

KING ISLAND

SCHEELITE



DOLPHIN PROJECT

RL 2/1998

ANNUAL REPORT 2011

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 is to reopen the former mine operation at Dolphin, which will deliver ore to a new adjacent processing plant for the production of scheelite concentrates for export.

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.

A detailed Feasibility Study and Development Program and Environment Management Plan (DPEMP) were completed in late 2006, based on plans to extend the former open pit operation.

To secure appropriate tenure to the project area, application was lodged in February 2006 for a 560ha Mining Lease, 1M/2006. The lease was subsequently issued subject to the payment of bond monies before the lease is activated.

A Definitive Feasibility Study is currently being finalised to reopen the former underground mine to generate acceptable economic returns with an improved risk profile and significantly lower impact on the environment. This amended plan and associated Environmental Effects Report are currently with the MRT and EPA for approval ahead of activating the mining lease.

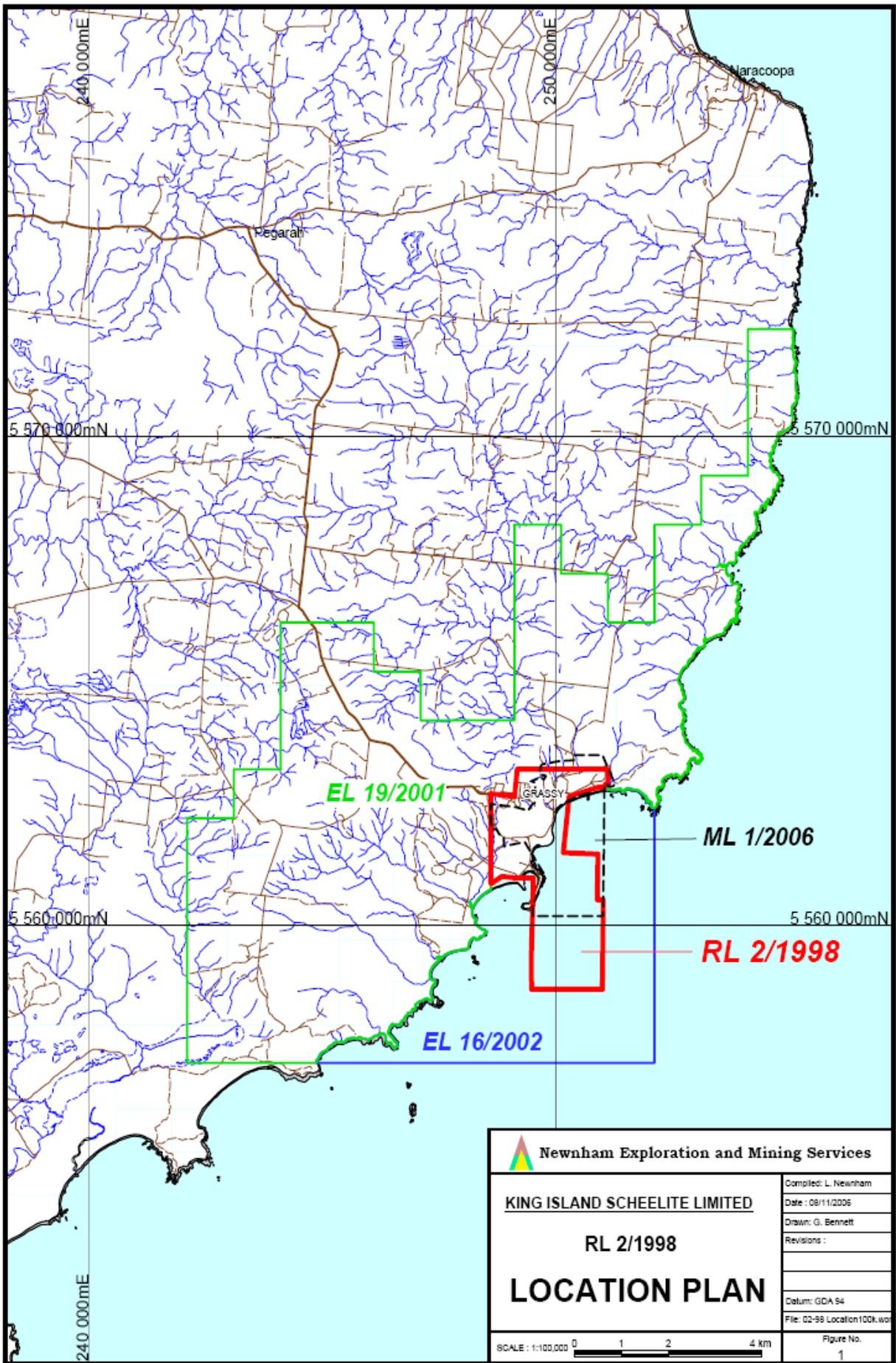
The mining lease falls largely within Retention Licence RL 2/1998 with small peripheral areas within contiguous Exploration Licences EL 19/2001 and EL 16/2002.

Significant funds have been invested in evaluating and progressing the redevelopment of these resources. Future work will focus developing ML 1M/2006 and bring the former mine back into production. In addition longer term resource extension opportunities exist on RL 2/1998 and the bordering Exploration Licences, these were tested through an exploration programme this year, will continue from underground platforms once the mine is reopened. Expenditure this year amounted to \$2.5million on studies, exploration drilling, plant design and metallurgical testwork.

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 held by Australian Tungsten Pty Ltd (a 100% owned subsidiary of ASX listed company, King Island Scheelite Limited).



Australian Tungsten Pty Ltd owns land in the Grassy Township adjacent to the former open cut pit and has secured further land around the site necessary for the proposed redevelopment.

The remaining sections on the outskirts of Grassy are largely private or local council land.

