

KING ISLAND PROJECT

EL 16/2002

**ANNUAL REPORT
2006**

Prepared for:

***King Island Scheelite Limited
Level 9 17-19 Bridge Street
Sydney NSW 2000***

20 April 2006



Prepared by:

**Lindsay Newnham, BSc, FAusIMM, CPGeo
Newnham Exploration and Mining Services
PO Box 183 Exeter Tasmania 7275
Ph: (03) 6394 3434 Fax: (03) 6394 3435**

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1. SUMMARY

Exploration Licence EL 16/2002 covers an off-shore area south-east of Grassy on King Island, immediately adjacent to the former Dolphin open-cut and underground scheelite mines.

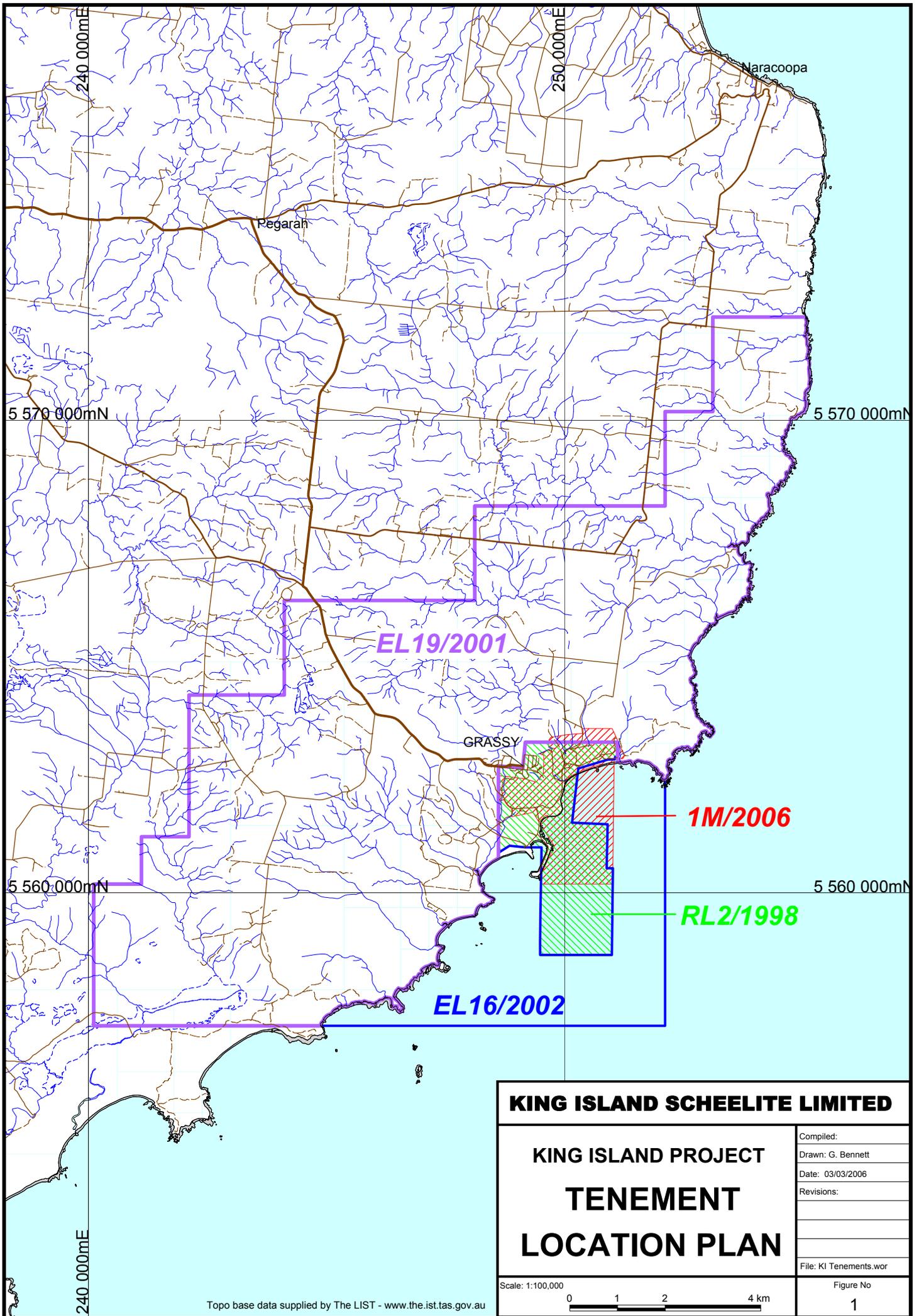
The formations which host these scheelite deposits are interpreted as extending south at depth into EL 16/2002, and thus the area is considered highly prospective for additional deposits. During 2005-06, King Island Scheelite commenced a major assessment of the scheelite resources remaining at Dolphin, to ascertain if they were capable of supporting a new open-cut operation.

