

DOLPHIN JOINT VENTURE

EL 16/2002



ANNUAL REPORT 2008-2009

Prepared for:

**Scheelite Management Pty Limited
Level 9, 1 York Street
Sydney NSW 2000**

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1. SUMMARY

Exploration Licence 16/2002 on King Island covers an offshore area immediately south of the Dolphin open-cut and underground scheelite mines near Grassy.

The area is assessed as having potential for southern extensions of the scheelite-bearing skarn deposits previously mined at Dolphin.

However, this potential lies at depth (>300 vertical metres) and offshore. Drill definition and ultimate underground development of resources is dependent on the current redevelopment of the adjacent Dolphin Mine.

Whilst the 2007 high resolution aeromagnetic survey enhanced definition of basement geology and structures in the area, it is unlikely that further exploration will be possible until such time as the sea wall protecting the new Dolphin open-cut is completed. This will facilitate some limited drilling to the south.

Detailed planning for this sea wall construction is scheduled for completion in 2009.

Further opportunities for drilling may also arise if a new breakwater is constructed, using mine waste rock, as part of the proposed expansion of Grassy Port.

2. EXPLORATION OBJECTIVES

Scheelite mineralisation discovered on the foreshore of Grassy Bay in 1911 is hosted by a series of skarned Cambrian carbonates. The deposits were mined from 1911-1974 west of the coastline by an open-cut to a depth of 70 m below sea level, and extensions were mined underground from 1974-1990 to the east of the shoreline beneath an area of Grassy Bay (reclaimed with mine waste) to a depth of 300 m below sea level.

Underground mining was largely by cut-and-fill or room and pillar methods, accessed by trackless incline and decline ramps. Significant scheelite mineralisation remains in the form of support pillars, stope remnants and lower grade skarns. The mine closure in 1991 was due to low tungsten prices.

Production from 1917-1990 was approximately 9.7 Mt 0.65% WO₃. From 2004, King Island Scheelite Limited, in joint venture with Hunan Non-ferrous Mining Corporation (since 2008), has been evaluating the opportunity of redeveloping the mine based on remnant resources in the former underground and open-cut mines. It is planned to achieve this by developing a new open-cut mine to a depth of 200 m below sea level, producing 600,000 tpa ore over a 19-year life-of-mine.

Resources within this pit are estimated to be 9.8 Mt 0.62% WO₃. However, drill defined resources extend to at least -300 m below sea level, and several options for further development will be available once the initial 10-year pit is completed. The two main options are to either deepen the pit to -280 m or go underground (or both).

In the lower section of the mine the principal faults affecting the orebodies were (see Figs 4 and 5):

- major NNW-trending Grassy River Fault which truncated the orebodies to the east, and dipped steeply to the west
- Decline Fault which was subparallel in strike to the Grassy River Fault but, importantly, diverged from it going south, and dipped to the east
- WNW-trending Central and Swan faults and the reverse Wedge Fault

At the end of mining operations, stoping was taking place in the C-horizon in the Swan Stope south of the Swan Fault, the lower Wedge Stope between the Central and Decline faults and some initial development work in the B-horizon in the Decline orebody between the Decline Fault and the Grassy River Fault.

Drilling for extensions of these deposits to the south was very difficult because access development was limited and not well positioned.

The opportunities for resource extensions in this area are:

- (i) deposits in B and C-horizons south of the Swan Stope and west of Decline Fault
- (ii) deposits in the B and C-horizons between the Decline and Grassy River faults, and south of Decline Orebody development.

(i) Swan Area:

This area is bounded to the north by the C-horizon Swan Stope and Central Fault, to the east by the Decline Fault and to the south and west by the Grassy Granite. Some underground drilling in the area intersected mineralisation in the C-horizon, but this drilling was severely compromised by being subparallel to stratigraphic dips.

The limits to potential mineralisation in the south and east are determined by the relative geometries of the strike and dip of the Decline Fault, the shape of the granite top and the stratigraphic dip. The target area is approximately 250 m square and widths are approximately 10 m in each of B and C-horizons. The previous mine operators placed a target potential in C-horizon alone in this area of 1.3 Mt of 0.8% WO₃.

