



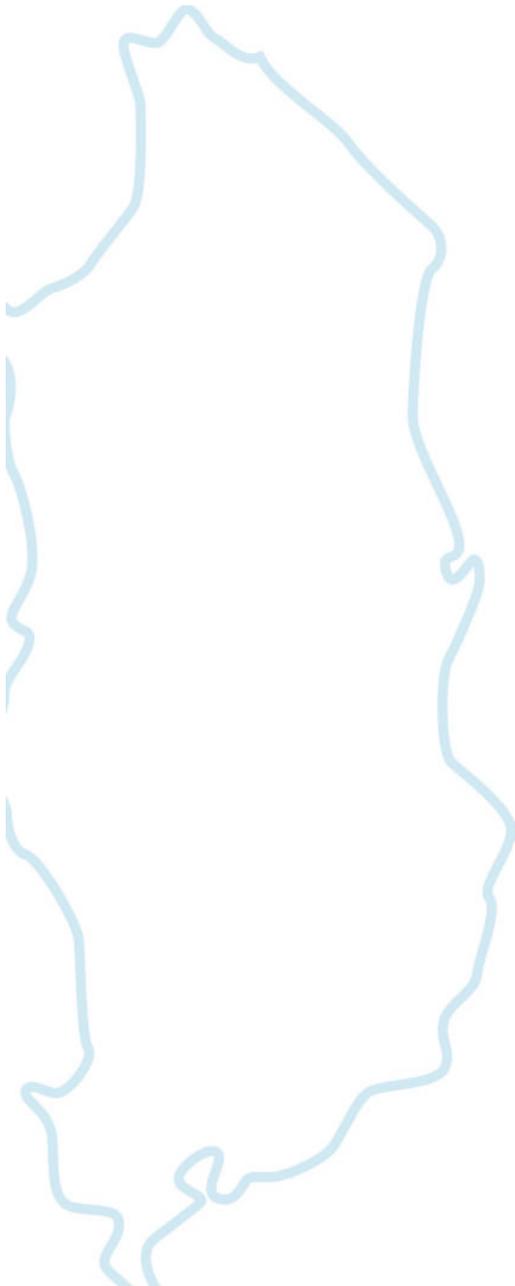
KING ISLAND PROJECT

EL 19/2001 and EL 16/2002

ANNUAL REPORT 2008

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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 19/2001 lies adjacent to the known scheelite deposits to be mined during the proposed new operations. This EL contains both the previously mined Bold Head resource, as well as areas considered to be prospective to the west of the existing open pit. EL 16/2002 is also adjacent to the proposed operations, but lies entirely off shore.

During late 2007 high definition aeromagnetic survey work was undertaken. Subsequent to that, further processing of the acquired data was conducted in 2008, which has validated a number of targets as being attractive in terms of scheelite prospectivity.

2. Tenure

Both EL 19/2001 and EL 16/2002 are jointly held by Australian Tungsten Pty Ltd, a wholly owned subsidiary of King Island Scheelite Limited, and HNC Scheelite (Australia) Pty Ltd. In total, they cover an area of 84 square kilometres

Both ELs were granted for metallic minerals; EL 19/2001 has a final date of 14th of December 2007, and EL 16/2002 has a final date of 9/5/2009, both subject to extension.

The tenements are located on the south east corner of King Island and land tenure is Crown Land, Crown Land – Tasmanian Territorial Waters, Private Land and Multiple Use State Forest.

3. Exploration Objectives

The principal mineral target on both ELs is scheelite. 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, while the underground mining from the nearby Bold Head mine yielded an additional 2.5 Mt averaging 0.85% WO₃.

Given the substantial recovery in tungsten prices over the past few years, the joint venturers (ATPL and HNC) are proposing to re-open the Dolphin mine as an expanded open cut operation. While the initial plan is for an 11 year operation, the

project could potentially have a life of 20 plus years. Any resources found on the adjacent ELs would add to this project life.

