EL 16/2002

ANNUAL REPORT 2010-11

King Island Scheelite Limited
ABN 40 004 681 734

Level 1, 95 - 101 Sussex Street NSW 2000
GPO Box 5154, Sydney 2001

Telephone (02) 8622 1400
Facsimile (02) 8622 1401
www.kingislandscheelite.com.au

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1. Summary

The scheelite deposits at Grassy on King Island were mined from 1917 through to 1990. King Island Scheelite Limited completed a feasibility study to determine the viability of re-opening the mine as an open cut operation in September 2006. This was further evaluated in a joint venture with Hunan Non-ferrous Metals Corporation (HNC) in 2008 and 2009. The joint venture with HNC was terminated in 2010. An improved economic environment and revised plan to develop the project in stages is enabling this development to proceed as follows;

- Diamond drill Dolphin South and update the feasibility study
- Retreat the tailings for production late 2012
- Rehabilitate the former mine for production in 2014
- Further exploration drilling once underground access established

While the current activities are focussed around the development proposal within RL2/1998 and MLA 1M/2006, adjacent exploration tenements EL19/2001 and EL16/2002 are being maintained to provide additional resources which are of significant importance to the overall project.

The rock formations that host the known deposits are interpreted to continue in a southerly direction and at depth into EL 16/2002 and represent a long term opportunity to substantially extend the life of the underground mining operation.

Drill testing of targets within EL16/2002 are challenging and require either an extension to the grassy port facility for access or an underground exploration decline. The preferred access is from an underground exploration decline.

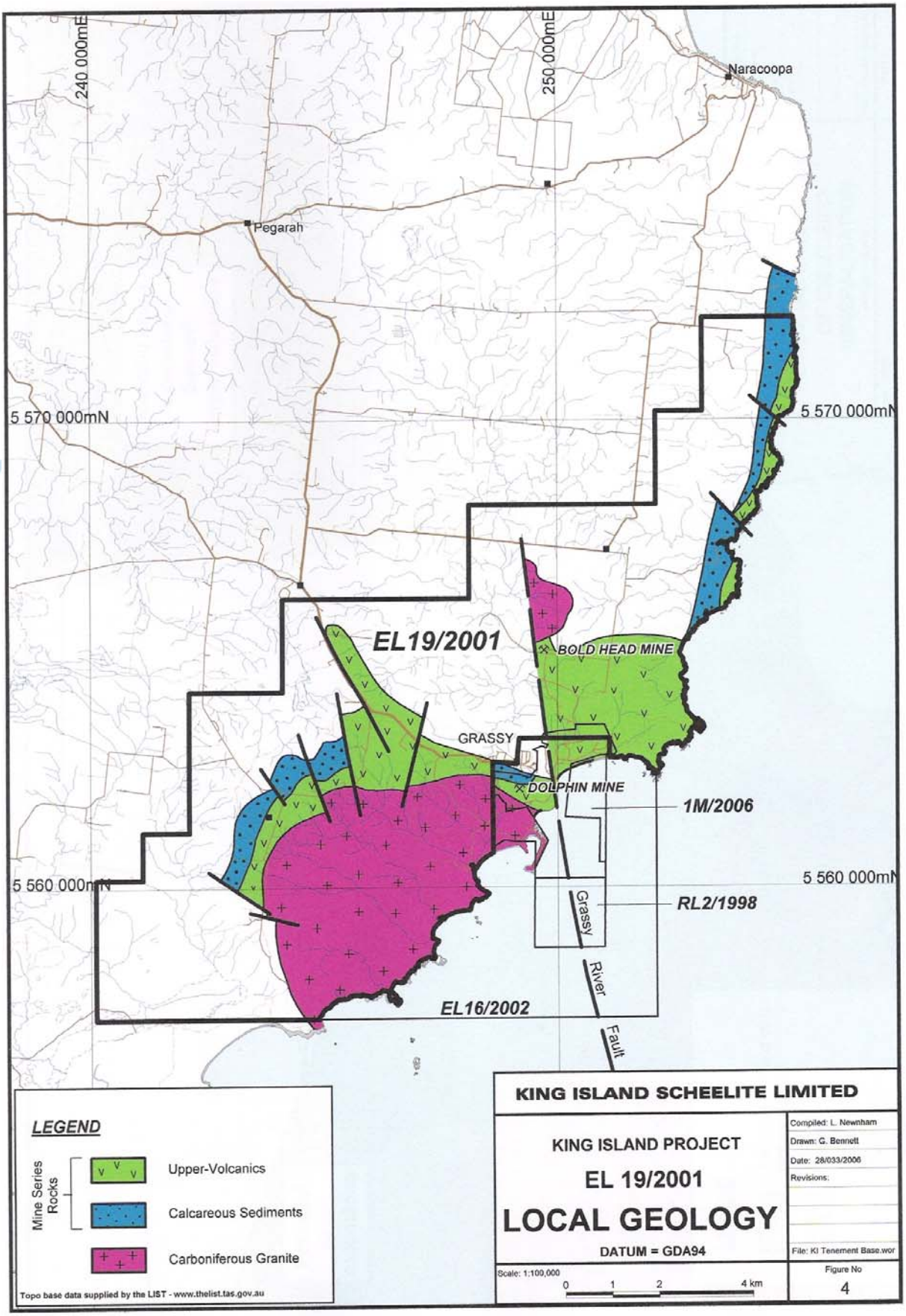
An extension of the term and exemption from conditions for this strategic licence have been requested until access for drill testing of Teredo and Dolphin East can be established.