(ii) Decline Area:

In the northern section of the wedge between the Decline and Grassy River faults, drilling and mine development identified 337,000 t 0.74% WO₃ in B-horizon north of Fulmers Fault. There is no C-horizon in this area.

South of Fulmers Fault the two faults are thought to diverge and if this is correct, both B and C-horizons may be present and increase in size going south. The previous operators believed any such mineralisation would be high grade due to its close relationship to major structures, as evidenced by the Lower Wedge stope on the western side of the Decline Fault.

The resource potential in this area could be substantial but would be determined by the relative geometries of the Grassy River and Decline faults and stratigraphic dip. One interpretation of the aeromagnetic data is that the Decline Fault swings south-west (to the east of the Port breakwater) and controls the eastern margin of the granite. If this was correct, the resource opportunity in this area increases dramatically (Teredo prospect).

3. WORK COMPLETED 2008-09

No active field work was undertaken during the year. Activities of the KIS-HNC Joint Venture are currently focused on development of the new Dolphin Open-cut, and it is acknowledged that the longer term resource potential to the south beneath EL 16/2002 will probably only be evaluated in greater detail once the new mine operation is well established.

4. WORK PLANNED

Underground exploration from the Dolphin Mine and the recent aeromagnetic survey have highlighted the resource opportunity in EL 16/2002 beneath the sea, south-east of Grassy Port.

The difficulty is how to drill test the area. Several options exist from:

- the sea wall to be constructed around the new Dolphin Open-cut
- the existing port breakwater
- possible new port breakwater south of the port
- offshore drilling platform

The new sea wall will afford a limited opportunity to drill test further south, but this is restricted to an area north of 5,561,000 N.

The existing port breakwater is a penguin habitat and off-limits for drilling.

The new port breakwater is a longer term option but would have to be extended further east than currently planned.

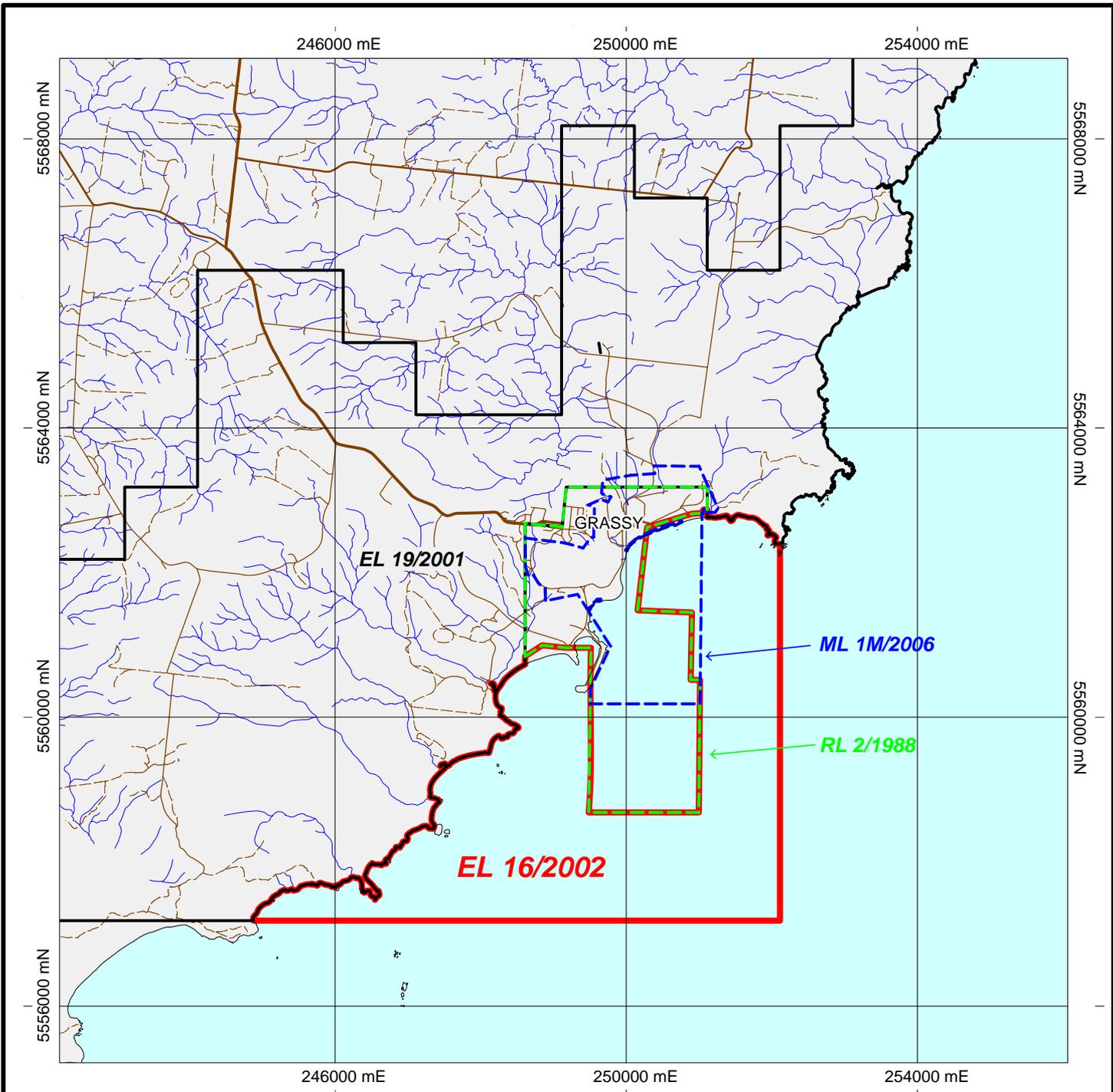
Off shore drilling is a possibility but in a rough stretch of water such as that south-east of Grassy Port where maximum wave heights are in excess of eight metres, this would be extremely expensive.

