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EL16/2002
ANNUAL REPORT, 2012
KING ISLAND
NW TASMANIA

Prepared for: Scheelite Management Pty Ltd.

Tim Callaghan, May 2012

EXECUTIVE SUMMARY

EL16/2002 is an integral component of the tenement package required for the development of the King Island Scheelite Project. The EL covers 17km² of possibly prospective ground around the Grassy Granite southeast of the Dolphin Mine below the sea.

During 2011, King Island Scheelite (KIS) have focused on a revised Definitive Feasibility Study into the reopening of the Dolphin and Bold Head underground mines and the reprocessing of the historic tailings. Numerous concurrent technical studies are in progress or have been completed during the past year including resource and reserve estimation, metallurgical testwork, environmental management plans and permitting, mining plans, process design, construction, cost estimates and financial modeling.

Two drilling programs have been completed during 2011 including resource definition drilling of the historic tailings dam and resource extension exploration at South Dolphin.

Limited direct exploration work was completed on EL16/2002 and EL19/2001 during 2011. Due to the offshore location of EL16/2002, no effective work is possible until the Dolphin Mine is rehabilitated and access to the lower mine extended. Exploration drilling of the tenement package is likely to resume in 2013 once mining operations have commenced.

The project work program for 2012 is scheduled to include mine dewatering and re-commissioning, mill engineering, procurement and construction and tailings reclamation and infrastructure development.

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1 INTRODUCTION

The King Island Scheelite Project is located in the southeastern corner of King Island, Tasmania (Figure 1). Project tenure includes a Mine Lease (1M/2006), a Retention License (RL2/1998) and two Exploration Licenses (EL19/2001 and EL16/2002). The full tenement package is integral to development of the King Island Scheelite Project.

The Dolphin Mine located on 1M/2006 was originally operated by Geopeko Ltd. along with the satellite Bold Head Mine located several kilometers to the north on EL19/2001.

The Dolphin and Bold Head Scheelite Mines operated intermittently since their discovery and start up in 1920 until the 1990's, with several forced shutdowns due to low tungsten prices. The site was decommissioned and rehabilitated in 1990.

King Island Scheelite (KIS) have been investigating the potential of re-opening the mines. Initial investigations into the viability of an open cut and seawall were inconclusive and the focus has changed to rehabilitation of the underground workings and production from remnant resources. KIS are completing a definitive feasibility study into a 350ktpa mine and processing facility producing 5700t of concentrate per annum over an 11 year mine life. Mine rehabilitation and mill construction are scheduled to commence in 2012.

Resource and Reserve estimation of the Dolphin and Bold Head Deposits and historic tailings storage facility (TSF) have been completed over the last 2 years and form the basis of the King Island Scheelite Project (Table 1 and 2).

TABLE 1. KING ISLAND SCHEELITE PROJECT RESOURCES			
	Tonnes	WO₃	Tonnes WO₃
Dolphin	0.70% WO ₃ cutoff		
Indicated	4,752,000	1.29	61,300
Inferred	7,000	0.73	50
Total	4,759,000	1.29	61,350
Bold Head	0.50% WO ₃ cut off		
Indicated	1,500,000	0.93	13,950
Inferred	150,000	1.22	1,830
Total	1,650,000	0.96	15,780
TSF	0.08% WO ₃ cut off		
Measured	2,700,000	0.17	4,590
Total	9,109,000	0.90	81,720

TABLE 2. KING ISLAND SCHEELITE PROJECT RESERVES			
	Tonnes	WO₃	Tonnes WO₃
Dolphin Probable	2,687,000	1.04	28,060
Bold Head Probable	609,000	0.76	4,640
Tailings Proven	1,900,000	0.19	3,610
Total	5,196,000	0.70	36,310

Technical studies associated with the Definitive Feasibility Study that have been completed or are in an advanced stage include:

- Resource Estimation
- Mining Studies
- Reserve Estimation
- Metallurgical Testwork
- Process Flow Sheet Design
- Environmental Management Plan
- Market Off Take Agreements
- Financial Modelling
- Negotiations with Funding Facilities
- Resource Extension Drilling

Most of the work over the past year has focused on the Mine Lease 1M/2006 technical studies assisting development of the Definitive Feasibility Study. Consequently limited work on either EL 19/2001 or EL 16/2002 has been completed. Both EL's are integral to the development of the King Island Scheelite Project and are expected to add longevity to the project through exploration once operations commence. The offshore location of EL16/2002 limits the ability to effectively explore until the mine is rehabilitated and the mine workings extended southeast. Remote exploration including a detailed aeromagnetic survey and modeling has been completed previously.

It is anticipated that exploration will focus on resource extension and regional exploration once project funding is completed and construction has commenced in late 2012.

