



KING ISLAND PROJECT

RL 2/1998

ANNUAL REPORT 2008

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 adopted by KIS has been to assess the potential of these resources to support a new open-cut operation, which will deliver 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 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 KIS to commit to the 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 and its partners of bond monies before it is activated.

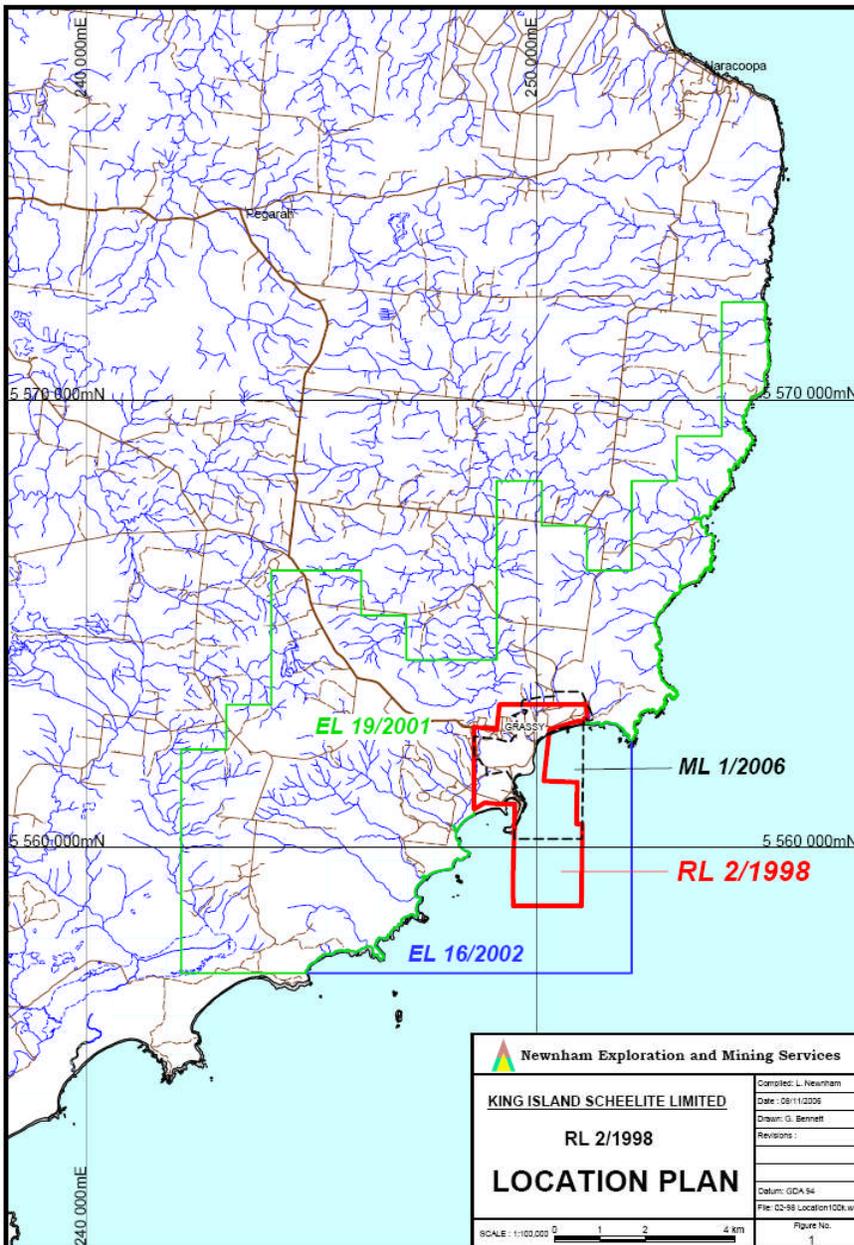
The mining lease falls largely within RL 2/1998 with small peripheral areas within the contiguous ELs 19/2001 and 15/2002, both of which were at that time beneficially held by Australian Tungsten Pty Limited, a subsidiary of KIS.

