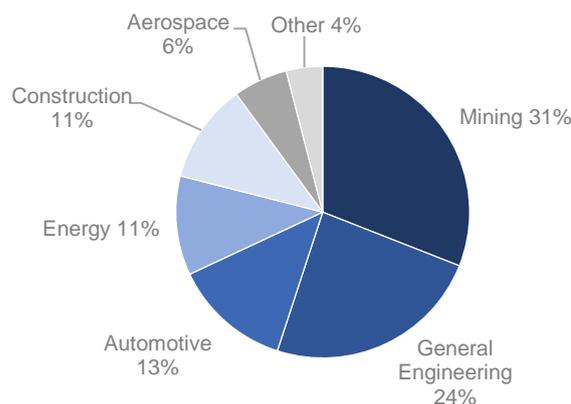


Exhibit 3: SandVik end-use total revenue

Source: SandVik



By interpreting the end-use revenues for Kennametal and SandVik, ignoring minor discrepancies, the dominant industries in respect to the end-use consumption patterns for tungsten are mining and construction (earthworks equipment), energy (oil and gas), transportation (passenger automobiles, rail and shipping), aerospace (engines, air frame flaps) and general engineering solutions. However, a key theme in the consumption pattern for tungsten appears to be the minerals and energy alongside the broader general engineering, together embody 72% and 66% of total revenue for Kennametal and SandVik respectively.

Oil & Gas: 2018 and a surging shale boom, has it stabilised?

Both in the US and globally, the oil and gas sector has continued to be one of the primary drivers for tungsten. A resurgence of a shale boom has seen West Texas Intermediate (WTI) crude oil prices increase 24% year-on-year, prompting an expanding investment in oil and gas capital expenditure (Exhibit 5) in major producing regions. This has resulted in an adjacent increase in drilling commitments (Exhibit 6), which coupled with an ever-growing geological complexity of on-shore and off-shore basins, has led to inherent increased tungsten requirements to produce drill-bits – tungsten is directly used in flow control systems, inserts and other applications in the oil and gas drilling process. Overall, exploration & production capital expenditure rose steadily alongside the adjacent surge in WTI prices (reaching \$100 per barrel in 2013). However, lower oil prices in 2016 (\$30.32 per barrel in February 2016) put major producers E&P budgets under significant pressure reducing investment in oil & gas capex throughout the period. We've only just begun to witness improved sentiment in the industry with global petroleum supply softly steadying resulting in some stability in WTI prices (forecasted to remain around \$65 per barrel in 2019). As a result, Rystad Energy are estimating an 11% increase in project commitments in 2019, and thus, positive signs for increased tungsten usage throughout 2019 in the oil & gas sector.

Exhibit 4: Resurgence in Global & US Rig Count

Source: Baker Hughes

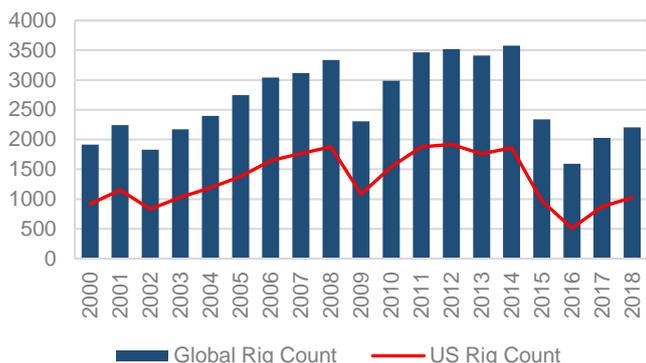


Exhibit 5: Expanding investment in Oil & Gas CAPEX

Source: Rystad Energy, Analyst Estimates

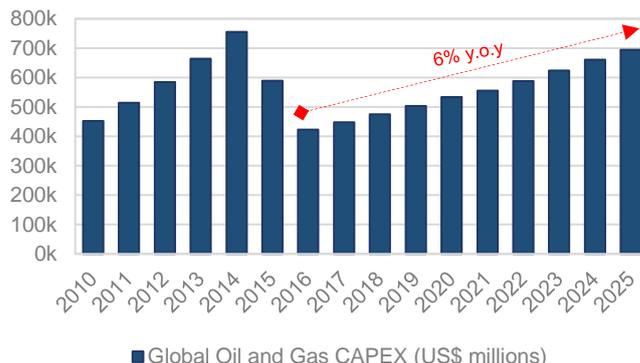


Exhibit 4: Global Petroleum Supply (Millions/bpd)