Extensions of the open-cut resources at depth into EL 16/2002 would present the longer-term opportunity to develop these by way of an underground mine from the bottom of the new pit.

A decision on the development of the new open-cut will be forthcoming in 2006 and this will determine the direction of future exploration on EL 16/2002.

In conjunction with the contiguous EL 19/2001, King Island Scheelite plans to access available data on EL 16/2002 during 2006 as a basis for ongoing work.

A budget estimate for this work through 2006 is \$25,000.



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**KING ISLAND PROJECT
TENEMENT
LOCATION PLAN**

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 Date: 03/03/2006
 Revisions:
 File: KI Tenements.wor

Scale: 1:100,000



Figure No

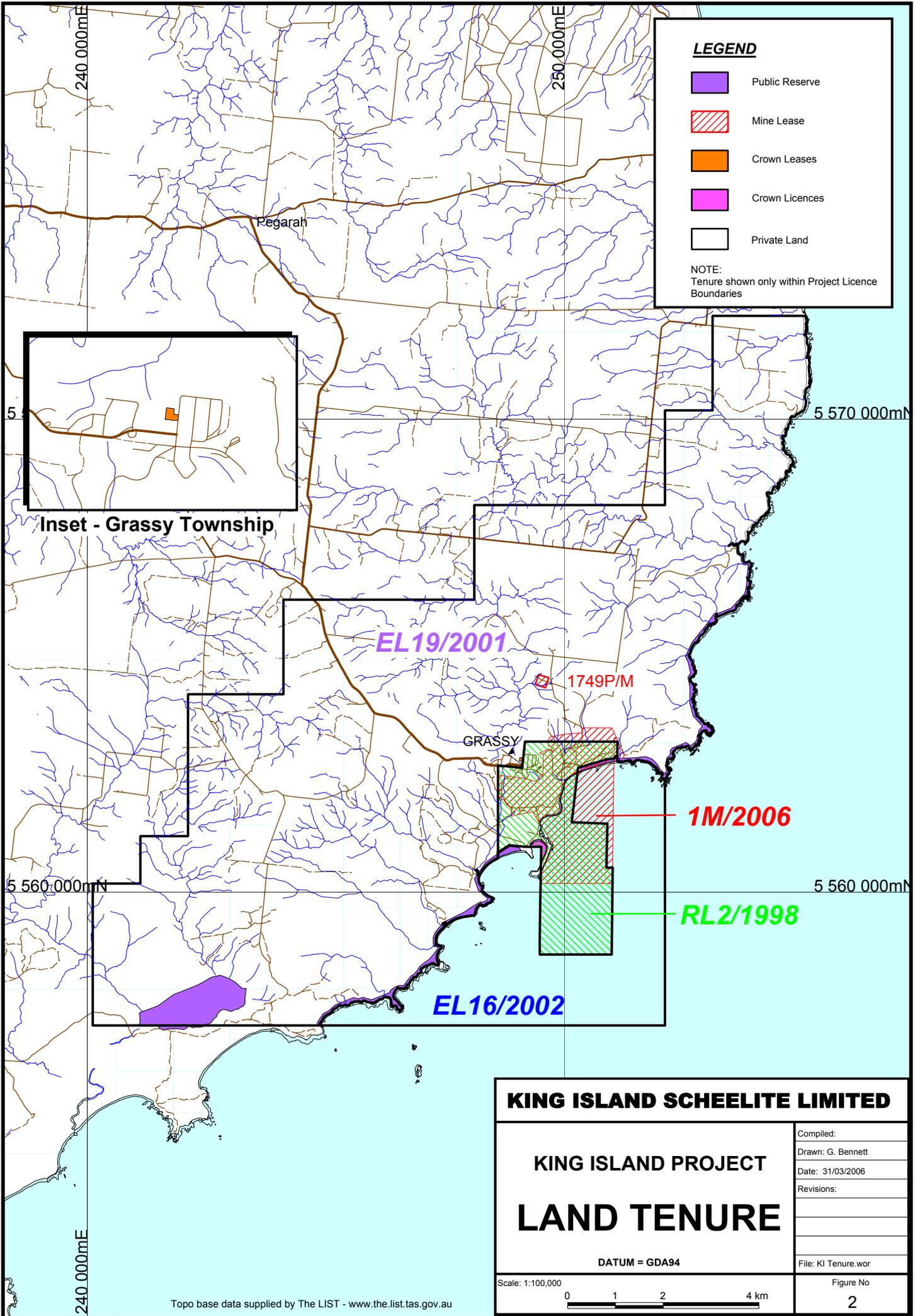
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2. TENURE

