

Annual Report

Australian Tungsten Pty Ltd

Joint Annual Report for EL19/2001 and RL2/1998

Note: Joint reporting for these tenements has been adopted, with permission of MRT, as the anniversary dates are 14 December and 18 December, respectively.

The twelve months to December, 2003 saw substantial progress in commercialising the tungsten (scheelite) resource on King Island. The period was characterised by a continuation of depressed tungsten prices, however, Australian Tungsten Pty Ltd (ATPL) still made significant progress.

Tungsten has no terminal market, so any new source of supply requires customer support before it can be brought into production. On the basis of discussions to date, ATPL is confident it will secure sufficient customer support to underwrite the re-opening of the King Island tungsten mine.

The company's main activity during the year was marketing to potential customers and preparing a detailed scoping study. This study evaluated two mining rates, of 275,000 and 450,000 tonnes per annum. The preferred development is the larger of these options and an initial capital cost estimate of \$31 million has been established. The study envisages the use of a post pillar cut and fill mining method (the same as the previous operation) with three trucks, two LHD's and two drilling jumbos as the major items of mining equipment. A workforce of around 70 will be required. The capital cost estimates for mining and infrastructure items is at the level required for a comprehensive pre-feasibility study and an allowance of \$11 million has been made for the treatment plant capital cost.

As part of the scoping study and the commercialisation discussions with potential customers, the company selected and cut a sample of core and sent it for metallurgical testing at Wolfram Bergbau und Hutten GmbH (WBH) in Austria. WBH is a large tungsten consumer and also operates a scheelite mine and mill (with comprehensive ore testing facilities) in Austria. WBH has agreed to conduct a metallurgical test program and to provide a detailed process flowsheet design to ATPL. WBH has also indicated a strong interest in purchasing concentrate production from King Island.

Upon completion of this testwork, expected in late December 2003, ATPL will incorporate the results into its scoping study to finalise the detailed pre-feasibility study. The \$11 million allowance for the treatment plant will be updated and refined on the basis of the results from WBH.

The company discussed financing options with several parties and is optimistic equity and debt funds will become available once customer offtake agreements are in place. The company has maintained regular consultation with interested parties, including the King Island Council and MRT, and has lifted the project's profile through attendance at the International Tungsten Industry Association's annual meeting in Prague, Czech Republic, where a paper was presented. An electronic copy of the paper is enclosed with this report.

Directors have prepared a plan for a full feasibility with an expected budget of \$3.5 million. This program includes exploration, further technical studies, mine design, environmental permitting and detailed financing negotiations. The company hopes to begin this work by mid 2004, after finalising offtake arrangements in the first three months of 2004.

Upon successful completion of the bankable feasibility study, ATPL plans to begin mine construction. Assuming the BFS can begin by mid 2004, the mine could enter production in mid-late 2006.

Site activities have been limited to inspections by ATPL directors, potential customers and interested parties. No site exploration work has been conducted as the marketing and pre-feasibility studies have taken priority. Site work is not expected to begin until the bankable feasibility study commences. Exploration work has been confined to literature review, data compilation, target selection, cost estimation and budgeting.

Total expenditure for the period under review, including directors' time at a nominal rate, was \$83,583.

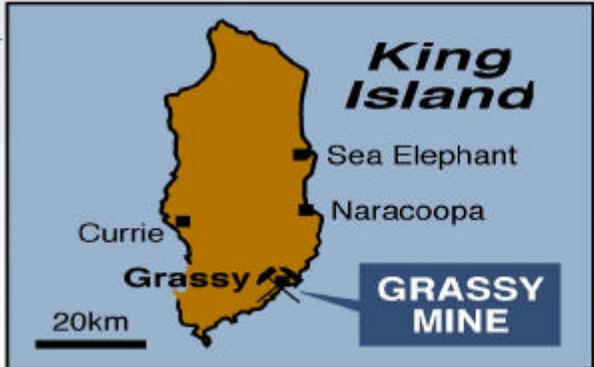
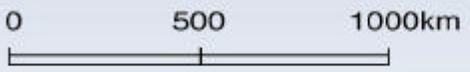
Peter Gibson
Director
Australian Tungsten Pty Ltd
30 October 2003

Appendix 1
PowerPoint Presentation

Australian Tungsten
King Island Project

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KING ISLAND

TASMANIA

AUSTRALIAN TUNGSTEN PTY LTD

KING ISLAND

LOCATION MAP

King Island

- Population 1,800
- Main industries: beef and dairy cattle
- Other industries: fishing, kelp farming, tourism and cheese production
- Mild climate
- 45 minute flight to Melbourne
- All services located on island