Of the four options, the new port breakwater is considered the most attractive. The proposed breakwater is to be constructed from mine waste rock and would not be completed until about 2-3 years after commencement of mining in the new Dolphin Open-cut.

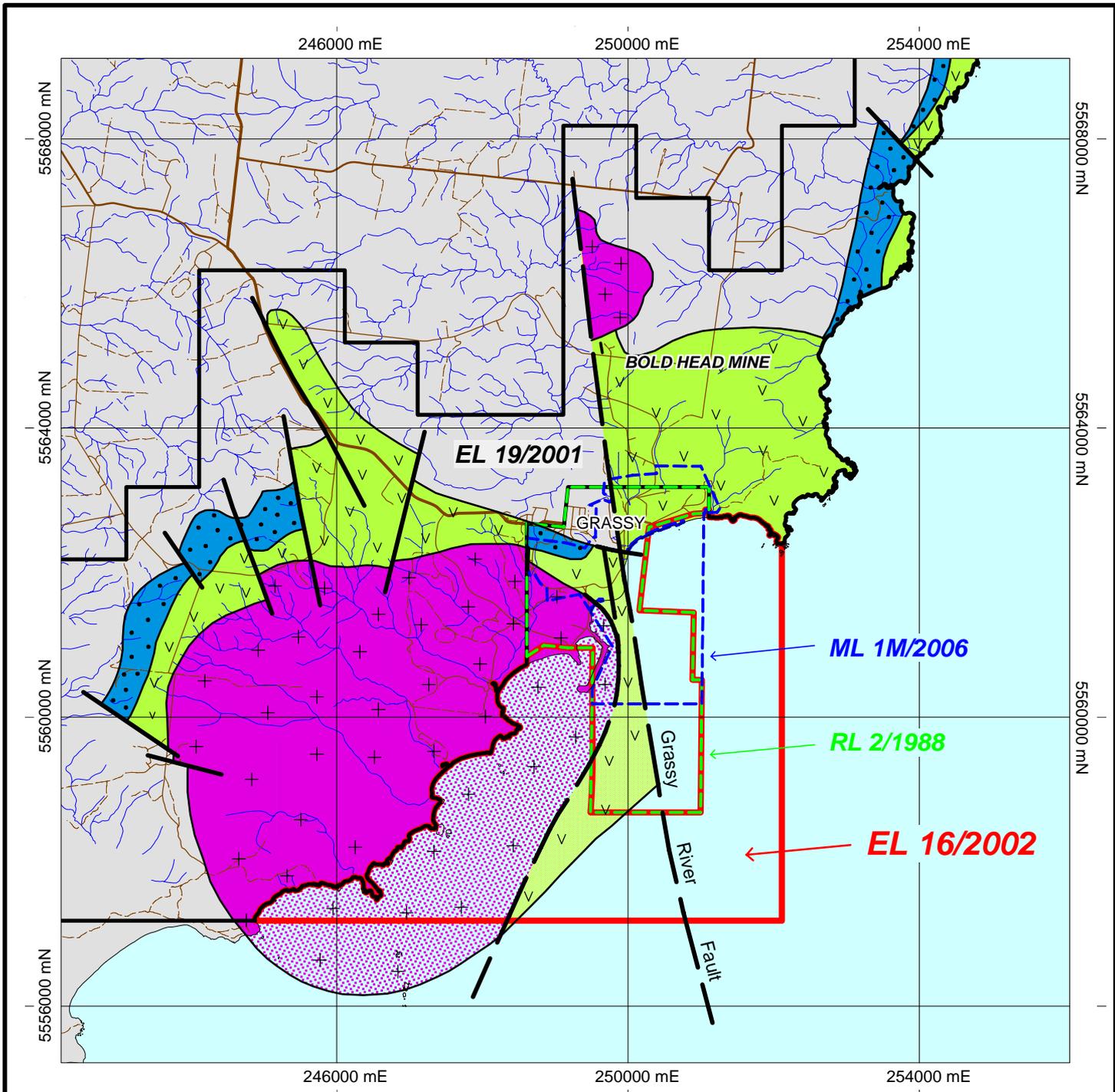
This timing would permit evaluation of the Toreda Prospect ahead of decisions on the longer term development of Dolphin; ie, to extend the open-cut below -200 m MSL or to go underground from the bottom of the 10-year open-cut.