Exploration Licence EL 16/2002 of 18 sq km is held by Australian Tungsten Proprietary Limited, a wholly owned subsidiary of King Island Scheelite Limited.

The Licence was granted for metallic minerals and has a final date of 09 May 2008, subject to extension.

The Licence lies entirely off-shore south-east of Grassy, and land tenure is Crown Land and Crown Land-Tasmanian Territorial Waters (Fig 2).



LEGEND

- Public Reserve
- Mine Lease
- Crown Leases
- Crown Licences
- Private Land

NOTE:
Tenure shown only within Project Licence Boundaries

Inset - Grassy Township

EL19/2001

1749P/M

1M/2006

RL2/1998

EL16/2002

KING ISLAND SCHEELITE LIMITED

**KING ISLAND PROJECT
LAND TENURE**

DATUM = GDA94

Scale: 1:100,000



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Drawn: G. Bennett	
Date: 31/03/2006	
Revisions:	
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Figure No
2

Topo base data supplied by The LIST - www.the.list.tas.gov.au

3. EXPLORATION OBJECTIVES

Exploration Licence 16/2002 is considered prospective for primary scheelite deposits.

Scheelite mineralisation was discovered on the beach near Grassy in 1911 and, between 1917-1990, 9.7 Mt of ore averaging 0.65% WO₃ was mined from the Dolphin Open-Cut south of Grassy and the Dolphin and Bold Head underground mines.

Rapidly falling tungsten prices in the late 1980s led to the mines' closure in 1990, despite the fact that substantial resources were known to remain.

With the recent strong increases in tungsten price, King Island Scheelite Limited (KIS) decided to evaluate the commercial opportunity of reopening the mine, based on the concept of an extension of the existing Dolphin Open-Cut, to mine remaining lower grade ores and the higher grade remnants within the former Dolphin underground mine.

Regionally, King Island is underlain by proterozoic sediments intruded by both Precambrian and Carboniferous granites (Fig 3).

In the south-east corner of the island a younger sequence of sediments (?Proterozoic-Cambrian), including several carbonate beds and overlying mafic volcanics, have been intruded by a Carboniferous granite (Fig 4). This granite intrusion resulted in tectonic deformation (folding, faulting) of the younger sediments and volcanics, and intensive alteration of the carbonate units.

The alteration resulted in the formation of extensive scheelite bearing pyroxene-garnet skarns in two principal carbonate beds, locally known as B and C Horizons or Lenses.