History

- Tungsten discovered 1911
- Small scale mining from 1917 until King Island Scheelite (KIS) formed in 1937
- Peko-Wallsend acquired KIS in 1969
- North Broken Hill acquired Peko in 1988
- Mine closed in 1990



History

- Open cut operation until 1973, when Dolphin underground mine established
- Bold Head U/G mine, located 3 kilometres north of Dolphin, operated 1972 to 1983
- Dolphin closed in 1990 due to low W price and high costs associated with township, overheads and low production rate





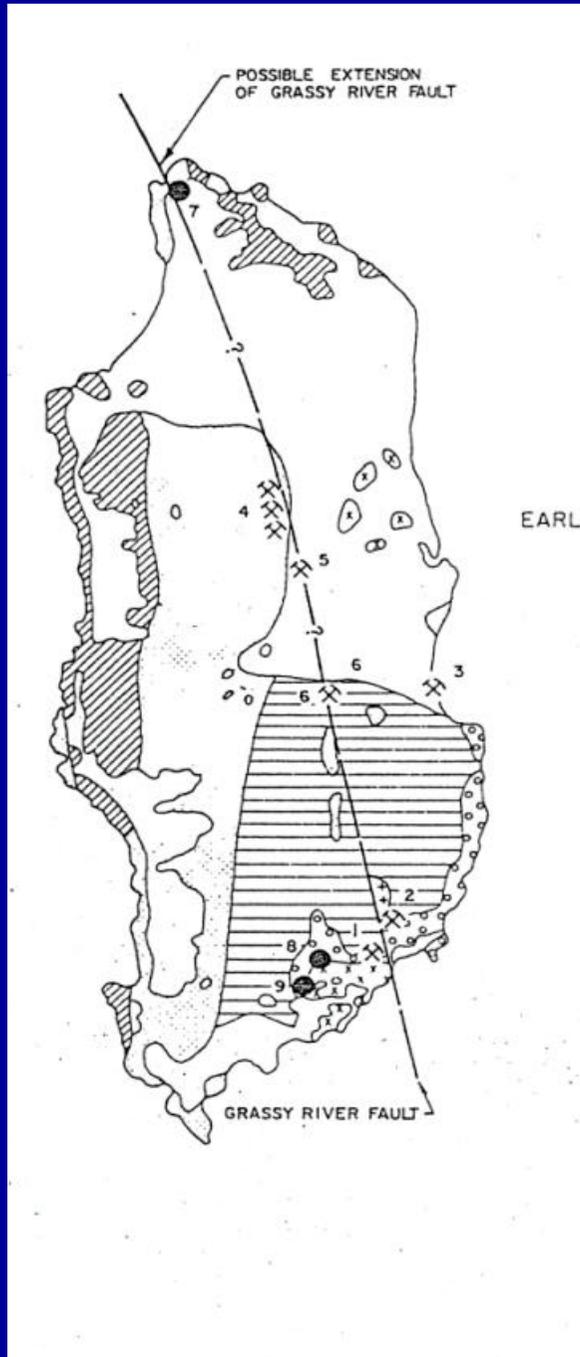
Project Status

- Australian Tungsten acquired King Island lease from Rio Tinto in February 2002
- Pre-feasibility study completed
- Evaluating optimum structure for mine development
 - joint venture, stock exchange listing, others
 - rapid investment payback and AT's view of W price mean long term off-take agreements not essential.
 - toll treating options
 - novel financing options
 - seeking expressions of interest

The Resource

- Dolphin Resource: 4.7Mt @ 0.86% WO_3
- Bold Head Resource: 1.8 Mt @ 0.80% WO_3
- Other Resources: 0.9 Mt @ 0.52% WO_3
- Multiple exploration targets
- Good potential for 20 year life

Geology



Palaeozoic sedimentary rocks, including carbonates, occupy eastern half of island.

Granite intrusions cut sediments.

Tungsten skarn development within carbonates along the Grassy River Fault and adjacent to granite intrusions.