It is clear that the resource opportunities at Toreda are a key component in the long-term planning of Dolphin. However, it is unlikely that any significant practical work in the form of drilling can be undertaken for the next 2-3 years.

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KING ISLAND JV			
EL 16/2002			
LOCALITY PLAN			
Compiled :	Drawn :	Date :	Projection :
Lindsay Newnham	Gillian Bennett	14/04/2009	MGA Zone 55 (GDA 94)
Scale:	0 1.5 3 km		File :
1:80,000			KI 16-2002Loc_80k.wor Figure 1

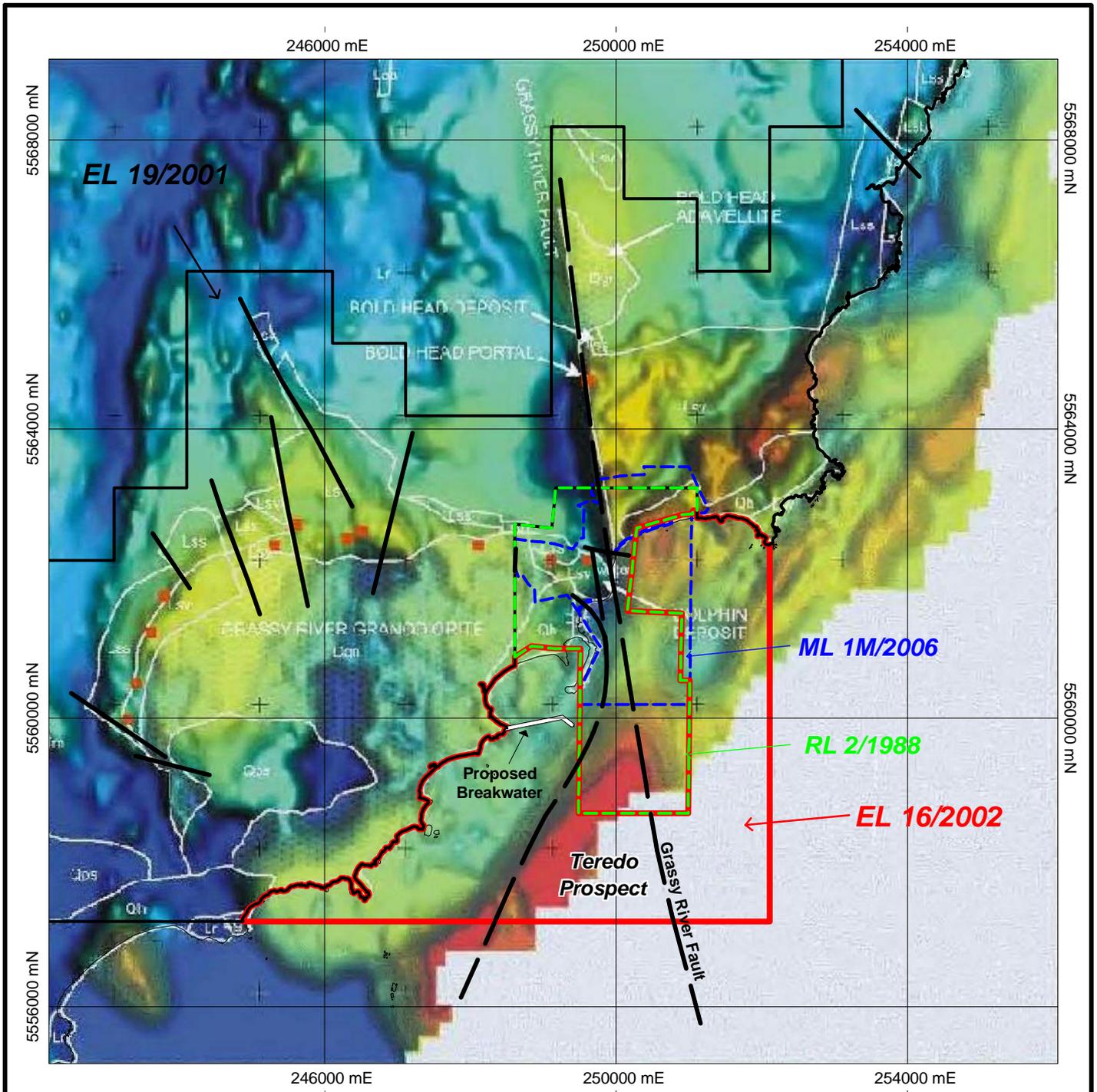


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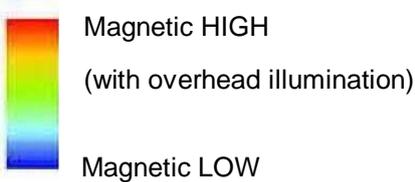
- Mine Series Rocks
- v v v Upper-Volcanics
 - . . . Calcareous Sediments
 - + + + Carboniferous Granite