In December 2007 KIS and ATPL signed joint venture agreements with Hunan Nonferrous Metals Ltd (HNC) to develop the project. A large part of 2008 was spent on satisfying the conditions precedent in those agreements, and in September the joint venture was poised to commence the development of the project. ATPL and KIS are now co-holders of the tenements.

To date, KIS and its subsidiary ATPL have spent approximately \$7 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.

2. TENURE

With the granting of ML 1M/2006 over most of RL 2/1998, the latter will now exist 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.

Scheelite mineralisation that exists in the area of the Dolphin mines dips in a broadly south eastern direction, towards and into Grassy Bay. Geological interpretation, supported by aeromagnetic survey work undertaken by KIS, suggests that mineralisation may be present in a broadly triangular area located between the Decline Fault and the Grassy River Fault. If so, there may be potential for a significant underground mining operation. Such an operation possibly may be undertaken simultaneously with the proposed open cut, or as a development once the open cut is complete.

4. WORK COMPLETED 2007/8

In December 2007 KIS and its subsidiary Australian Tungsten Pty Ltd signed agreements to create a joint venture to re-develop the former Dolphin mine. This joint venture is an equal ownership JV with Hunan Nonferrous Metals Ltd (HNC), a large Chinese mining and processing company. These agreements were conditional on a number of conditions being satisfied or waived before the JV could commence to operate, and it was anticipated that these conditions would be fulfilled by March 2008. However one condition that related to HNC obtaining regulatory approval in China took considerably longer than originally thought to satisfy, and was only complete in the middle of September. Therefore, KIS was unable to progress the development of the project as far as was originally intended.

This hiatus notwithstanding, some work continued to be undertaken to advance the project, and the following table summarises the costs of the work completed:

Drilling programmes undertaken for geotechnical purposes (not exploration)	\$103,802
Aeromagnetic survey costs	\$16,371
Rent on core storage facility at Grassy	\$500
Geologists' time on assessing ore body	\$14,779
Metallurgical consultants working on development of the process plant flow sheet	\$165,142
Engineering consultants working on design of the process plant and infrastructure	\$36,580
Environmental consultants compiling required reports and base line environmental data	\$290,850
Licence fees paid on the tenement	\$28,550
Mining consultants working on mine plans and geotechnical assessments	\$204,546
Project management costs	\$2,080
Rates and land taxes paid on tenements	\$4,528
Total expenditure 2007/08	\$867,729

In addition to continuing to refine the feasibility study work, an aeromagnetic survey was also conducted over parts of RL 2/1998, as well as the adjoining exploration tenements EL 19/2001 and EL 16/2002. This survey yielded considerable information concerning geological structures, as well as useful depth to basement information that will be used for the construction of the cut off wall.

5. WORK PLANNED 2008/9

Given that the joint venture agreements are now unconditional, the JV partners will start to move towards the construction of the mine and the associated processing facilities and infrastructure. Plans are currently being formulated to identify the detail required to achieve this, and the amount of money required. The feasibility study concluded that the total cost of re-development would be \$110 million, and a timeframe of 21 months was required. It is likely that a significant portion of the \$110 million will be spent in 2008/09, probably in excess of \$10 million.

Mining Lease 1M/2006, which covers a large part of RL 2/1998 is in application, awaiting the payment of bond monies. It is anticipated that this will occur in either December 2008 or early 2009.

In addition to construction activities, exploration will also be reviewed in the coming year. In addition to some promising targets on adjacent exploration leases, the JV will examine the potential for further ore resources close to the planned mine. These are:

South Dolphin – As mentioned above, there is a possibility that an underground mine may be viable to exploit postulated mineralisation. This could either be as an adjunct to the open pit, or as a mine life extension once the open pit is finished.

West Dolphin – This area is located immediately to the west of the current pit, and is believed to have been inadequately tested by drilling in the past. This could potentially provide a source of ore early in the mine life.