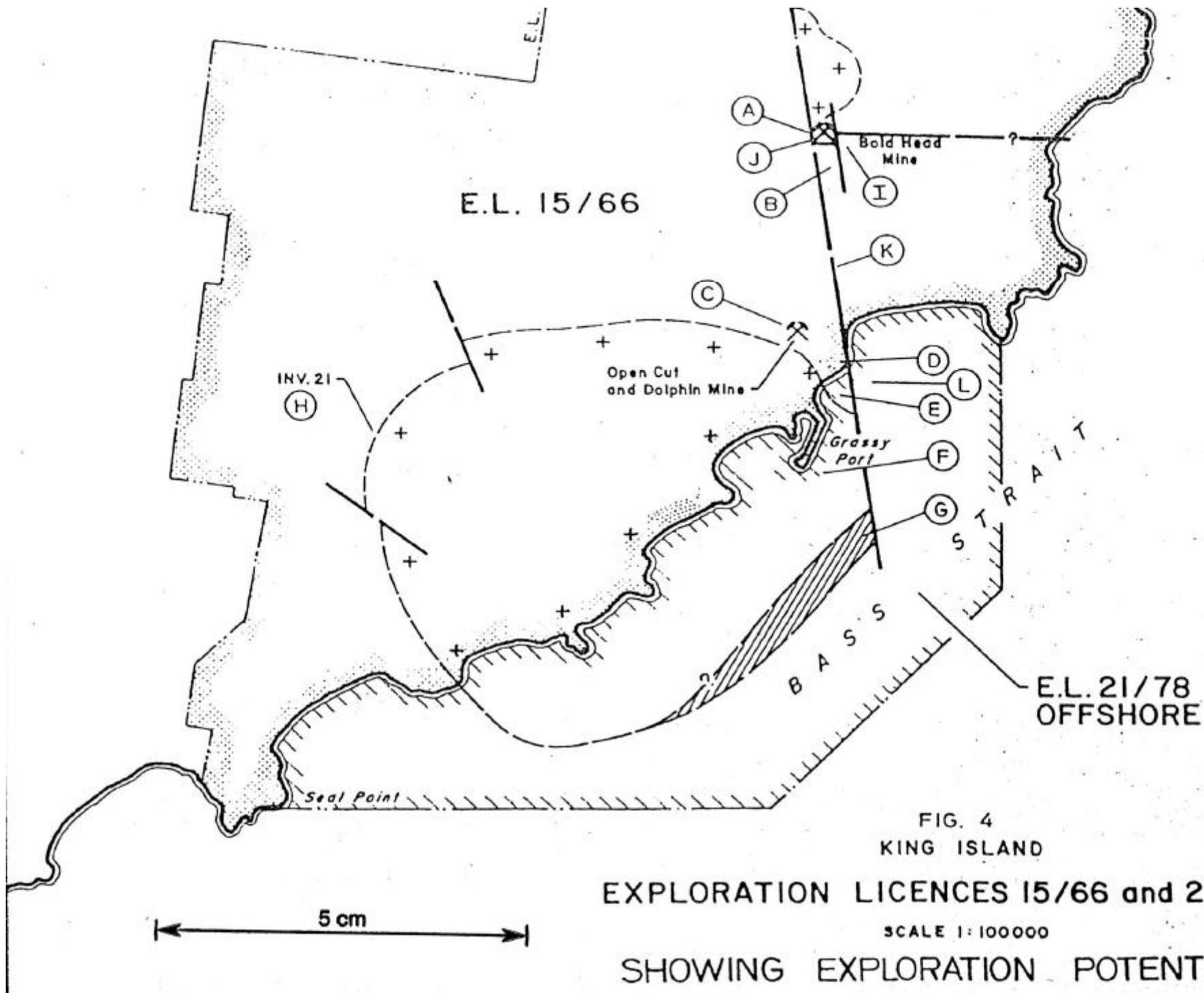


FIG. 4
 KING ISLAND
 EXPLORATION LICENCES 15/66 and 21/78
 SCALE 1:100000
 SHOWING EXPLORATION POTENTIAL

Mine Development

- Initially a 9 year mine life @ 450,000 tonnes/annum
- Peak output 480,000 mtu WO_3 per annum
- A\$31m capital cost (US\$20m)
- Capex includes all new plant and equipment; no mining contractors, no finance leases
- Project adjacent to port, town, power and roads
- Cut and fill mining method. Truck haulage to gravity separation and flotation treatment plant
- Approximately 70 employees

