



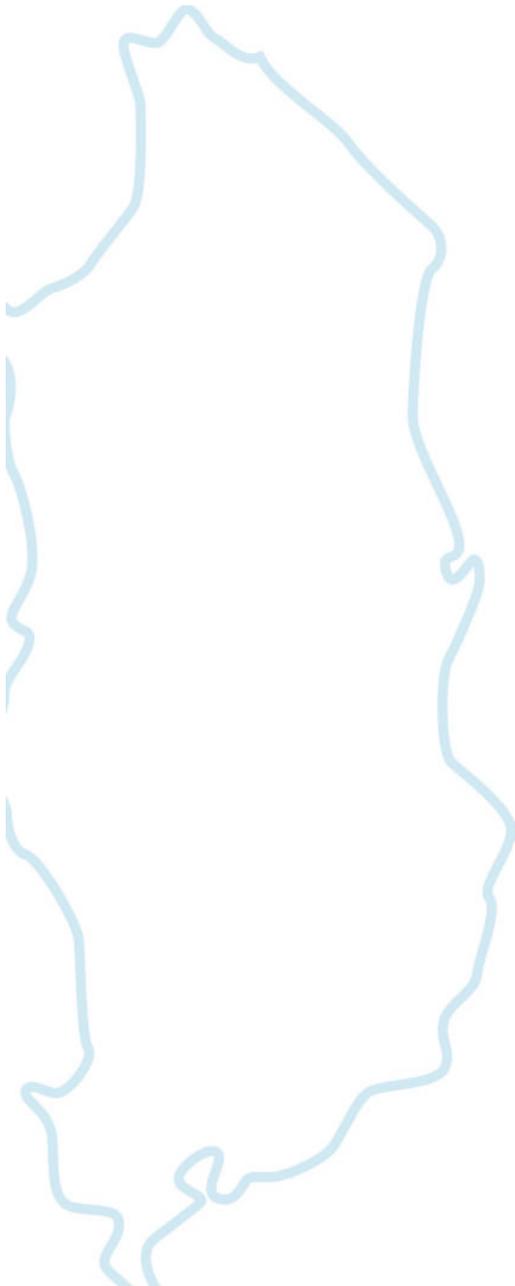
KING ISLAND PROJECT

EL 16/2002

ANNUAL REPORT 2008

CONTENTS

1. Summary
2. Tenure
3. Geology
4. Exploration Objectives
5. Work Completed 2007-2008
6. Work Planned 2008-2009



1. Summary

The scheelite deposits at Grassy on King Island were mined from 1917 through to 1990. In 2005 King Island Scheelite Limited commenced a programme of assessment to determine if the deposit could be viably re-opened as an open cut operation. This programme led to a feasibility study completed in September 2006 that confirmed the viability of a new operation based on higher prevailing tungsten prices.

EL 16/2002 lies adjacent to the known scheelite deposits to be mined during the proposed new operations. The rock formations that host the known deposits are interpreted to continue in a southerly direction and at depth into EL 16/2002. Extensions of the deposit into the EL represent a long term opportunity to develop an underground mining operation accessed from the bottom of the ultimate pit.

Aeromagnetic survey work undertaken in 2007 indicates the possibility of mine series rocks within the EL, although further processing and interpretation work needs to be undertaken.

2. Tenure

EL 16/2002 is held by Australian Tungsten Pty Ltd, a wholly owned subsidiary of King Island Scheelite Limited, and covers an area of 18 square kilometres.

The EL was granted for metallic minerals, and has a final date of 9th of May 2008, subject to extension.

The licence lies entirely off shore to the south east of Grassy, and the land tenure is Crown Land and Crown Land – Tasmanian Territorial Waters.

3. Geology

The eastern half of King Island is underlain by relatively unmetamorphosed siltstone of lower Neoproterozoic age, which dips and faces east. In the Grassy area this siltstone is overlain by, and in places is in fault contact with, a late Neoproterozoic succession of diamictite, dolomite, limestone and shale approximately 150-200m thick. Mafic volcanic rocks overlie the sediments and together they form the Grassy Group.