Source: EIA, 2018 short-term energy outlook

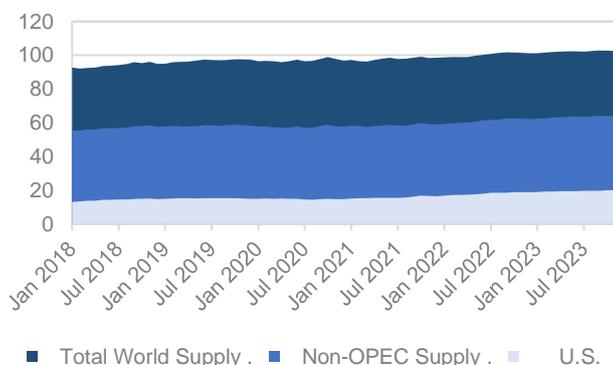
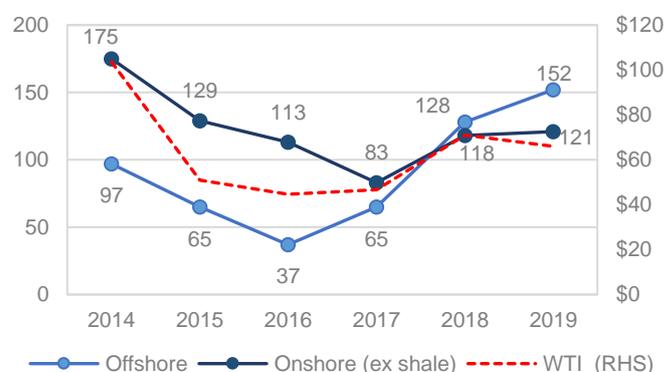


Exhibit 5: # of project commitments by commitment year

Source: Rystad Energy, IEA Forecasts



Mining: A deep dig on mining capex reveals positive signs for tungsten

It's fair to say that 2018 has seen its share of thrills and spills, much of which has been driven by President Trump's divergence from traditional doctrines of statecraft in favour of more antagonistic approach to geopolitical relations. However, the fallout of such leadership in terms of both global and US baseline economic growth has been benign, a result, the global mining industry has experienced a reprieve for commodity prices throughout 2018, freeing up capital budgets across the sector. A couple of indicators reinforce improved sentiment in capital spending in the mining sector, one indicator being SandVik's order intake, has had organic growth in 1H18, before cooling off to more sustainable levels (Exhibit 6) in 2H18 as a result of mounting trade tensions.