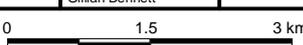


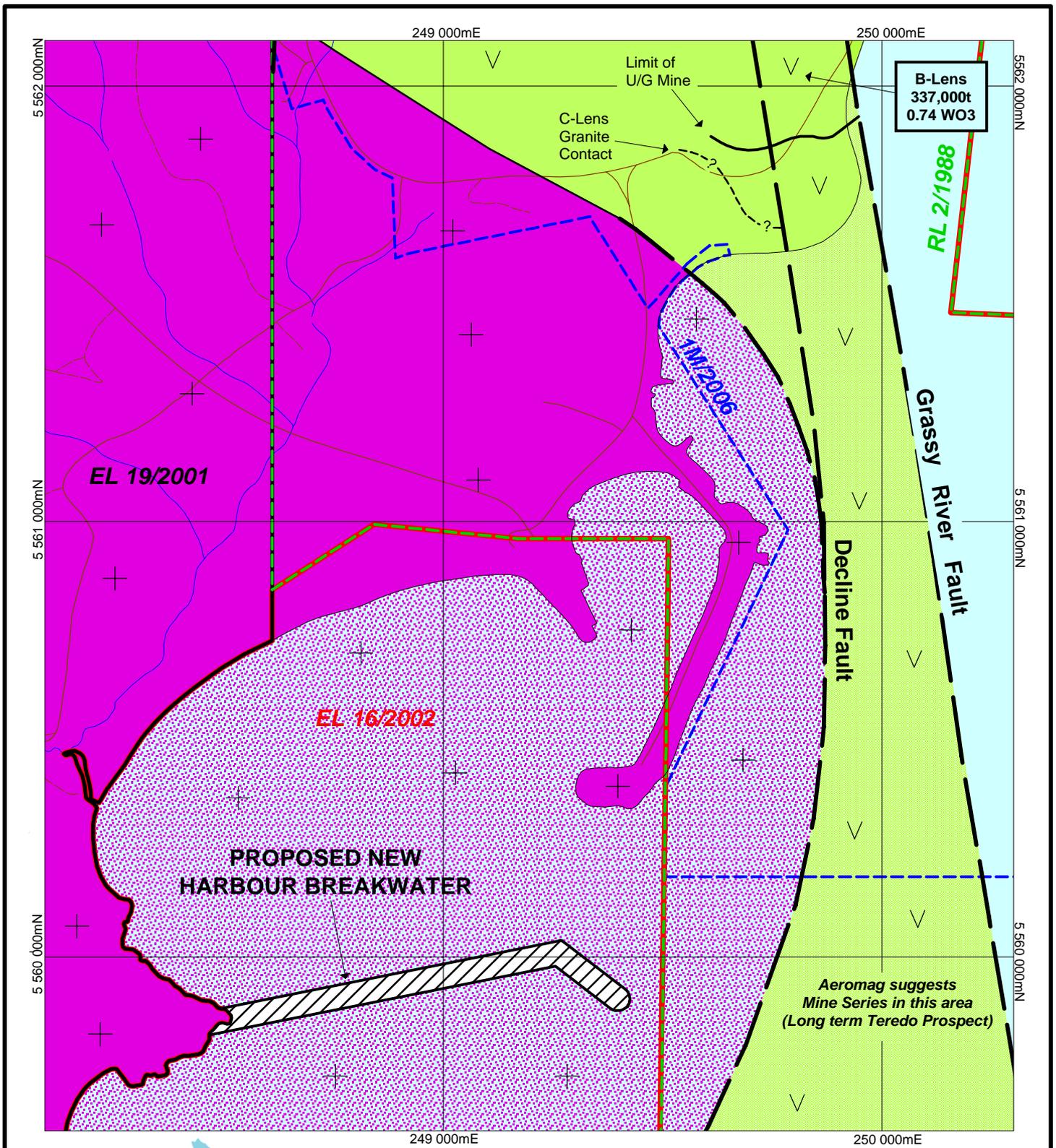
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KING ISLAND JV			
EL 16/2002			
LOCAL GEOLOGY			
Compiled :	Drawn :	Date :	Projection :
Lindsay Newnham	Gillian Bennett	16/04/09	MGA Zone 55 (GDA 94)
Scale:	0 1.5 3 km		File :
1:80,000			EL16-2002 DisGeol 80k
			Figure
			2



LEGEND



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KING ISLAND JV			
EL 16/2002 AEROMAGNETIC IMAGE			
Compiled :	Drawn :	Date :	Projection :
Lindsay Newnham	Gillian Bennett	16/04/09	MGA Zone 55 (GDA 94)
Scale:			File :
1:80,000			EL16-2002 TMI 80k
			Figure
			3



KING ISLAND
SCHEELITE

LEGEND

-  Volcanics overlying mine sequence rocks
-  Potential Mine Series rocks at depth
-  Granite