Of possible genetic and, therefore, economic importance is the Grassy River Fault which is believed to be a regional, long lived structure which cuts north-north-west through King Island. The fault dips steeply to the south-west and is interpreted as having an east block north transcurrent movement of 2.5 km. It may have both controlled the shape and nature of the granite intrusion and provided a structural focus for the subsequent mineralising hydrothermal fluids.

Prerequisites for discovery of additional scheelite deposits on King Island are:

- the presence of the younger Grassy Group calcareous sediments
- these carbonates must lie within the hydrothermal metamorphic aureole of the Carboniferous granite

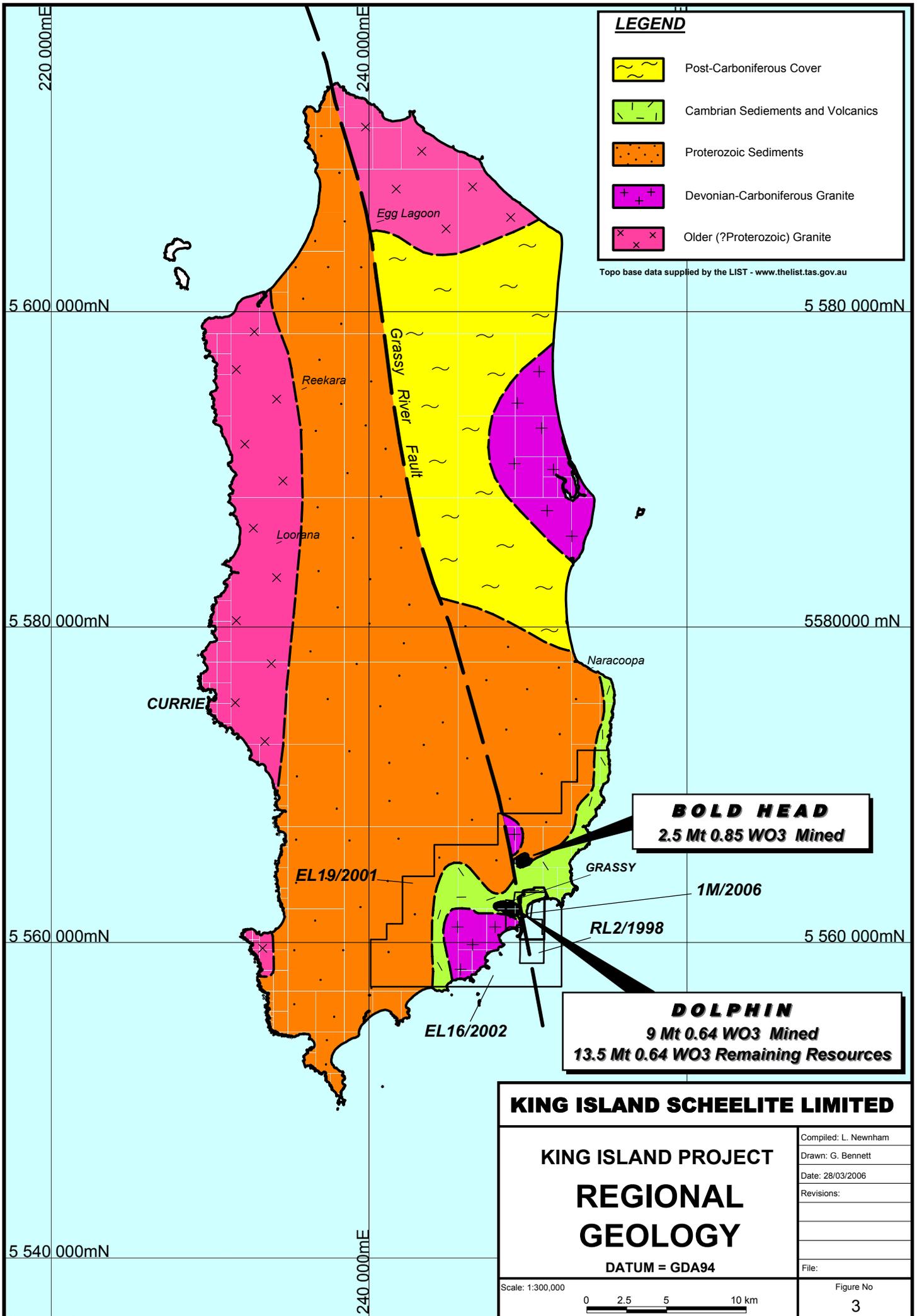
In the late 1980s mine development and exploration in the deep south-east corner of the underground Dolphin Mine was directed towards discovery of high grade scheelite in Mine Series rocks developed between the east dipping

