



DOLPHIN PROJECT

RL 2/1998

ANNUAL REPORT 2009

1. SUMMARY

Retention Licence 2/1998 was granted over the identified resources remaining at the former King Island open-cut and underground mines near Grassy. The objective of the Dolphin Project was to assess the potential of these resources to support a new open-cut operation, which will deliver ore to an adjacent processing plant for the production of scheelite concentrates for export.

The resources exist 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 2005. By February 2006 outcomes from these studies were sufficiently encouraging to commit to the completion of both a Development Program and Environment Management Plan (DPEMP), and a detailed Feasibility Study. The latter was completed late in 2006.

To secure appropriate tenure to the project area, application was lodged in February 2006 for a 560ha Mining Lease, 1M/2006. The conditions of this lease have been determined, and the lease subsequently issued. Payment of bond monies are, however, still required before the lease is activated.

The mining lease falls largely within Retention Licence RL 2/1998 with small peripheral areas within contiguous Exploration Licences EL 19/2001 and EL 16/2002.

In December 2007 King Island Scheelite Limited (KIS) signed agreements with Hunan Nonferrous Metals Ltd (HNC) to develop the project as a 50/50 joint venture, known as the Dolphin Joint Venture (DJV). Australian Tungsten Pty Ltd (a subsidiary of KIS) and HNC (Australia) Scheelite Pty Limited (a subsidiary of HNC) being the participants with Scheelite Management Pty Ltd (also a subsidiary of KIS) as joint venture manager.

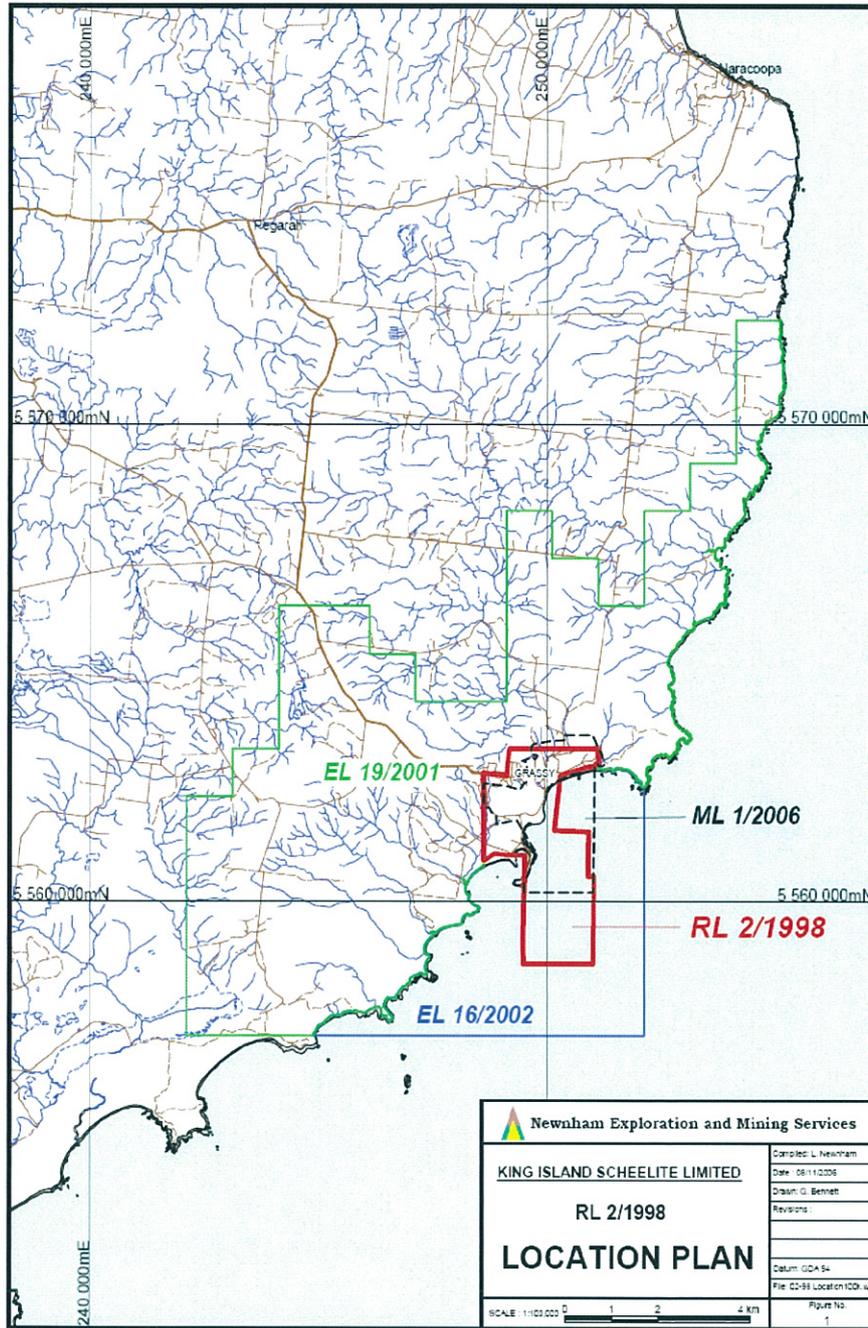
All necessary regulatory approvals and conditions precedent for this joint venture were finalised in early 2009. Capital to develop this resource is fully funded through loan arrangements with HNC.