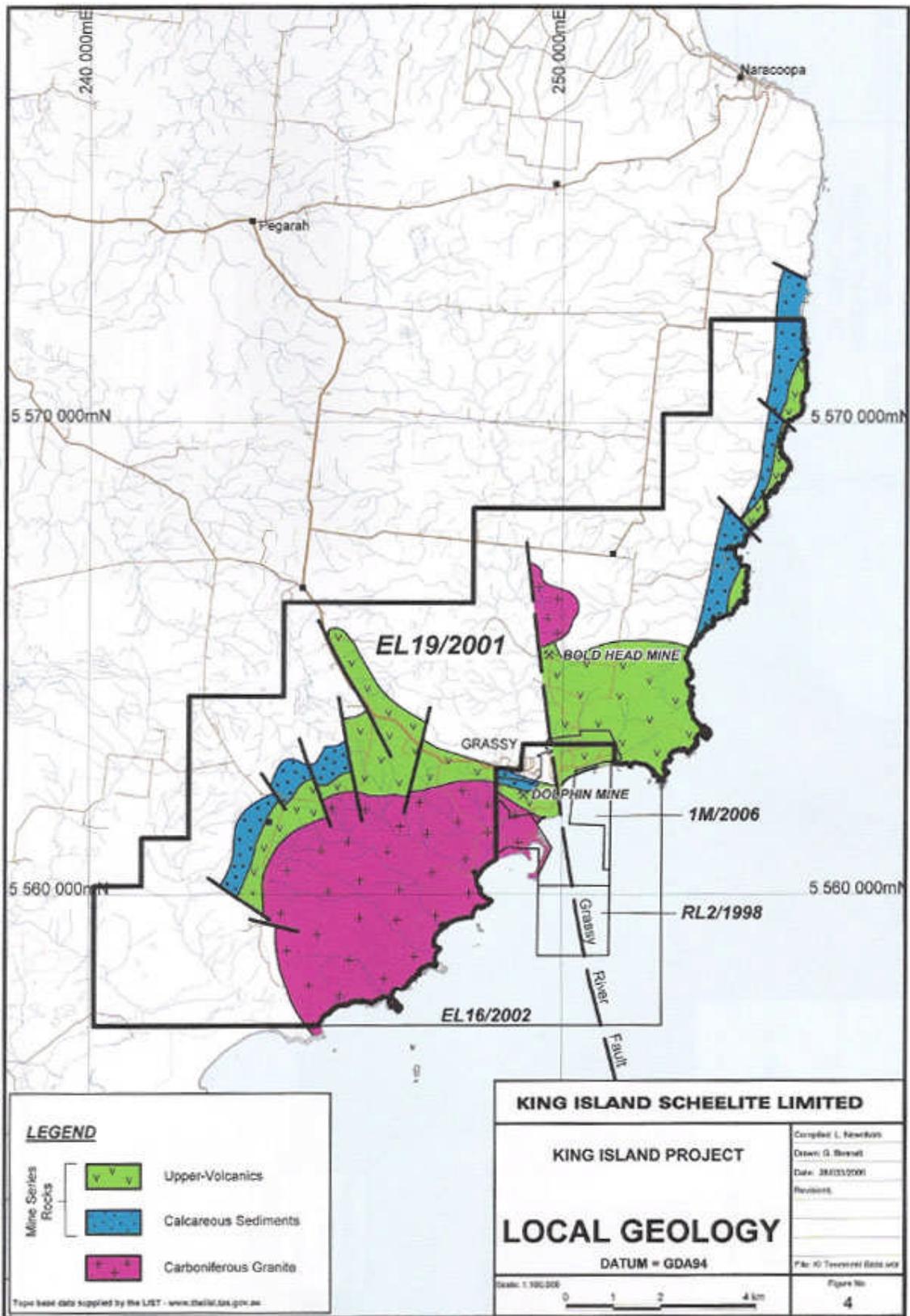
During the lower Carboniferous the Grassy Group was intruded by granite, resulting in extensive metamorphism and metasomatism as well as folding and faulting. Skarns formed within the metamorphic aureole of the granite and these host scheelite, primarily within two beds known as B and C lenses. The metamorphic equivalents of the diamictite, dolomite, limestone and shale in the vicinity of the Grassy and Bold Head granites are known as the mine series.

Trending NNW through the Grassy area is the Grassy River Fault and this appears to have served as a conduit for mineralising fluids because ore grades increase towards it. The fault is a major structure which predates the granite, and may have had an influence during granite emplacement. The mine series rocks have been sheared off to the east of the Dolphin mine by the Grassy River Fault and mafic volcanic rocks occur to the east of the fault. Movement of the Grassy River Fault is not well understood but the east block has moved down possibly 300m.

The Bold Head Granite is effectively of the same composition as the Grassy Granite and both may have originally been one pluton that has sheared due to lateral movement along the Grassy Fault. Scheelite ore was extracted from the southern side of the Bold Head Granite.

During previous underground mining operations exploration was undertaken to identify mineralisation between the Grassy River Fault and the north-south trending Decline Fault. These faults diverge as they enter EL16/2002. Exploratory drilling confirmed the existence of mine series rocks between the two faults and trending south easterly down dip and terminating on granite.

It is likely that the mine series rocks continue on the southern side of the Grassy Granite, down dip of existing mine workings. The Grassy River Fault is in close proximity to the projected mine series rocks in this area and so there is potential for the existence of another scheelite deposit in a similar structural setting to the Dolphin deposit.