It has been known from work carried out by the previous operators of the King Island scheelite mine that mineralisation occurs on the north western flank of the Grassy granite, and work was undertaken around the prospect known as “Investigator 21”. Indeed, the previous mine operator Geopeko estimated a moderate inferred resource of 250,000 tonnes grading 0.47% WO₃ and 0.12% Mo, lying at depths of around 100m below surface. Given that the deposit would almost certainly involve a stand alone mining operation and a reasonably long haul to the process plant, the conclusion drawn by KIS is that it is sub-economic at this time. However this could change if more resources are identified, particularly if they were to be higher grade and nearer surface. Given that the target is bounded to the south east by the edge of the Grassy Granite, the prospectivity lies to the west; low grade drill results to the north and south are discouraging but some further testing is justified nonetheless.

However, the aeromagnetic survey completed in 2007/8 over parts of EL 19/2001 and EL 19/2002 as well as RL 2/1998 has added to the knowledge of all three tenements. In relation to EL 19/2001, it has prompted KIS to re-evaluate the knowledge held about two areas that were not actively considered as high priority targets in the past.

The first of these is the area to the east of the Grassy River Fault, and south of the Graham’s Road Fault. It is interpreted that a ridge of granite may be present, possibly at moderate depth, together with other features that are favourable for the presence of scheelite, thus presenting a potential setting for mineralisation. If present, this mineralisation is likely to be at depth, and if it is economic it is probably only minable using underground mining methods.

The second of these is Bold Head itself. While it is known that a reasonable amount of original mine resource mineralisation remains, there is also an opportunity to test whether this extends to the west up to the Grassy River Fault, and also to the south to the Graham’s Road Fault. If proved, this could be developed as another underground mine, potentially using the original Bold Head decline.

Exploration objectives are therefore centred principally on the areas surrounding and to the south of the old Bold Head mine, with a lower priority target being the north west flank of the granite.

EL 16/2002 covers an off shore area that includes the south eastern rim of the Grassy Granite. It is believed that the Dolphin deposit continues out well into Grassy Bay, but it is not known the extent to which it may follow the granite contact as it turns south west. The prospectivity therefore lies in determining the degree to which this occurs.

ranking, of which Bold Head, South Bold Head and the area contained within RL 2/1998 off shore from the proposed pit feature prominently.

As part of this review, drilling was planned to commence on targets at South Bold Head, with an initial two holes to be drilled. Approvals were sought from MRT for this to proceed, but delays in obtaining joint venture funding for the programme resulted in the programme not proceeding.

Expenditure for the year on the two tenements was as follows:

	EL 19/2001	EL 16/2002	Total
Aeromagnetic survey costs	30,013	8,185	38,199
Geologist's time	51,183	10,567	61,750
Analysis	385	0	385
Admin	1,929	527	2,456
	83,510	19,280	102,790
Commitment	75,000	57,532	132,532
Due Date	14/12/08	9/05/09	

5. Work Planned 2008-2009

The tenement holders will be largely concentrating on the construction of the re-developed mining and processing operations on RL 2/1998. However, in conjunction with this, exploration work planned for 2008-2009 is to focus on the most promising of the exploration targets identified in 2008. Those relating to the exploration tenements will be Bold Head and the area to the south of Bold Head. The proposed programme consists of:

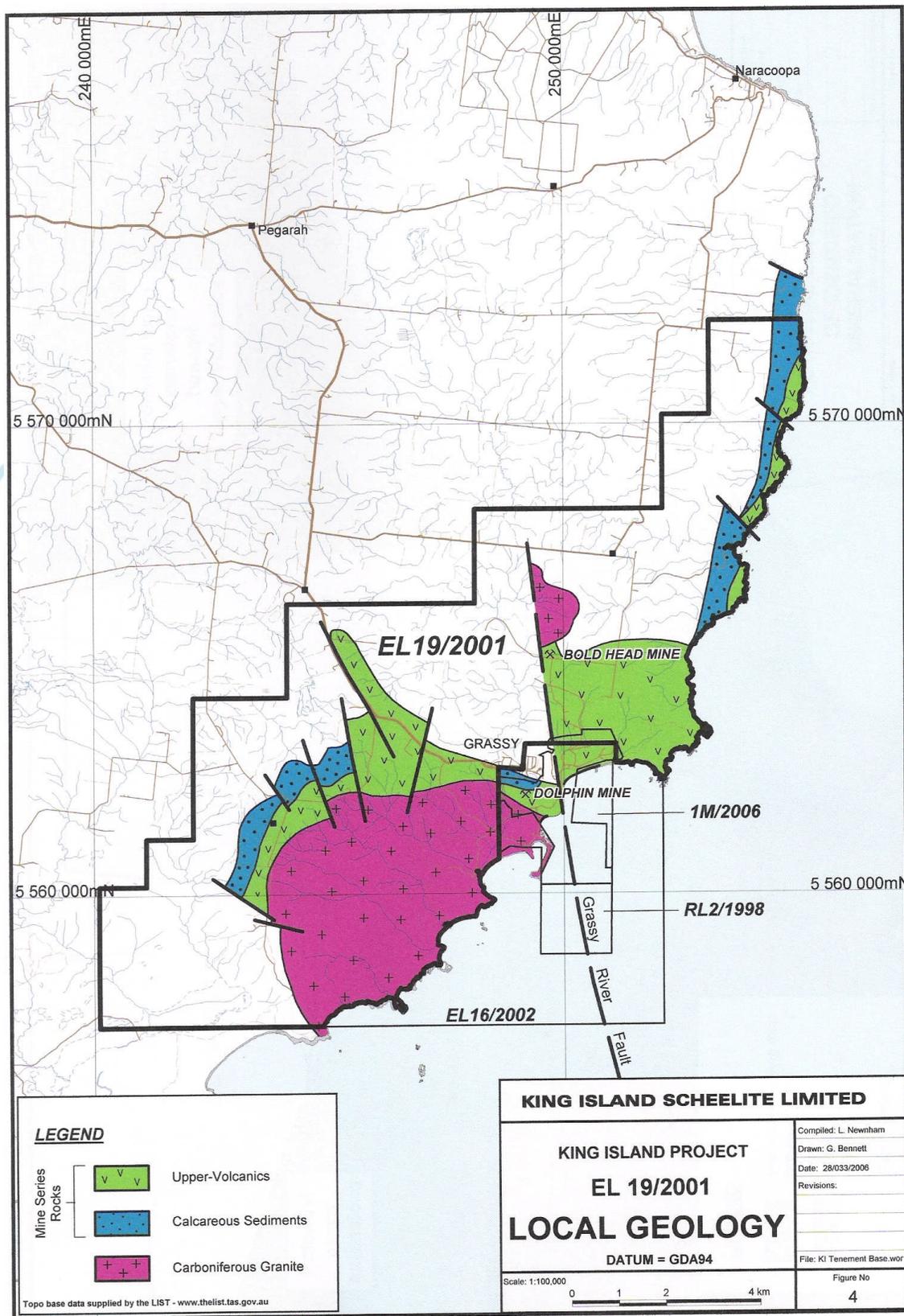
Data collation of old Bold Head records	\$20,000
Gravity survey of South Bold Head	\$40,000
Total	\$60,000

It is possible that a drilling programme may also be undertaken, depending on the assessment of the results of the above work.

6. Environmental Impact Statement

The investigatory activities on the EL 16/2001 and EL 19/2002 have to date had minimal impact from an environmental perspective, with the largest body of work being aeromagnetic survey.

As a consequence there has been no significant environmental impact on either EL.



LEGEND

Mine Series Rocks

- Upper-Volcanics
- Calcareous Sediments
- Carboniferous Granite

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

KING ISLAND SCHEELITE LIMITED

KING ISLAND PROJECT
EL 19/2001
LOCAL GEOLOGY

DATUM = GDA94

Scale: 1:100,000

0 1 2 4 km

Compiled: L. Newham
Drawn: G. Bennett
Date: 28/03/2006
Revisions:
File: KI Tenement Base.wor
Figure No 4

Appendices:

1. Fugro Aeromagnetic Survey Report – “Technical Report on the Geological Interpretation of Airborne Magnetic and Radiometrical Data, Grassy, King Island”, 22nd May 2008
2. Newnham Exploration and Mining Services – “Grassy Mine Area – Prospectivity Assessment, Strategic Implications and Proposed Evaluation Program”, 17 November 2008