Exhibit 6: SandVik's mining related order-intake indicating improved sentiment

Source: SandVik

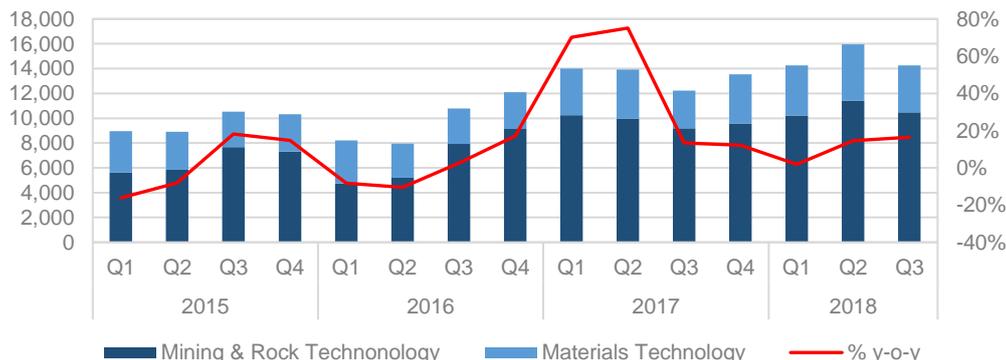
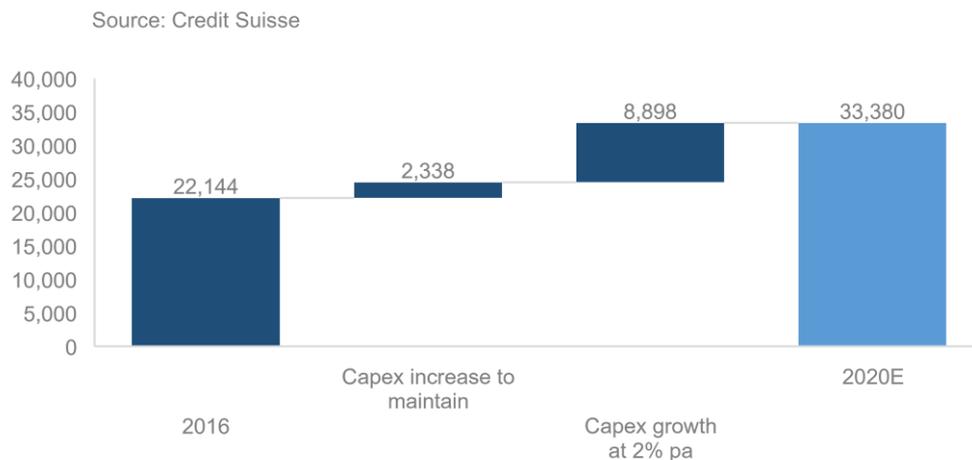


Exhibit 7: Diversified miners' capex progression 2016-20E (\$m)



Overall, a rebounding capex cycle (Exhibit 7) is a sign of a healthier global mining industry, a positive stimulant for increased tungsten usage. It's difficult to forecast capex, however, Credit Suisse's capex projection model – based on annual depletion rates and future project costs – indicate that the global industry capex could rise by as much as 50-60% by 2020E before stabilising, which should flow into the future demand for tungsten applied in mining & rock technology.

Automotive: All depends on the speed of EV adoption globally

Although not as dominant in automotive compared to oil, gas and mining, tungsten is used in both the car manufacturing process and other automotive applications including turbochargers, injectors and fuel pumps. Despite the international organization of motor vehicle manufactures (OICA) revealing global vehicle production rose by 2.36% to \$97.30 million in 2017, the rise of electric vehicles (EV) will adversely impact the usage of tungsten in the manufacturing process. EV cars have approximately 25% fewer parts than their fuel guzzling counterparts, so companies that produce tungsten products such as spark plugs, fuel injection systems and pistons will become obsolete. Global EV sales crossed the threshold of 1 million units (1.1 million) in 2017, registering a year-on-year growth of 54% compared to 2016 units, with China selling nearly 580,000 electric cars in 2017 (53% of total EV sales and a 72% increase from China's 2016 EV sales). This has been driven mainly by China's effective environmental policy measures, issuing a new energy vehicle (NEV) credit mandate that took effect this year (2018). The mandate sets a minimum requirement for the car industry regarding the production of new energy vehicles. However, it's not all doom and gloom, currently electric vehicles only account for 1.17% of total market share in the global car fleet, resultingly, we see no short-term impact on tungsten prices being attributed to automotive demand.

Exhibit 8: Sustained global car unit growth (M/units)

Source: International Organization of Motor Vehicle Manufactures (OICA)

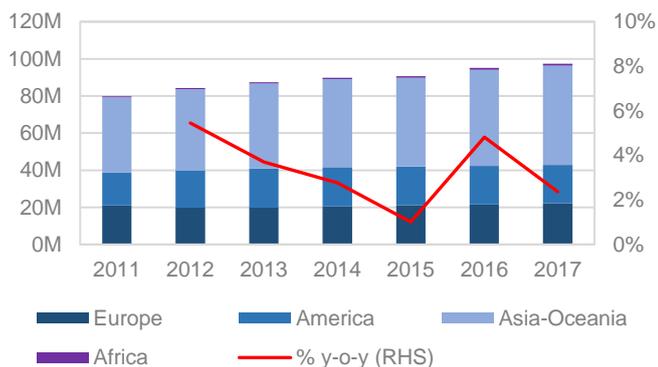
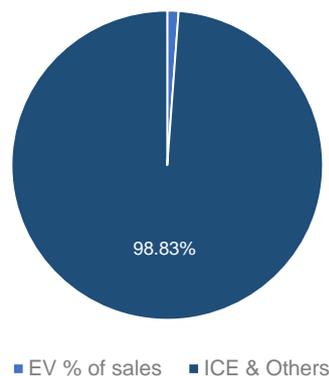