LEGEND

Mine Series Rocks

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

Topo base data supplied by the LIST - www.theirist.as.gov.au

KING ISLAND SCHEELITE LIMITED

KING ISLAND PROJECT

LOCAL GEOLOGY

DATUM = GDA94

Scale: 1:50,000

0 1 2 4 km

<small>Compiled: L. Newburn</small>	<small>Figure No:</small>
<small>Drawn: G. Bennett</small>	4
<small>Date: 28/03/2006</small>	
<small>Revised:</small>	
<small>File: KI Tenement Data.xls</small>	

4. Exploration Objectives

The mineral principal target in EL 16/2002 is scheelite ore. The previous mining operations from 1917 to 1990 in the adjacent area produced 9.7 Mt of ore, averaging 0.65% WO₃. This was from a combination of open pit and underground mining in the Dolphin deposit, and in addition underground mining from the nearby Bold Head mine yielded 2.5 Mt averaging 0.85% WO₃.

Given the substantial recovery in tungsten prices over the past few years King Island Scheelite Limited is proposing to re-open the Dolphin mine as an expanded open cut operation. This could potentially have a life of 20 years. If economic ore resources are found in EL 16/2002 it is possible that they could be accessed by establishing a decline at the bottom of the pit once it reaches its ultimate depth.

During previous underground mining operations exploration activity was undertaken to identify mineralisation between the Grassy River Fault and the North South trending Decline Fault. These faults diverge as they enter EL 16/2002. This activity confirmed the existence of mine series rocks between the two faults, but it was not pursued to any great degree due to the deteriorating state of the tungsten market and the pending closure of the mine.

The potential for discovery of resource within EL 16/2002 is dependent on the relationship between the granite intrusion, and the Decline and Grassy River Faults. If mine series rocks have been regionally domed up by the granite intrusion they may well exist on the eastern and/or south side of the granite in a structural setting very similar to the Dolphin deposit.

5. Work Completed 2007-2008

An aeromagnetic survey was flown over EL16/2002 in late 2007. The results of this survey are still being processed, and only preliminary data have been received. Additionally, further work is being undertaken to collect and utilise magnetic susceptibility readings from existing core samples. Further processing will be undertaken using these data.

However, the preliminary interpretation of the aeromagnetic survey indicates the possibility of mine series rocks on the eastern end of the granite contact in Grassy Bay. The survey also indicates another fault existing to the east of the Grassy River Fault, and the mine series rocks could exist between these two faults.

An attempt was also made in 2007 to determine the strike and dip of the Grassy River Fault from the adjoining RL2/1998 licence. While the primary purpose of this was to establish geotechnical parameters for the proposed pit, a secondary function was to pierce the fault and assist in determining exploration targets to the east. Unfortunately the drilling had to be curtailed prematurely due to difficulties with the drilling conditions and the rig.

The overall expenditure incurred (excluding drilling) was:

Aeromag survey cost (pro-rata by area of tenement)	\$28,870
Geologist time (10 days interpretation work)	\$3,000
Total	\$31,870

6. Work Planned 2008-2009

The results from the aeromagnetic survey will be further processed in 2008. Following that an interpretation of rock types, faulting and likelihood of mine series rocks will be undertaken. The estimated cost of this is \$10,000.

Assuming that the interpretation indicates that mine series rocks are likely, at some stage drilling will be required to confirm not only existence, but also depth and grade. To attempt to drill from the nearest point on the shoreline it is likely that the angled hole would have to be approximately 1700m, and would be limited in the amount of data that could be retrieved. Depending on the results of the interpretation, it may be necessary to evaluate other methods of off shore drilling, which are likely to be relatively expensive. This will be evaluated depending on the final outcome of the survey interpretation.

References:

- Brown, S.G., 1975. Progress report on the exploration of the Grassy Granite contact zone. Report to Mineral Resources Tasmania 75_1079.
- Brown, S.G., 1981. An interim progress report on EL21/78. Report to Mineral Resources Tasmania 81_1541.
- Brown, S.G., 1982. An assessment of the overall tungsten potential of King Island. Report to Mineral Resources Tasmania 93_3454.
- Calver, C.R., 2007. Some notes on the geology of King Island. Tasmanian Geological Survey Record 2007/02. Mineral Resources Tasmania.
- Calver, C.R., Corbett, K.D., Everard, J.L., Goscombe, B.A., Pemberton, J., Seymour, D.B., 1995. Geological Atlas 1:250 000 digital series, Geology of Northwest Tasmania. Tasmanian Geological Survey.
- Davies, R.E.S., 1981. EL21/78. Quarterly report to the Mines Department, Quarter ended 11.10.81. Report to Mineral Resources Tasmania 81_1624.
- Young, D., Mathison, I, 1994. Report to Mineral Resources Tasmania by North Exploration. 94_3557.