Mine Development

- Life-of-mine average operating cost of A\$56/mtu WO_3 (US\$36/mtu) includes all site costs, insurance, freight, royalties, administration and overheads.
- IRR @ US\$60/mtu: 25% (after-tax, ungeared)
- First 2.5 years mining in high grade ore (average 1.22% WO_3) gives opex of US\$26/mtu for initial 1.2 million mtu's of production
- 2 year investment payback period
- Rapid payback is attractive to lenders/investors

Mine Development

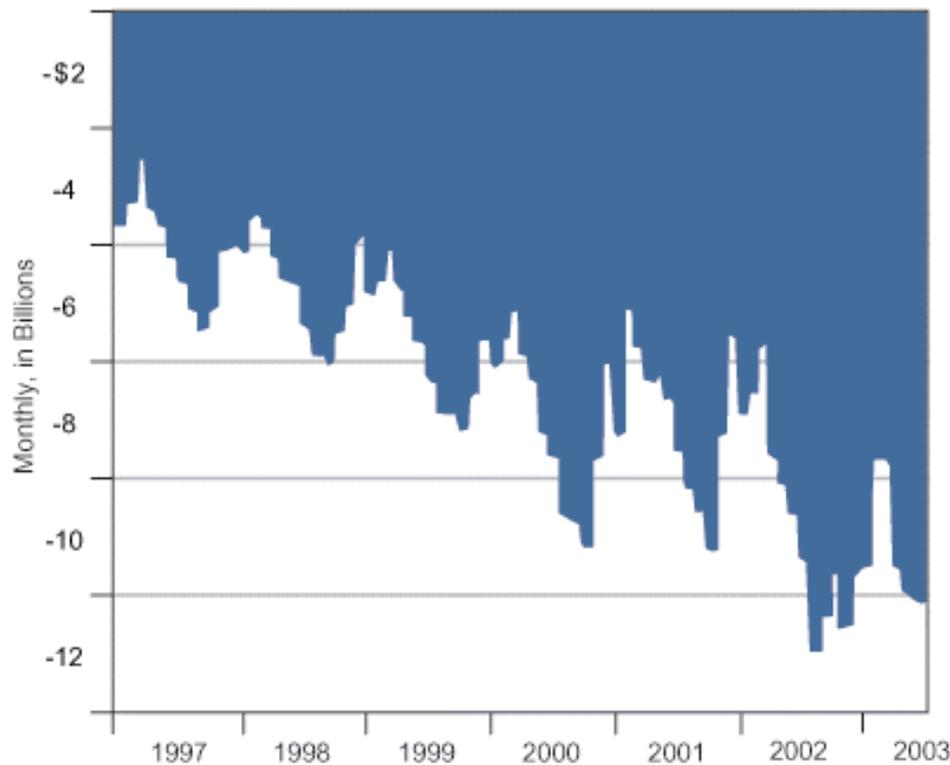
- Seeking customers/development partners
- King Island has low costs, so Australian Tungsten can offer a flexible supply to suit your business
- KI has no sovereign risk, low technical risk and potential for long mine life
- No regulatory impediments to re-development; strong support from government, local population and NGO's.
- Limited approvals required to re-start production.

China

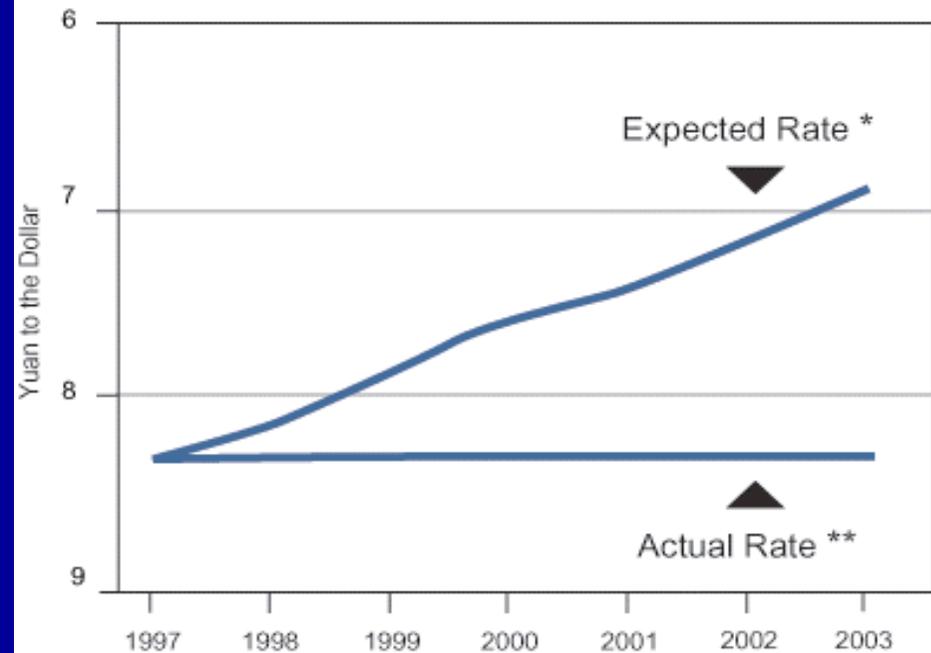
- China dominates W supply due to low domestic costs and large reserves...
- ...but China's economic growth will soon cause upward revaluation of Renminbi, just like the Yen in the 1970/80s.
- Renminbi is now 8.28 to 1 USD. What price W when exchange rate is up 15% next year and 50% in five years?
- Paradigm shift in W market within five years.