Decline Fault and the steeply west dipping Grassy River Fault. The Decline Fault strikes north-south whilst the Grassy River Fault strikes north-north-west. Thus, they diverge going south into EL 16/2002.

The underground exploration confirmed the existence of Mine Series rocks between these two faults, but this resource opportunity was not pursued with vigour due to falling tungsten prices at the time.

The potential for discovery within EL 16/2002 depends on the relationship between the Grassy Granite, the Decline and Grassy River Faults and the Mine Series rocks. If the Mine Series rocks have been regionally domed-up by the granite intrusion, they may well exist at depth on the south side of the granite, in a structural setting very similar to the Dolphin Mine deposits (Figs 4, 5).

Critical to this exploration objective will be the off-shore shape of the Grassy Granite.



220 000mE

240 000mE

5 600 000mN

5 580 000mN

5 580 000mN

5580000 mN

5 560 000mN

5 560 000mN

5 540 000mN

240 000mE

CURRIE

EL19/2001

EL16/2002

GRASSY

1M/2006

RL2/1998

Reekara

Loorana

Naracoopa

Grassy River Fault

Egg Lagoon

4. WORK COMPLETED 2005-2006

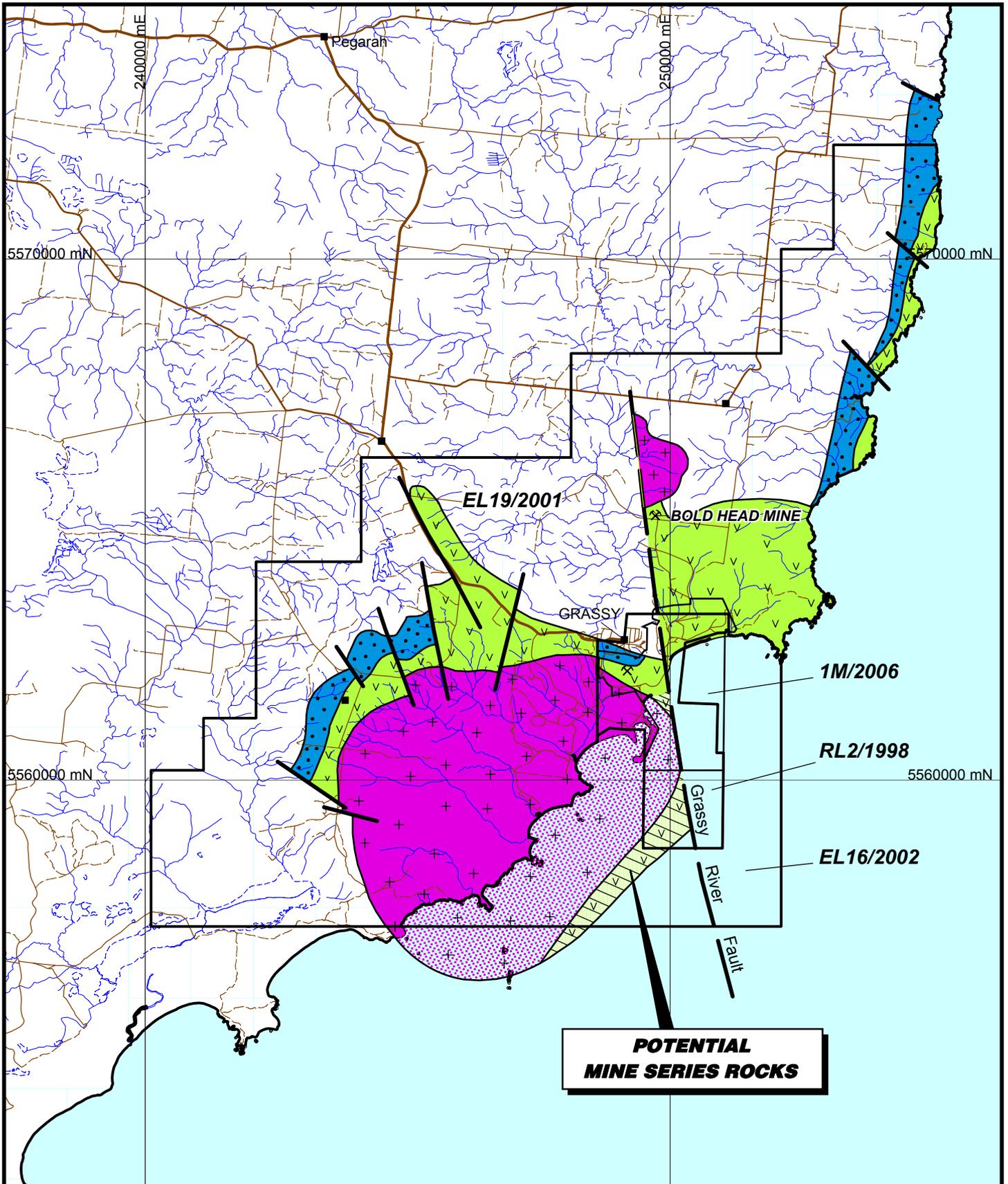
During 2005 KIS focused a major multi-disciplinary study to demonstrate the commercial viability of developing a large scale open-cut mine on the scheelite resources remaining around the former Dolphin Open-Cut and underground mines.

This ongoing study included:

- 6,000 m core drilling
- metallurgical test work
- mine design studies
- civil engineering studies
- marketing investigations

Whilst no active field work was undertaken during the year on EL 16/2002, a geological assessment of data at depth in the south-east section of the Dolphin Mine did highlight the potential for mineralised Mine Series rocks to extend south along the Grassy River and Decline Faults into EL 16/2002.

Depending on the morphology of the Grassy Granite, this potential on the south side of the granite could be substantial.



LEGEND

Mine Series Rocks

- v v v Upper-Volcanics
- . . . Calcareous Sediments
- + + + Carboniferous Granite