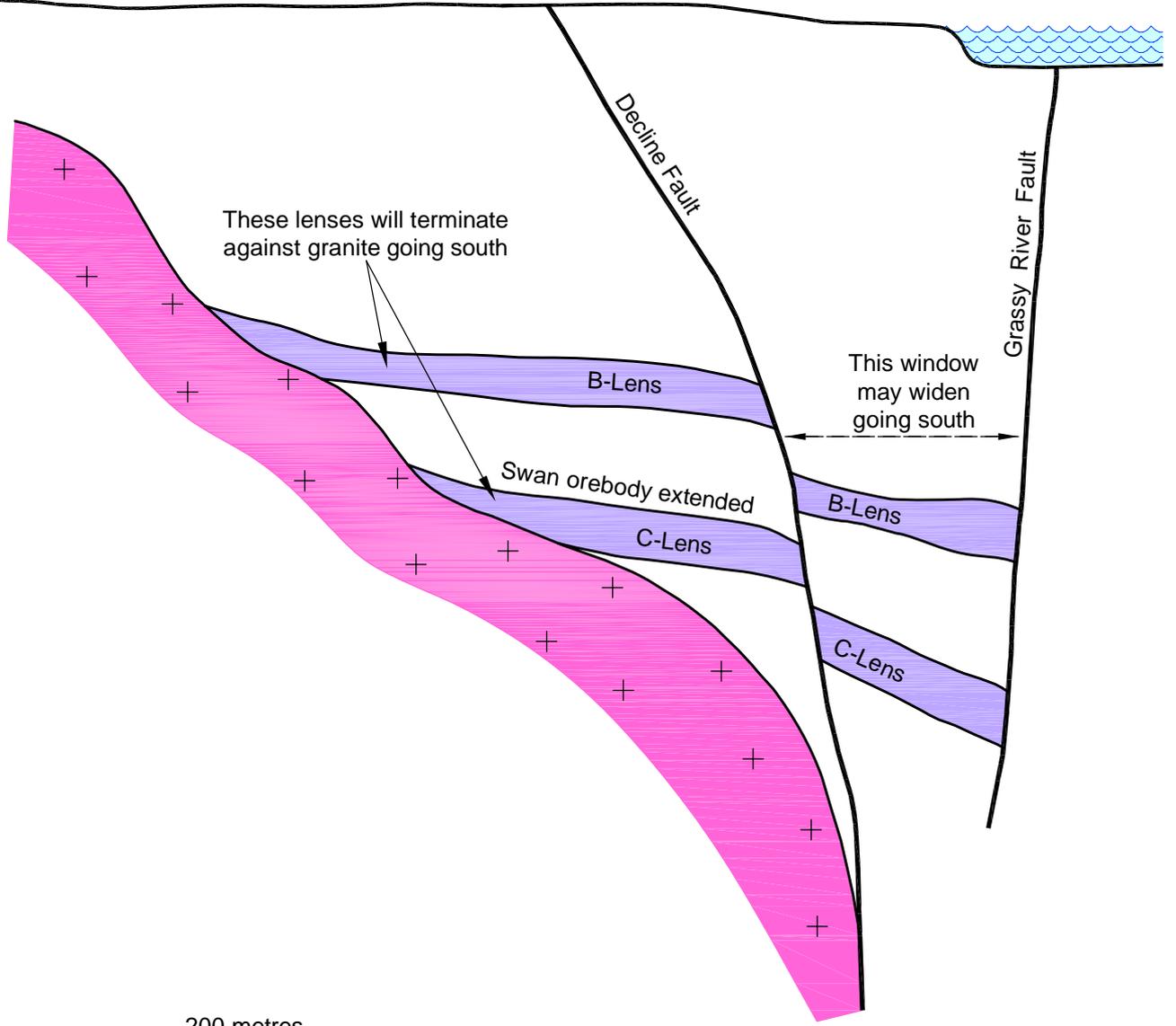
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KING ISLAND JV			
EL 16/2002			
LOCAL GEOLOGY			
Compiled : Lindsay Newnham	Drawn : Gillian Bennett	Date : 15/4/2009	Projection : MGA Zone 55 (GDA 94)
Scale: 1:12500	0 200 400 m		File : EL16-2002 LocGeol
			Figure 4

W

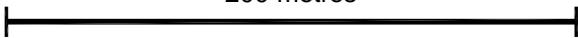
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200 metres