Exhibit 9: EVs' represent only 1.17% of total car fleet

Source: IEA Global EV Outlook 2018, BMI Research



TUNGSTEN CONSUMPTION: EUROPE, CHINA & USA

Europe: Bullish assessment on EU inflation dynamics

A recent European Central Bank (ECB) conference in September 2018 radiated a bullish sentiment on the inflation dynamics. In particular, the ECB expressed satisfaction in the trajectory of an ongoing broad-based expansion of the Euro-area economy and gradually rising inflation. The underlying performance of the EU economy has continued to instill confidence that the sustained convergence of inflation to its targets will be maintained even after a gradual winding down of its net asset purchases to €15 billion by the end of September, before ceasing all together in December. The optimism in the ECB's progress in their reverse quantitative easing program (QE) gives us confidence in the 2% inflation levels over the medium-term, with a possible lift in the deposit rate by 10bps in summer 2019 to -0.20%.

Exhibit 10: SandVik Order vs EU (W) Consumption (YoY)

Source: MSP Refram, SandVik

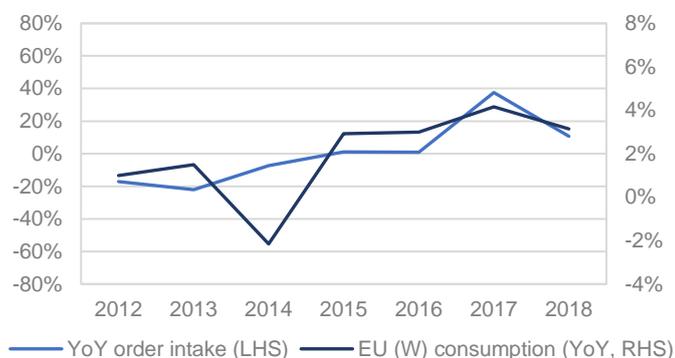


Exhibit 11: SandVik Order (Qtly) vs OECD GDP (Qtly)

Source: OECD, SandVik



Using Sandvik's order book intake as a proxy indication of end-use tungsten consumption in the European region (Exhibit 10) - alongside inherent connection between Sandvik's year-on-year quarterly order intake and OECD GDP growth (Exhibit 11) - we were able to forecast EU tungsten consumption based on a multi-linear regression.

We use the three largest EU countries GDP growth rates (based off IMF projection) – Germany, France and the UK – to forecast the Eurozone' tungsten consumption. Our analysis forecasts that we expect a 3% YoY increase in tungsten consumption in 2019 on the back of the ECB remaining un-swayed in not increasing rates and economic growth moving in line with inflation. However, we do expect consumption growth to drop to 2.8% for 2020 and 2021 on the possibility of ECB rate hikes in 4Q19 or in 2020 dampening European economic growth, and consequently, reducing EU tungsten consumption growth.

Exhibit 12: Key EU country GDP growth (YoY) vs EU (W) consumption (YoY)