Topo base data supplied by the LIST - www.thelist.tas.gov.au

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KING ISLAND PROJECT

LOCAL

GEOLOGY

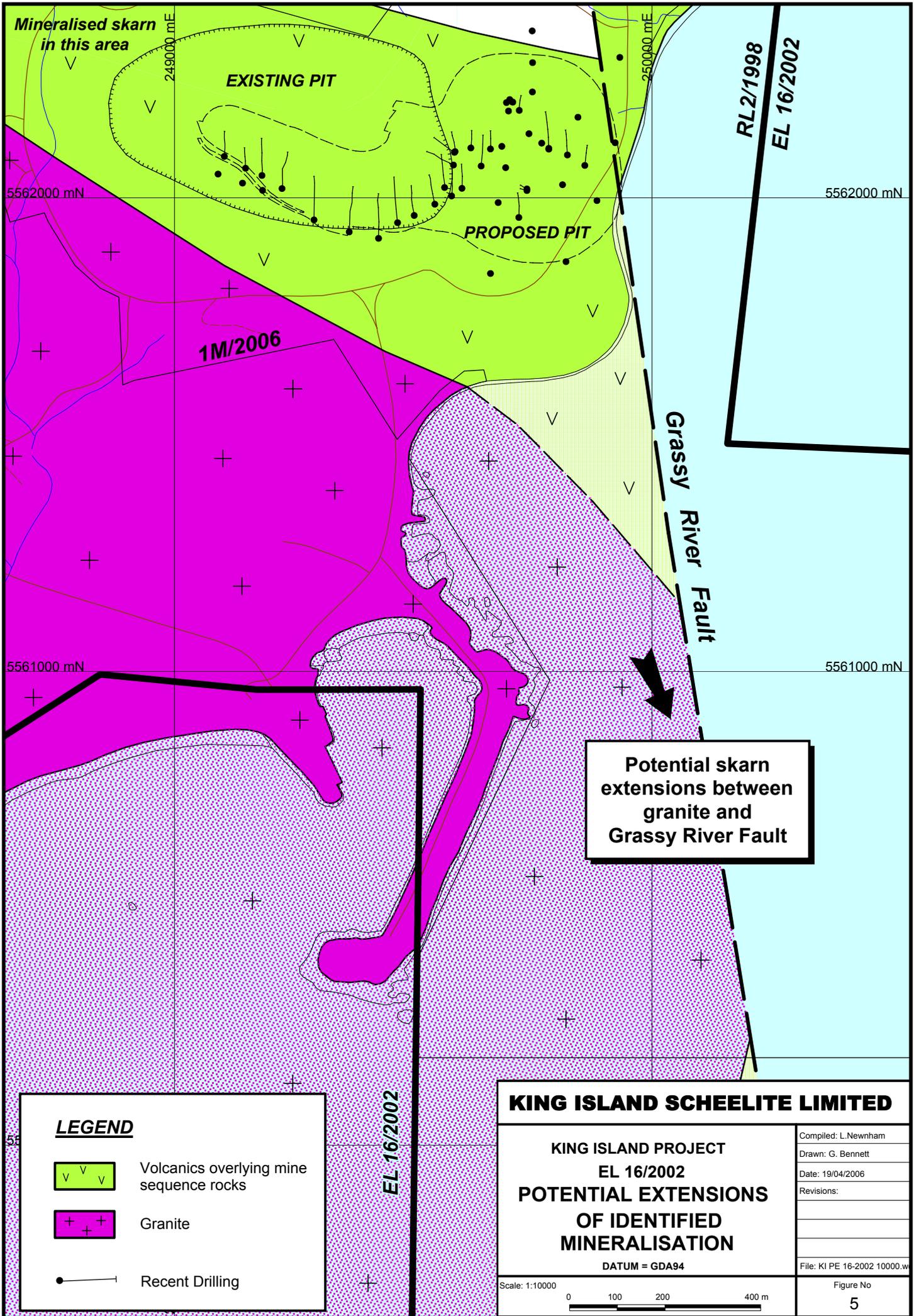
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0 1 2 4 km

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Drawn: G. Bennett
Date: 28/03/2006
Revisions:
File: KI Tenement Base.wor

Figure No
4



Mineralised skarn
in this area

EXISTING PIT

PROPOSED PIT

RL2/1998
EL 16/2002

1M/2006

Grassy River Fault

Potential skarn
extensions between
granite and
Grassy River Fault

LEGEND

- Volcanics overlying mine sequence rocks
- Granite
- Recent Drilling

KING ISLAND SCHEELITE LIMITED

KING ISLAND PROJECT
EL 16/2002
**POTENTIAL EXTENSIONS
OF IDENTIFIED
MINERALISATION**

DATUM = GDA94

Scale: 1:10000



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Date: 19/04/2006
Revisions:
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Figure No
5

5. WORK PLANNED 2006-2007

During 2006-2007, it is planned to complete the following work:

- more detailed assessment of the lower Dolphin Mine geology and projection of this data into EL 16/2002.
- analysis of existing aeromagnetic data over King Island to more accurately define the off-shore shape of the Grassy Granite and hence the Mine Series potential.

A budget estimate for this work is \$25,000.