Currency Pressure

Chart 3 U.S. Trade Deficit With China



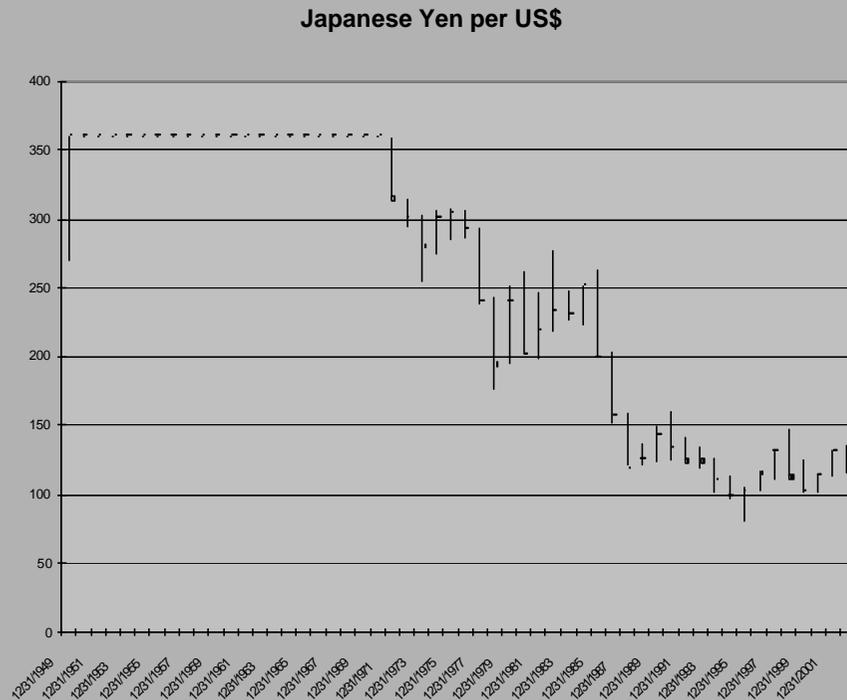
The Value of the Yuan



* Estimate based on relative purchasing power.
** Managed by Chinese authorities.

- US trade deficit with China is unsustainable
- PIMCO - world's largest bond fund manager - has no doubts about the renminbi (yuan) revaluation.

Western Mg users are reluctant to rely on China long term. One reason is the very significant exchange rate risk



The Japanese Yen provides a model for what might happen to the renminbi

- From 1950 to 1971 the yen was pegged to the US\$.
- After the yen was floated, it appreciated from 360 yen to US\$1 to 80 yen over the next 25 years.
- Japan had a competitive Al smelting industry in the 1970s. Gone!

The renminbi is undervalued right now!

- Tied to US\$, but weak US\$ is devaluing renminbi against other currencies.
- Some commentators suggest renminbi is now 40% undervalued
- Pressures are growing to revalue renminbi
 - China devastating other manufacturing economies
 - Massive capital inflows for new factories
 - New factories are large, and use latest machine tools to become even more competitive.

By 2010, it is likely that the renminbi will have appreciated by 100%. If this happens, Chinese magnesium could cost twice as much as it does now in US\$

Conclusion

- King Island could be producing within two years
- Low operating costs with potential for long mine life
- Unique opportunity to participate in low risk, low cost development and/or secure your W supply
- W price will increase sharply due to currency changes. Potential for substantial market displacement and price volatility. The only risk to this outlook is the timing.

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