Source: MSP Refram, IMF

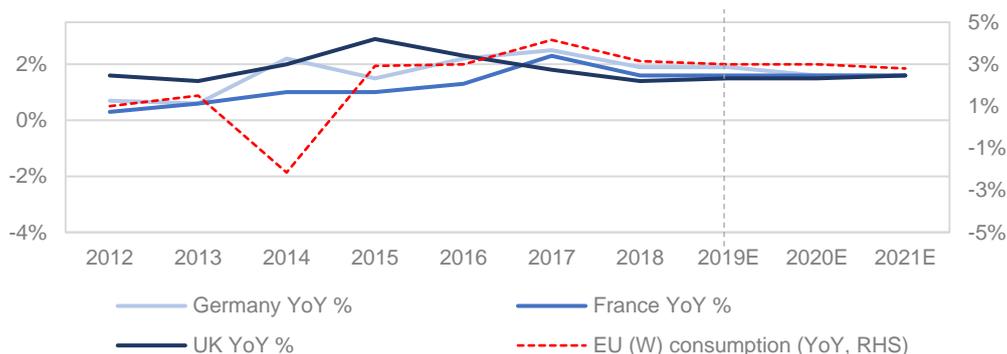


Exhibit 13: (W) consumption against GDP log regression

Source: IMF, World Bank, Analyst Estimates

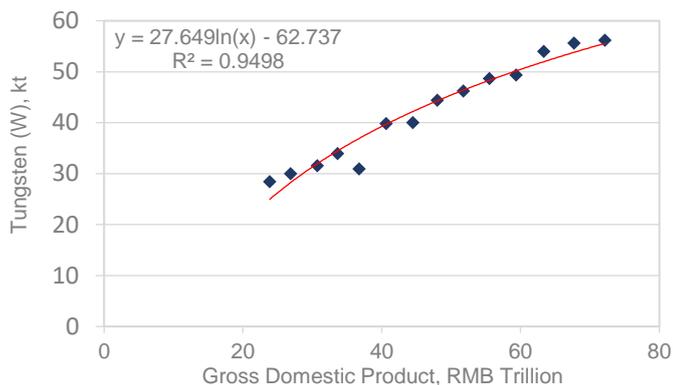
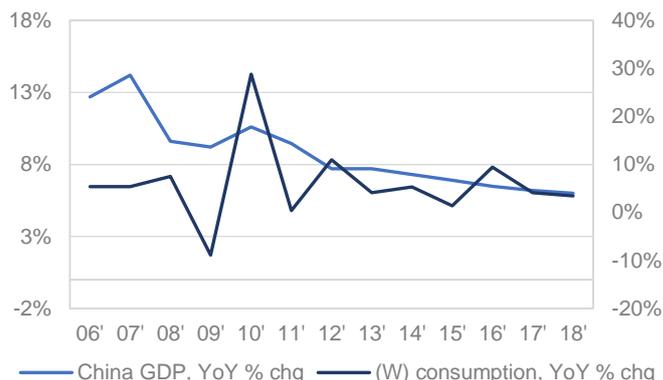


Exhibit 14: (W) consumption (YoY) vs China GDP (YoY)

Source: IMF, World Bank, Analyst Estimates



China: Slower economic growth fosters consumption uncertainty

When forecasting China’s tungsten consumption, we conducted a logarithmic regression analysis. Our data indicated a near perfect correlation between China’s consumption of tungsten and their economic growth, measured by the RMB denominated gross domestic product (GDP). A R^2 of 94.98%, reads as 94.98% of the variation in China’s tungsten consumption can be explained by the variation in China’s RMB denominated GDP. The gradual curve in the line of best fit is reasonable in plotting a gradual slowdown in China’s economic growth. Overall, we forecast China’s tungsten consumption to grow by ~ 3.2% YoY in 2019 to 57.97kt, before slowing down to ~3% in 2020 for a total of 59.71kt of tungsten consumption. Our base case, medium term, growth forecast for 2021 is ~2.8%, indicating Chinese tungsten consumption of 61.39kt. In all, we’re estimating consumption growth to decline by 9% by 2021 – a reasonable forecast that’s in line with IMF estimating a slowdown in GDP growth from 6.6% to 6% by 2021 (Exhibit 14).

This uncertainty in China tungsten consumption has been fuelled by the overwhelming fact that the world’s second largest economy is faced with a complex environment abroad and the daunting task of not only reforming a mountain of debt but dealing with credit tightening and an overall decline infrastructure spending. With the Beijing-Washington trade war souring relations between the two largest economies, nearly half of China’ exports (US Chinese imports) have been hit with tariffs, meaning Beijing is needing to rely on its legion of consumers to try and grow its economy. We’re expecting the trade war to weigh on China’s economic growth for the rest of 2018 and into trickle downstream into 2019, 2020 and 2021 (Exhibit 15).