3. EXPLORATION OBJECTIVES

The recent exploration activities on RL 2/1998 were to assess the commercial viability of remnant scheelite resources in and around the former Dolphin open cut and underground mines.

Two diamond holes were drilled to test the Swan Extension 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, suggested 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 beyond the current reserve and mine life estimates. 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 2010/11

During the year substantial work has been undertaken on;

Resource

A drilling programme designed to test mineralisation extensions in the Swan Extended and Decline zones. Encouraging intercepts were recorded from the two holes drilled into the Swan Extension target including 2m @6.4% WO_3 . Drilling in the Decline zone, however, was discontinued due to ongoing technical difficulties to be resumed from underground platforms once the mine is reopened. Drilling earlier this year of the former tailings dam confirmed a resource estimate of 2.7Mt @0.17% WO_3 .

Mine plan and reserve

After significant work undertaken on open cut options, an underground development plan has been developed which removes risk and uncertainty associated with open cut options and the need for sea walls. This plan improves the risk profile while generating acceptable financial returns and while improving the risk profile and significantly reducing the environmental impact compared to the previous plans. The updated plan based on improved mining methods increased the metal contained in the Dolphin underground reserve estimate by 33%. In addition a reserve of 1.91Mt @0.19% WO_3 was added following mine and recovery work undertaken this year.

Metallurgy

Detailed test work carried out in China demonstrated the ability to recover 91% scheelite from the ore at Dolphin. From this a revised flow sheet has been developed using whole ore flotation techniques. Former tailings were also tested this year confirming recoveries of 55% scheelite. These were also confirmed through tests carried out in Australia on ore and tailings with local equipment, personnel, reagents and water from King Island.

Mill design

The processing facility and associated infrastructure has been redesigned and costed based on the revised flow sheet incorporating the potential to treat underground ore and retreat tailings. These costs are being incorporated in our Definitive Feasibility Study.

Feasibility

The financial viability of this project has been updated based on the abovementioned revisions to demonstrate an underground operation at Dolphin along with retreated tailings and ore from Bold Head is viable, before additional resources from Bold Head or down-plunge at Dolphin.

Total expenditure in 2008/09	\$1.9 million
Total expenditure in 2009/ 10	\$1.8 million
Total expenditure in 2010/ 11	\$2.5 million

In addition the company is well progressed in discussions with potential customers for off-take commitments which will underpin project funding proposals being established with financiers.

5. WORK PLANNED 2011/12

Once the Definitive Feasibility Study is complete and funding facilities are in place, the redevelopment of the mine is expected to progress rapidly.

The construction of a processing facility and rehabilitation of the former underground mine could see first production by late 2013.

The planned underground operation at Dolphin has the potential to deliver 300,000tpa of ore at average grades of 1.3% WO_3 to the processing facility which is expected to produce some 3,500 tonnes of WO_3 per annum.

This development schedule also relies on amendments to our previous plans receiving the necessary approvals.

We will continue to look for opportunities to further improve the viability of this project through additional high grade ore. This will be achieved by demonstrating extensions of the Dolphin ore body as well as assessing other nearby targets.

Mineral Resources Tasmania

ABN 36 388 980 563

<http://www.mrt.tas.gov.au>

Form No. R4

Mineral Resources Development Act 1995 (Section 60A)

RETENTION LICENCE ANNUAL RETURN

(Note: This form and the annual report is due 30 days before the annual anniversary of the licence)

DETAILS OF LICENCE AS AT ANNIVERSARY DATE	Retention Licence No.: RL 2/1998	Area: 8 km ²
	Location: Grassy, King Island	Anniversary Date: 19 th Dec 2011
	Licensee: Australian Tungsten Pty Ltd	
SUMMARY OF ACTIVITIES COMPLETED		<i>Office Use</i>
Brief outline of work undertaken and major results during the current year:		
Substantial geological, metallurgical and engineering work undertaken this year on redeveloping the Dolphin tungsten mine.		
Please see attached annual report for more details.		
PROPOSED ACTIVITIES		
Summary of proposed activities for next year (including expenditure details where appropriate):		
Major works planned to bring the mine into production in 2013.		
Please see attached report for more details.		
<i>If space insufficient please attach separate sheet.</i>		

<i>Office Use Only</i>		
Satisfactory Performance:		
— <i>Assessing Geologist:</i>	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Signature:	Date:	
— <i>Senior Geologist:</i>	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Signature:	Date:	
— <i>Managing Geologist:</i>	Yes <input type="checkbox"/>	No <input type="checkbox"/>
Signature:	Date:	

ENVIRONMENTAL IMPACT ACTIVITIES	Office Use Only
Describe activities which caused disturbance detailing type and location:	
Nil	
REHABILITATION	
Describe environmental rehabilitation during current year:	
Nil	
<i>If space insufficient please attach separate sheet</i>	
Satisfactory Environmental Performance:	
— Environmental Field Officer:	Yes <input type="checkbox"/> No <input type="checkbox"/>
Date:	

Proposed expenditure for next year:	TBC
Signed:	Simon Bird
Position:	Chief Executive Officer
Date:	2 nd December 2011

Office Use Only		
EXPENDITURE COMMITMENTS		Comments
<i>Actual Expend. Yr.....</i>	\$.....	_____
(-) <i>Yr..... Comm.</i>	\$.....	_____
(=) <i>Surplus / Shortfall**</i>	\$.....	_____
<i>Yr..... Comm.</i>	\$.....	_____
(+) <i>**Shortfall</i>	\$.....	_____
(=) <i>Total Comm. Yr.....</i>	\$.....	_____
REPORTING		
Annual		
— <i>Received</i>	/ /	_____
— <i>TCR No.:</i>	_____
Relinquishment		
— <i>Received</i>	/ /	_____
— <i>TCR No.:</i>	_____