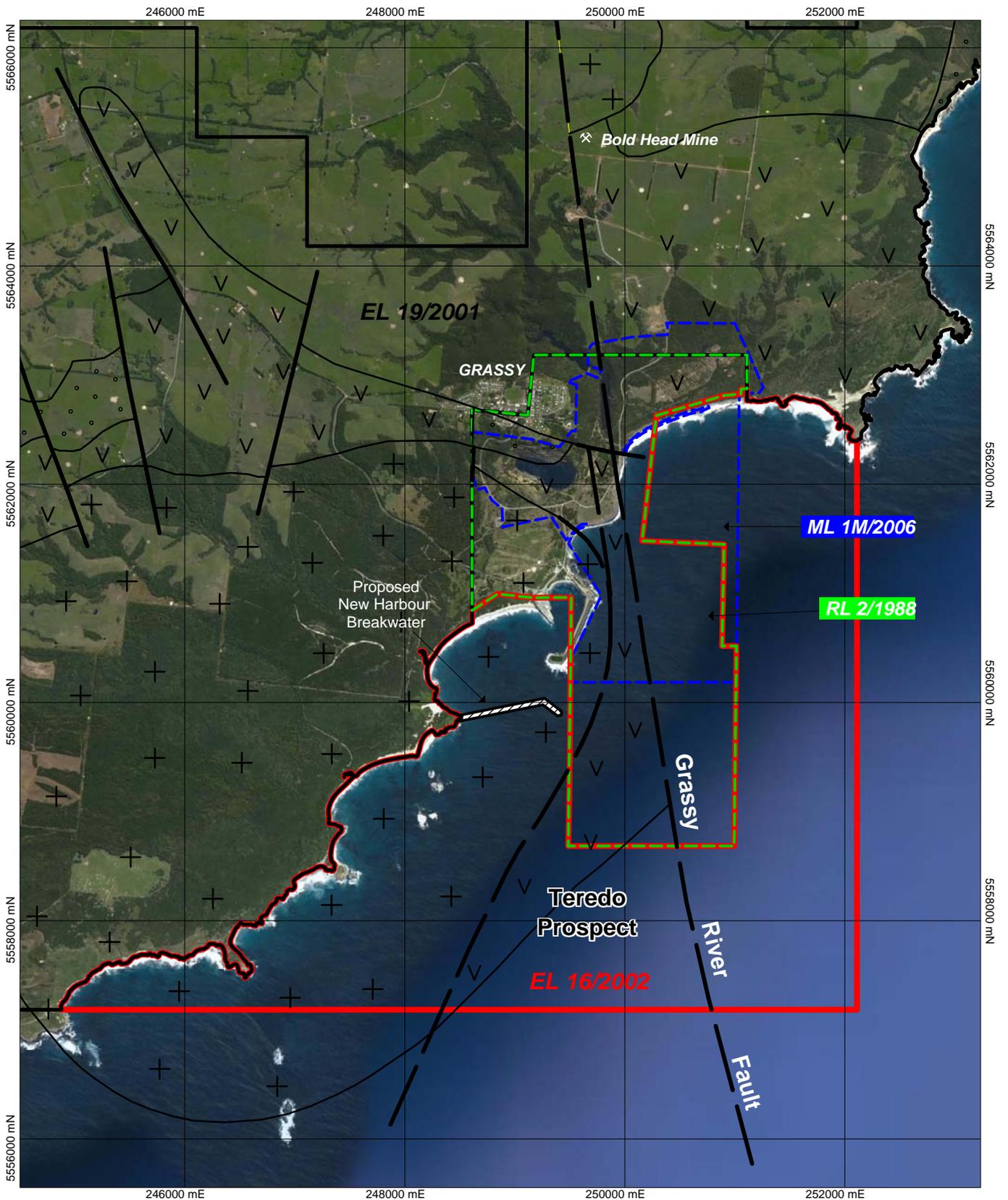
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KING ISLAND JV

**EL 16/2002
SCHEMATIC
LOCAL SECTION**



Compiled : Lindsay Newnham	Drawn : Gillian Bennett	Date : 15/04/09	Datum : ...
Scale: NTS	File : SD-SchemE-W.dwg		Figure No : 5



LEGEND

- Mine Series Rocks
-  Upper-Volcanics
 -  Calcareous Sediments
 -  Carboniferous Granite



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KING ISLAND JV			
EL 16/2002			
LOCATION AND GEOLOGY			
Compiled : Lindsay Newnham	Drawn : Gillian Bennett	Date : 15/4/2009	Projection : MGA Zone 55 (GDA 94)
Scale: 1:50000	0 500 1000 m 		File : EL16-2002 AirGeol
			Figure 6