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 17 square kilometres.

The licence granted for metallic minerals and expires on 9th May 2011. An application for extension has been lodged.

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.


240 000mE
250 000mE
Naracoopa
Pegarah
5 570 000mN
5 570 000mN
EL19/2001
BOLD HEAD MINE
GRASSY
DOLPHIN MINE
1M/2006
5 560 000mN
5 560 000mN
RL2/1998
Grassy
River
Fault
EL16/2002
LEGEND
Mine Series Rocks
Upper-Volcanics
Calcareous Sediments
Carboniferous Granite
Topo base data supplied by the LIST - www.thelist.tas.gov.au
KING ISLAND SCHEELITE LIMITED
KING ISLAND PROJECT
EL 19/2001
LOCAL GEOLOGY
DATUM = GDA94
Compiled: L. Newnham
Drawn: G. Bennett
Date: 28/033/2006
Revisions:
File: KI Tenement Base.wor
Scale: 1:100,000
0 1 2 4 km
Figure No
4

3. 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% WO_3. 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% WO_3.

Given the substantial recovery in tungsten prices over the past few years King Island Scheelite Limited is proposing to retreat the tailings and re-open the Dolphin underground mine. 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 from the bottom of the mine or by developing a new decline.

The Grassy area is underlain by a sequence of NeoProterozoic – Lower Cambrian sediments which is a younger sequence than that found in the rest of King Island. Overlaying this is a sequence of mafic volcanic rocks. These formations were intruded in the Lower Carboniferous period by a granite, resulting in extensive metamorphism and metasomatism, as well as folding and faulting in the sediments and volcanics. The alteration resulted in the formation of garnet-pyroxene skarns, which bear scheelite mineralisation. These occur primarily in two carbonate beds, referred to as the B and C lenses.

The Grassy River Fault which trends NNW terminates the skarns to the east, and is thought to have controlled both the nature of the granite intrusion as well as the mineralising fluids.

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 due to the tungsten market at that time.

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. These will be better understood once drilling at Dolphin South has been undertaken.

4. Work Completed 2010-11

A high resolution airborne magnetic survey was completed over the licence area in 2007. Subsequent interpretation of results of this survey confirm the interpreted occurrence of Cambrian formations off-shore from Grassy Harbour and south east of the Dolphin Scheelite deposit.

The interpretation highlights the potential for mine-series rocks to be present in this area between southern extensions of the Decline and Grassy River Faults in an area known as the Teredo Prospect.

The Teredo Prospect lies off-shore and at depth. It is therefore difficult to evaluate by drilling. While recent proposals involved drilling from an extended breakwater at the Grassy Port, the ideal access for drilling to test the Teredo Prospect are from an exploration decline underground.

The airborne magnetic survey interpretation was revised with additional geotechnical data provided by drilling undertaken in 2009.

A report was commissioned by Contract Geologist Tim Callaghan in 2010 on the Resource Potential and Exploration Strategy for the Grassy Mine Area. This report confirmed the potential for additional resources from the area immediately below and to the south of the current resource, known as Dolphin South. Subsequent development of Dolphin South will allow access to the Teredo and East Grassy Prospects.

Plans to dewater and rehabilitate the former mine during 2011/12 will allow the development of an exploration decline for future drilling of Teredo and Dolphin East conceptual targets.

In the interim, a programme has been developed to drill targets at Dolphin South based on recommendations in Tim Callaghan's report. The licencee has raised capital and committed to a diamond drilling programme of up to 10x500m holes from surface to assess the potential for mineralisation extensions. A contract driller has been engaged to start work in May 2011.

This licence remains of significant strategic importance for the development of the Dolphin deposit and core to our current project plans.

5. Work Planned 2011-12

Deep diamond drilling being undertaken at Dolphin South this year will provide additional data for further analysis on the prospects already identified within this tenement.

Positive results from Dolphin South will provide encouragement regarding the Teredo and Dolphin East Prospects, ahead of drilling from an underground decline.

Dewatering and rehabilitation of the former mine will commence this year and this will enable the exploration decline to be finalised for a drill evaluation of the Teredo Prospect.

If future drilling confirms a substantial resource at Teredo, it could be developed either by extending the underground mine from Dolphin South, or by developing a new decline.

The deep off-shore scheelite potential of EL 16/2002 is viewed as an important component for the long term development of the Dolphin deposit, but it will be some time before evaluation is technically feasible.

For the reasons explained above, no active work is planned on this licence area in 2011-12.