Exhibit 15: China (W) Consumption forecast based off IMF GDP growth forecasts

Source: IMF, Roskill, Analyst Estimates

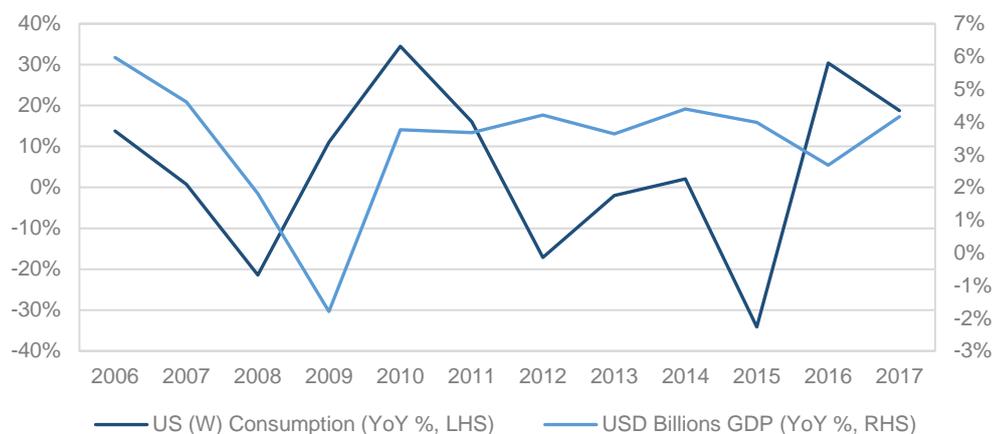


USA: Consumption diverged from economic growth indicators

We used the standard US GDP growth data against the US tungsten consumption sample data as a forecast. While we tried many different historical connects including, average weekly oil rig drilling in North America and US nominal GNP, the past relationships are now statistically insignificant. The best fit we could achieve was the US GDP growth rates and US tungsten consumption, but even this connection was a loose relationship (Exhibit 16). Overall, we concluded that the US tungsten consumption has diverged from traditional indicators like oil drilling to become irrational in end-use application (within the US). As a result, we haven't attempted a forecast for US tungsten consumption in the medium term as they would have proven unreliable.

Exhibit 16: US (W) consumption against USD GDP relationship divergence

Source: IMF, USGS

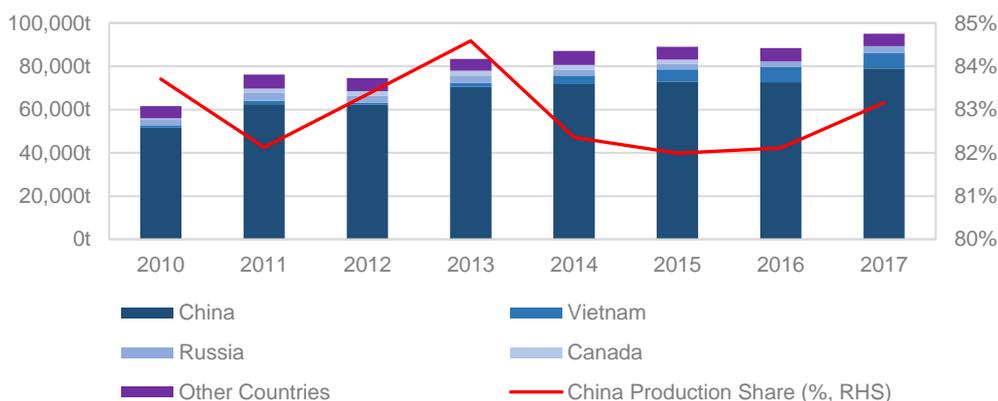


TUNGSTEN SUPPLY: China Still Strangles the Market

The global tungsten supply has been dominated by China over the past decade, accounting for an average of 82.92% or 67,862t between 2010 and 2017 (Exhibit 17), emanating an inherent supply risk for the downstream western end-users in Europe, the US and Japan. Currently, China's primary production source is based in the Hunan and Jiangxi provinces, focusing on both extracting white scheelite and black wolframite and processing into concentrates to be used in high-quality valued added products. However, we're seeing a shifting landscape as the USGS expect China's market share in tungsten production to drop below 80% in 2018, on the back of China's government tightening its regulations in the tungsten industry; limiting number of mining and export licenses, imposing quotas on concentrate production and placing constraints on mining and processing. The tightening regulations are a result from a

Exhibit 17: Global tungsten production (t W) & China's production market share

Source: Argus, USGS



concentrated effort to reform China's environmental conditions. Environmental inspections in 2017 reduced China's overall production of its downstream products such as ammonium paratungstate (APT). The concerns arose again in May 2018 and October 2018 in the light of ongoing environmental inspections in the Jiangxi province – one of China's major production hubs. The supply disruption in China has supported stronger APT prices, peaking at \$350-354 per mtu on June 22, opening doors for many western producers to restart or ignite production.