To date, approximately \$8 million has been spent evaluating the redevelopment potential of these resources. Future work will focus on development on ML 1M/2006, but longer term resource extension opportunities exist on RL 2/1998 and the bordering Exploration Licences.

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 Mining License Application, Retention Lease and Exploration Licences are beneficially held by Australian Tungsten Pty Ltd and HNC (Australia) Scheelite Pty Limited.



The DJV own property in the Grassy Township adjacent to the open cut pit and have secured further land around the site which will be required for the proposed redevelopment.

The remaining sections on the outskirts of Grassy are 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 earlier, suggests 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 future underground mining operation. Such an underground operation could potentially be undertaken 'concurrently' with the proposed open cut, or 'sequentially' as a development once the open cut is complete.

It is envisaged that the opportunity to extend further to the South East would be assessed by a conducting a drilling programme during the proposed initial mine life.

4. WORK COMPLETED 2008/9

In February 2009 the DJV agreed to a 4 Stage development plan as follows;

- Stage 1 Data Acquisition & Assessment
- Stage 2 Detailed Planning
- Stage 3 Construction
- Stage 4 Operations

The objectives for Stage 1 of this plan established the following areas of focus;

- review development strategies and technical issues associated with the sea wall concept, as a means of getting into full production quicker and with deferred capital expenditure.
- investigate the potential of whole-ore-flotation technology as an alternative to gravity and flotation, utilising Chinese expertise.
- assess potential of the Bold Head Mine and the deeper Dolphin remnant resources below -180MSL to enhance average mine head grades over a longer period of time
- review potential for early re-treatment of tailings as a means of getting an early cash flow and deferring major capital expenditure.

Total expenditure in 2008/ 09	\$1,955,903
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Work completed so far on Stage 1 is summarised below;

- A geotechnical drilling programme provided additional information regarding sea bed ground conditions associated with the proposed mine design. This information has been used to review the design and cost of both the sea wall and eastern end of the pit.
- Metallurgical test work undertaken in China established high recoveries of scheelite from ore samples using Whole Ore Flotation techniques.
- Assessment of Bold Head data confirmed a JORC compliant resource which could potentially enhance the overall Dolphin Project.

5. WORK PLANNED 2009/10

The original feasibility study with an estimated re-development capital cost of \$110 million, and a construction timeframe of 21 months is currently being revisited to confirm the feasibility of this project in the current economic climate.

Once this has been coiled and reviewed, the DJV intends to commence the detailed design phase or Stage 2 of the project which is expected to cost approximately \$10 million.

Potential expenditure in 2009/109	\$10,000,000
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Mining Lease 1M/2006, which covers a large part of RL 2/1998 is in application, awaiting the payment of bond monies. This is expected to occur during 2010 once in the detailed design phase of our project, prior to the commencement of any construction activities.

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 DJV will examine the potential for further ore resources close to the planned mine. These include:

South Dolphin – As mentioned above, there is the 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 drill tested in the past. This could potentially provide a source of ore early in the mine life.