



KING ISLAND PROJECT

RL 2/1998

ANNUAL REPORT 2007

1. SUMMARY

Retention Licence 2/1998 was granted over the identified resources remaining at the Dolphin open-cut and underground mines near Grassy. The strategy has been to assess the potential of these resources to support a new open-cut operation delivering ore to an adjacent processing plant to produce scheelite concentrates for export.

The resources existed both as extensions of bodies mined in the former Dolphin open-cut and as mining remnants and extensions of bodies mined in the Dolphin underground mine.

Integrated evaluation studies of this opportunity commenced on the ground in early 2005, and included:

- resource definition drilling
- resource and reserve estimation
- mine design
- metallurgical test work
- mill and infrastructure design
- tailings dam design
- seawall design
- environmental management
- financial analysis

By February 2006 outcomes from these studies were sufficiently encouraging for the Company to commit to completion of both a Development Program and Environment Management Plan (DPEMP), and a Feasibility Study. The latter was completed during the September quarter of 2006.

To secure appropriate tenure to the project area, application was lodged on 10 February 2006 for a 560 ha Mining Lease, 1M/2006. The conditions of this lease were determined in late 2006, and the lease subsequently issued. This lease is awaiting payment by KIS of bond monies before it is activated.

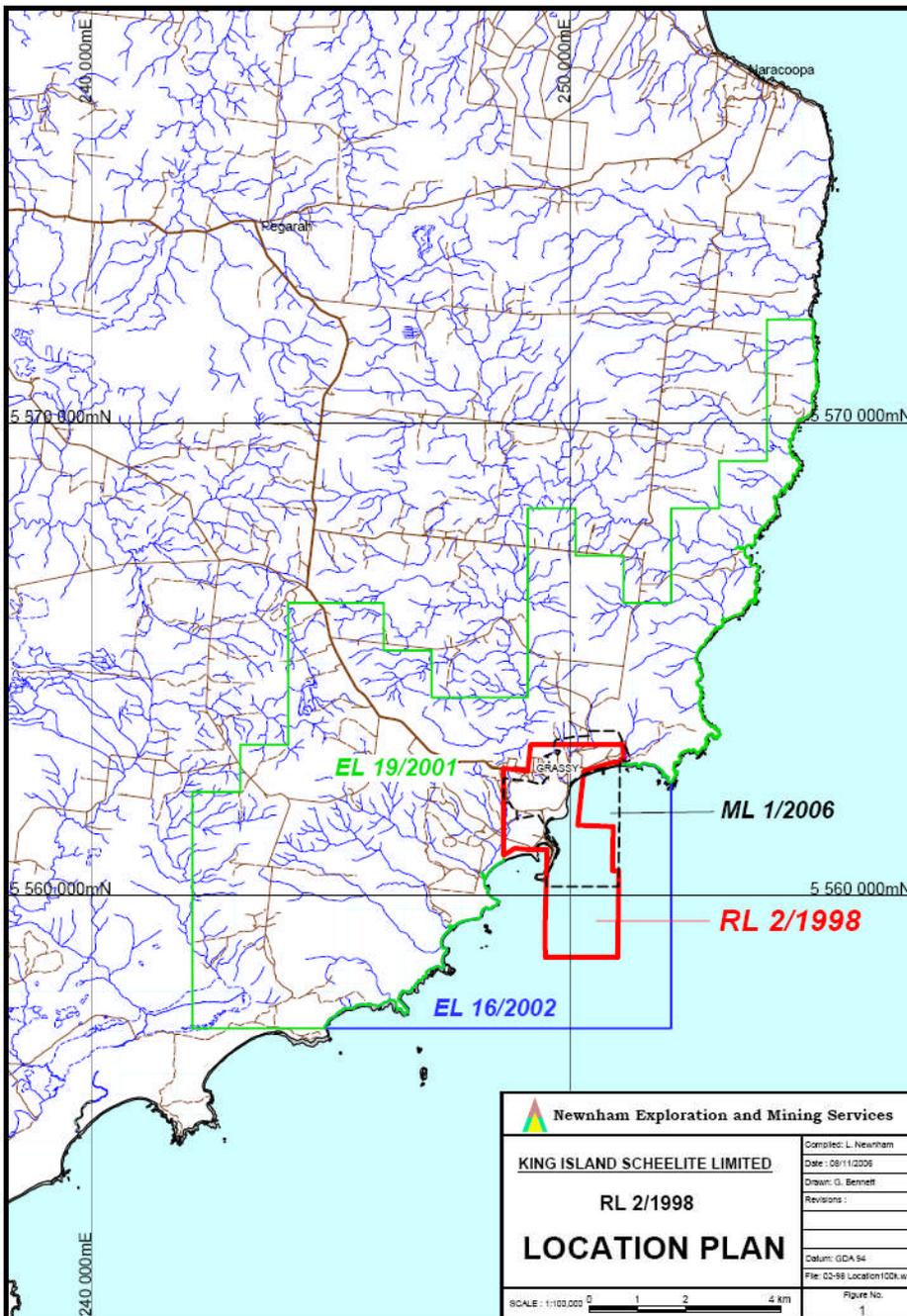
The lease fell largely within RL 2/1998 with small peripheral areas within the contiguous ELs 19/2001 and 15/2002, both beneficially held by Australian Tungsten Pty Limited, a subsidiary of KIS.