Wolf Minerals voluntary administration: Bitten the silver bullet

In addition to China's supply crunch, one of the western world's largest tungsten producers, Wolf Minerals, has bitten the silver bullet on the back of operation economics and debt burdens combining to bring the once deemed to big to fail Perth based mining operation into voluntary administration. This will further reduce tungsten concentrate supply in the international markets by ~350,000mtu per annum for a total proven JORC reserve of 26.7Mt, opening opportunities for other tungsten producers to supply Europe, Japan, China and the US with what is now deemed a "critical raw metal".

SUMMARY OF KEY INVESTMENT RISKS

The KIS business is subject to risk factors, both specific to its business activities, and risks of a general nature. Individually, or in combination, these might affect the future operating performance of KIS and the value of an investment in the Company. There can be no guarantee that KIS will achieve its stated objectives or that any forward-looking statements will eventuate. An investment in the Company should be considering relevant risks, both general and specific. Each of the risks set out below could, if it eventuates, have a material adverse impact on KIS's operating performance and profits, and the market price of the Shares

Key Risks (a more detailed analysis of each risk available in Appendix 2)

- ◆ Exploration & Development (C1)
- ◆ Construction and Operation Cost Risk (C2)
- ◆ Operational Risk (C3)
- ◆ Industry Specific – Tungsten Market Risk (M1)
- ◆ Key Personnel (C4)
- ◆ Licensing & Approvals Risk (C5)
- ◆ Transportation Risks (C6)

Exhibit 18: KIS Risk Matrix ('C' = Company Specific, "M" = Industry/Market Specific)

		IMPACT					
		LOW	MODERATE	HIGH	VERY HIGH		
PROBABILITY	IMPROBABLE		C6	C5	C4	C2	C1
	POSSIBLE				C3		M1
	PROBABLE						

APPENDIX 1: BOARD AND MANAGEMENT

Johann Jacobs (Executive Chairman) B.Acc, MBL, FCA, FAICD

Johann has over 35 years' experience in the resources industry in Australia, South Africa and Indonesia. He is also nonexecutive director of ASX listed Magnis Resources Ltd (ASX: MNS) (formerly Uranex Limited). Johann is a Fellow member of the Institute of Chartered Accountants Australia and New Zealand and the Australian Institute of Company Directors

Christopher Ellis (Executive Director) B.Sc Hons

Christopher has over 35 years' experience in the exploration and mining industry in Australia and overseas. He was a founding member and Executive Director of coal mining company Excel Coal Limited, which became Australia's largest independent coal mining company before being acquired by Peabody Energy Inc. in October 2006. Christopher commenced his career in the UK coal industry, followed by positions within Shell's exploration group in Southern Africa and CRAE in Western Australia. He has also held senior positions for BP Coal (London and USA), Agipcoal Australia and for the Stratford Joint Venture. Christopher has core skills in geology, mining engineering and minerals processing, mainly in the coal industry with some experience in tungsten, gold, base metals and diamonds. He has had overall responsibility for the design and engineering of four new mines during his career with Excel. Christopher is a NonExecutive Director of Ausquest Limited (ASX: AQD).

Allan Davies (Independent Non-Executive Director) B.E (Mining) Hons, GAICD

Allan is a mining engineer and has over 40 years' experience in the Australian and international coal and metalliferous mining industries. He is a registered mine manager in Australia and South Africa. Allan was a founding Director of Excel Coal Limited and as Executive Director – Operations for Excel Coal Limited, Allan had direct responsibility for operations and construction projects. From 2000 until early 2006, Allan worked for Patrick Corporation as Director, Operations. In addition, he was an Executive Director of Whitehaven Coal from February 2009 until November 2012 and a NonExecutive Director of QR Limited and QR National Limited (now called Aurizon Ltd) from October 2008 until December 2011. Previously a Non-Executive Director of Qube Holdings, he was appointed Chairman in June 2017 (ASX: QUB).

Ms Sue Jolliffe BCom, CPA, Registered BAS Agent - Financial Controller:

Sue has been a CPA qualified and practising accounting since 1994, mainly in the area of management accounting but also across financial accounting and business analysis. After a traineeship with an aluminium smelter and junior accounting positions at Hunter Valley coal mines, she was employed in management positions at Liddell Coal Joint Venture, Western Mining Fertilizers, University of Adelaide and KONE Elevators before commencing with King Island Scheelite in 2009. She also holds a Public Practice Certificate through CPA Australia and is a registered BAS Agent.

Ian Morgan (Company Secretary) B Bus (NSW Institute of Technology), M Com Law (Macquarie University), Grad Dip App Fin (Securities Institute of Australia) CA, ACIS, MAICD, F Fin

Ian was appointed Company Secretary on 3 August 2005. He is a member of the Institute of Chartered Accountants Australia and New Zealand and the Institute of Chartered Secretaries and Administrators, with over 35 years' experience. Ian provides secretarial and advisory services to a range of companies, including holding the position of Company Secretary for other listed public companies.

APPENDIX 2: SPECIFIC INVESTMENT RISKS (DETAILED)

Exploration and development risk

Exploration and development of tungsten is a high-risk endeavour, the success of which depends on the development of a mineral resource and reserve. There can be no assurance that the Company's development activities will result in the upgrade of the Company's mineral resource and reserve. Even if that occurs, there are a number of factors that influence the successful development of tungsten deposits into economically viable mining operations. Therefore, even if a significant tungsten resource is identified, there can be no guarantee that it can be economically exploited. Resource estimates are expressions of judgment based on knowledge, experience and resource modelling. As such estimates are inherently imprecise and rely to some extent on interpretations and assumptions. Despite employing qualified professionals to prepare resource estimates, such estimates may nevertheless prove to be inaccurate. Furthermore, resource estimates may change over time as new information becomes available.

Industry specific risks - Tungsten Markets

Tungsten quality is known to vary. As such, there is a risk that any tungsten identified by the Company may not be of sufficient quality to develop commercial mining operations, which could have an adverse impact on the Company. Actual tungsten qualities produced during the life of the mine may vary from those expected currently. Substantial changes to or on-going conditions in tungsten markets, tungsten prices and other macroeconomic factors including foreign exchange rates could have an adverse impact on the commercial viability of exploiting tungsten resources. At completion of construction of any projects the market price of the tungsten could be less than the cost of production. The Company may be forced to defer or suspend some or all of its planned exploration and/or mining activities.

Transportation risks

KIS is required to rely on transport (including ships and planes) from third parties for the transit of its product, equipment and supplies. Any deterioration in the availability of third party transportation providers, or significant increases in the costs or affordability of transportation providers may result in delays, additional costs and may therefore adversely affect KIS' operations.

Licence and approvals

The Company must obtain a number of permits issued by various governmental agencies and regulatory bodies to carry out its planned operations. The Company may be unable to obtain and renew permits and licences necessary for its exploration, development or mining of specific tungsten deposits.

Construction and operational cost risks

The capital expenditure required to develop the Company's tungsten project may differ from the current expectations of the Company. In addition, actual operational costs may differ from current estimates. Increases in capital or operating expenditure will adversely affect the profitability of the projects.

Operational risks

The Company's tungsten project is exposed to material operating risks including potential risk of sub-standard tungsten quality specifications, mining and processing technical difficulties encountered in commissioning and operating plant and equipment, mechanical failure and industrial and environmental accidents.

Dependence upon key personnel

KIS depends on the talent and experience of its personnel as its primary asset. There may be a negative impact on KIS if any of its key personnel leave. It may be difficult to replace them, or to do so in a timely manner or at comparable expense.

Requirement to raise additional funds

The Company may be required to raise additional equity or debt capital in the future. There is no assurance that it will be able to raise that capital when it is required or, even if available, the terms may be unsatisfactory. If the Company is unsuccessful in obtaining funds when they are required, the Company may need to delay or scale down its operations.

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