To date, KIS and its subsidiary ATPL have spent approximately \$6 million on evaluation of the Dolphin deposits. Future work will focus on development on ML 1M/2006, but longer term resource extension opportunities exist on RL 2/1998 and the bordering ELs.

In 2007 it is planned to fly a high resolution aeromagnetic survey over the RL as the first step in the evaluation of this resource extension opportunity.

2. TENURE

With the granting of ML 1M/2006 over most of RL 2/1998, the latter now exists in discrete sections (see the map below). The southern section is totally off-shore and south of Grassy Harbour.



The western section (over the golf course / resort) is largely private land and the northern section on the southern, eastern and northern outskirts of Grassy is largely private or local council land.

3. EXPLORATION OBJECTIVES

The initial exploration objective on RL 2/1998 was to assess the commercial viability of remnant scheelite resources in and around the former underground and open-cut Dolphin mines.

Mining Lease 2/1998 now covers this area and the exploration objective on the remnant RL 2/1998 has shifted to assessing the longer term exploration opportunity to identify additional scheelite resources which could either extend or expand a new operation.

4. WORK COMPLETED 2006/7

Approximately \$2.3 million was spent during 2006/7 on the RL area and the replacement ML area applied for in February 2006. The majority of this expenditure has been in the development and production of the Feasibility Study that was completed in September 2006, and subsequent work on refining and further developing the study. Since September attention has also been focussed on arranging finance to develop the project, with in depth discussions being pursued with a number of parties, including two major Chinese participants in the tungsten industry.

This work can be summarised as follows:

Item	Cost
Drilling analysis costs to complete the drilling programme undertaken in the previous year.	\$6,492
Geotechnical costs to drill the foreshore and plant site area to investigate the bedrock status for the cut off wall and plant buildings. These were not exploration holes.	\$104,681
Geological model development by consultants	\$74,464
Infrastructure design and planning costs to refine infrastructure planning	\$5,144
Mining study costs to refine mine plans and schedules by consultants	\$235,903
Metallurgical development work to provide design parameters for the processing plant	\$607,610
Plant engineering design and specification costs by consultant engineers	\$285,094
Permitting and environmental costs, principally by SEMF	\$385,323
Project management costs by consultant managers	\$360,239
Seawall design and costing, principally by GHD	\$213,809
Travel and accommodation expenses to perform work above	\$14,478
Total costs on RL2/1998 for 2006/7	\$2,293,238

5. WORK PLANNED 2007/8

The majority of work in 2007/8 on RL2/1998 will be directed towards securing funding for the development of the project, and its consequent construction.

Work has been planned for 2007 to perform an aeromagnetic survey of portions of RL2/1998 and the surrounding two ELs held by the KIS group of companies. Originally planned for the first quarter of 2007, the lack of availability of aircraft to perform this work has meant that it has been delayed until the second half of 2007.

The aeromagnetic survey will assist the understanding of a number of resource extension opportunities:

Off-shore Area:

The resource opportunity in this area is deep and (obviously) under water. Future development is only conceivable as an underground mine, developed from within the new open-cut. The aeromagnetic survey over the area should better define the granite boundary and peripheral structures, thereby identifying potential mineralisation.

Dolphin West:

The survey will cover this area as well. In addition, there is potential to perform a limited drilling programme in this area, which has inadequately tested opportunities for resource extensions at relatively shallow depths.

The cost of the aeromagnetic survey is likely to be in the region of \$150,000 to \$200,000.

Mineral Resources Tasmania

ABN 36 388 980 563

<http://www.mrt.tas.gov.au>

Form No. E6

Mineral Resources Development Act 1995

Sections 28 (3) 187 & 189

ANNUAL REPORT ON MINERAL EXPLORATION¹

Return for year ended: **Saturday 30 June 2007**

Operator/manager:

Australian Tungsten Pty Ltd
PO Box 5153
Launceston
Tas 7250

Tenement number: RL 2/1998

ID Number:

Location: Grassy

Holder: Australian Tungsten Pty Ltd.

If nil return, tick box, complete declaration overleaf and return form.

EXPENDITURE STATEMENT	\$	PRINCIPAL TARGET <i>Tick one box only</i>
Geology	80,956	<input type="checkbox"/> Cu, Pb, Zn, Ag
Geochemistry		<input type="checkbox"/> Gold
Geophysics – air (line km		X Sn, W, Mo
Geophysics – ground ... (line km		<input type="checkbox"/> Ni, Cr, Pt, Os, Ir
Feasibility studies	2,197,804	<input type="checkbox"/> Heavy minerals
Rehabilitation		<input type="checkbox"/> Coal
Drilling (metres		<input type="checkbox"/> Oil
Gridding (line km		<input type="checkbox"/> Industrial minerals (include magnetite)
Administration (not exceeding 10% of annual expenditure)	14,478	<input type="checkbox"/> Construction materials
Other (specify)		<input type="checkbox"/> Other (specify
(a) TOTAL FOR THIS YEAR	2,293,238	
(b) Cumulative total at end of previous return	3,147,557	
Total expenditure to date (a + b)	5,440,795	

Exploration Progress Report² See attached report

Environmental and rehabilitation activities² Nil

¹Explanatory notes overleaf. ²Attach another sheet if required.

THE STATUTORY DECLARATION OVERLEAF MUST BE COMPLETED

STATUTORY DECLARATION

I Nick LambethChief Executive Officer.....
name *designation*

King Island Scheelite Ltd
company

Level 1, 89 St John Street, Launceston, Tasmania, 7250.....
address

declare that the information herein pertaining to a quarterly report on mineral exploration is true and I make this solemn declaration by virtue of Section 132 of the Tasmanian Evidence Act 1910.

Declared at this day of 20.....

..... (signature), before a Justice of the Peace or a

Commissioner of Declarations (signature)

EXPLANATORY NOTES

Quarterly exploration reports for the periods ending 31 March, 30 June, 30 September, and 31 December are required within 14 days after each quarter. A form for each tenement will be sent to the holder by the end of each quarter. Details of the tenement appear on the form, with cumulative expenditure at the end of the previous quarter. Any discrepancies should be over-written when completing the form and an explanation attached. The completed form must be supported by the statutory declaration on the form.

EXPENDITURE DETAILS

Geology, geochemistry and geophysics should include, as appropriate:

- salaries, wages, etc. paid to employees (professional, technical and field staff)
- line kilometres (if appropriate)
- payments to contractors, consultants, laboratories, etc., including ground and airborne geophysics and data processing but not drilling contractors
- travel and subsistence allowances.

Feasibility Studies including all expenditure directly attributable to:

- ore reserves and estimation
- mineral processing and metallurgical studies
- feasibility/economic studies
- marketing studies.

Rehabilitation includes all direct rehabilitation costs.

Drilling and gridding include all direct costs. The length achieved during the quarter must be shown.

Other means all other expenditure directly attributable to exploration, including:

- construction of access tracks, surveying, contract drafting etc. not attributable to geology, geochemistry or drilling
- aerial photography
- capital expenditure and hire/leasing of vehicles and equipment specifically for this enterprise.

Administration overheads include:

- legal costs and government fees and charges, but only those attributable to exploration
- a proportion of office and administrative expenses and of capital expenditure but not exceeding 10% of annual expenditure.

Exclusion – payments, other than to government, for the purchase of mineral tenements.

THE EXPLORATION PROGRESS REPORT should be a brief résumé of exploration completed, exploration in progress and any significant results. A lengthy statement is not required, as full details must be provided in the annual report to the Director of Mines. The progress report should not exceed one page.

ENVIRONMENTAL AND REHABILITATION ACTIVITIES. Full details of any activities impacting on the environment are required with a résumé of the type and extent of rehabilitation proposed, in progress and completed. The report should be less than one page and should include plans and photographs where appropriate.

GENERAL. If work is undertaken on more than one tenement, a separate form for each is required. If no exploration was done during the period, a nil return must be sent. If exploration was carried out by a company or person(s) other than the tenement holder, the return may be sent to and completed by them.

THIS FORM MUST BE COMPLETED AND RETURNED WITHIN 14 DAYS AFTER THE END OF THE PERIOD, TO THE DIRECTOR OF MINES, PO BOX 56, ROSNY PARK, TASMANIA, AUSTRALIA, 7018