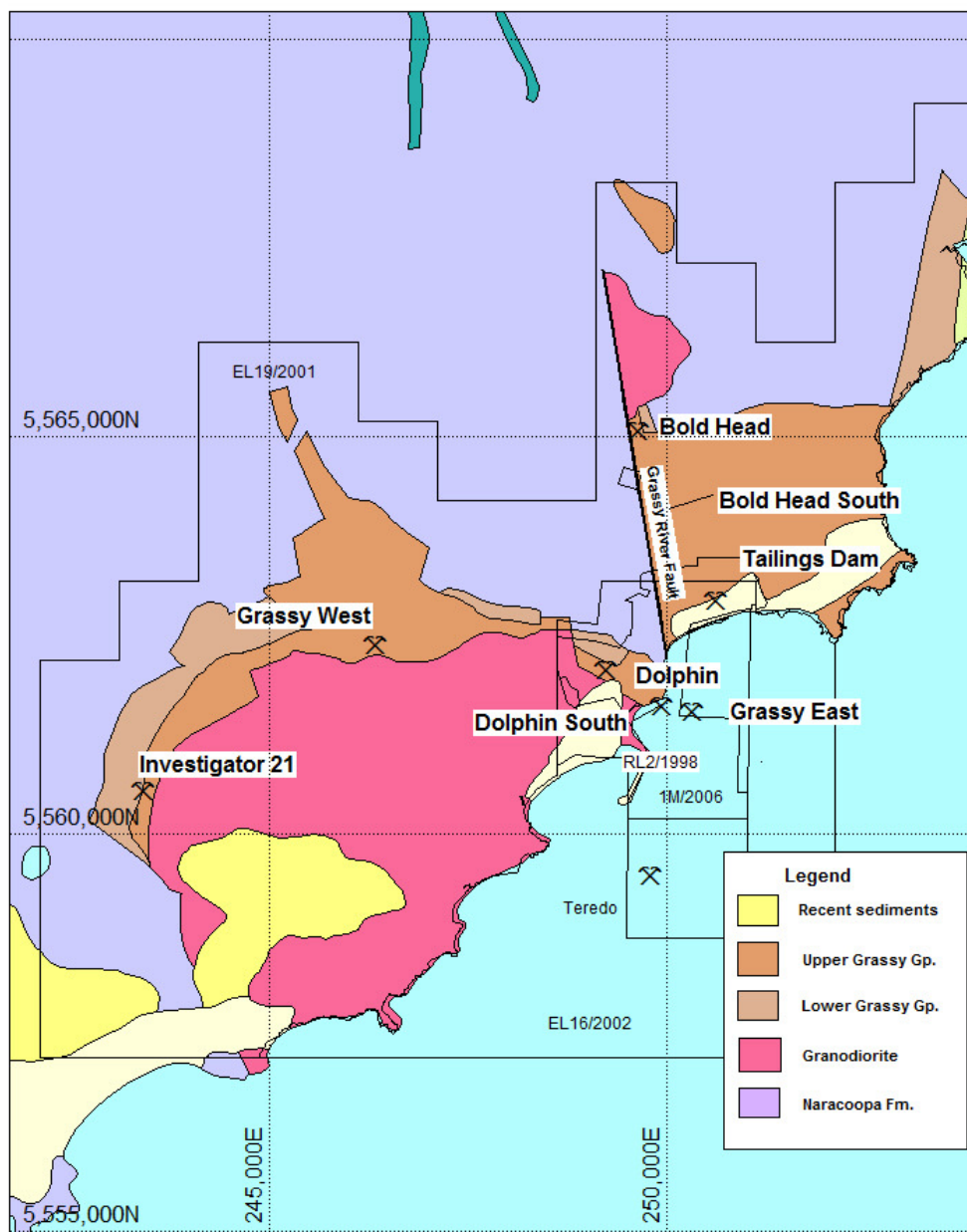


Figure 1. King Island Project Geology, Tenements and Major Prospects.

2 GEOLOGY

The regional geology of King Island is best described in Tasmanian Geological Record 2007/02, *Some Notes on the Geology of King Island* (Calver, 2007). Much of the geology described in this section is summarized from this publication (Figure 2).

The geology of King Island consists primarily of Proterozoic rocks with lesser Devonian Granites and extensive wind blown Pleistocene to Recent sand cover. The Proterozoic Geology of the eastern half of the island (hosting the Bold Head and Dolphin WO₃ deposits) is distinctly different from the geology of the western half. The relationship between the western and eastern halves remains problematic.

The western half is dominated by the Mesoproterozoic (1300Ma) Surprise Bay Formation. The Surprise Bay Formation is dominantly a N-S striking regionally metamorphosed amphibolite grade meta-sedimentary unit with minor mafic intrusives. The western margin of the Surprise Bay Group was intruded by a 790Ma granite body (Calver, 2007) post dating the 760Ma Wickham Orogeny (Cox, 1989, Turner *et. al.* 1998).

The Eastern half of the Island is dominated by the (1000-750Ma) Naracoopa Formation which appears to be a correlate of the Cowrie Siltstone in NW Tasmania (Calver, 2007). The Naracoopa Formation consists of a thick succession of relatively unmetamorphosed shale, siltstone and fine grained muscovite-quartz sandstone. Along the Southeast Coast the siltstone is conformably overlain by the 580Ma Grassy Group which is considered a correlate of the Togari Group in NW Tasmania, (Calver, 2007).

The Grassy Group in the City of Melbourne Bay area is well described by Calver (2007) and Meffre *et al* (2004). A summary of the Grassy group stratigraphic sequence is described below:

Cottons Breccia - A basal unit of polymict cobble to boulder diamictite.

Cumberland Creek Dolostone - Calcareous sediments, shale with limestone/dolomite inter-beds. (Host Horizon for the King Island Scheelite Mineralisation).

Yarra Creek Shale - Planar laminated shale with rare volcanoclastic interbeds.

Grimes Intrusive Suite - Gabbroic intrusive sills of andesitic composition.

City of Melbourne Volcanics - Tholeiitic pillow lava, peperite and volcanoclastic sandstone.

Shower Drop Volcanics – Picritic, high MgO pillow lava and hyaloclastite.

Bold Head Volcanics – Tholeiitic basalt, volcanoclastic sandstone and conglomerate.

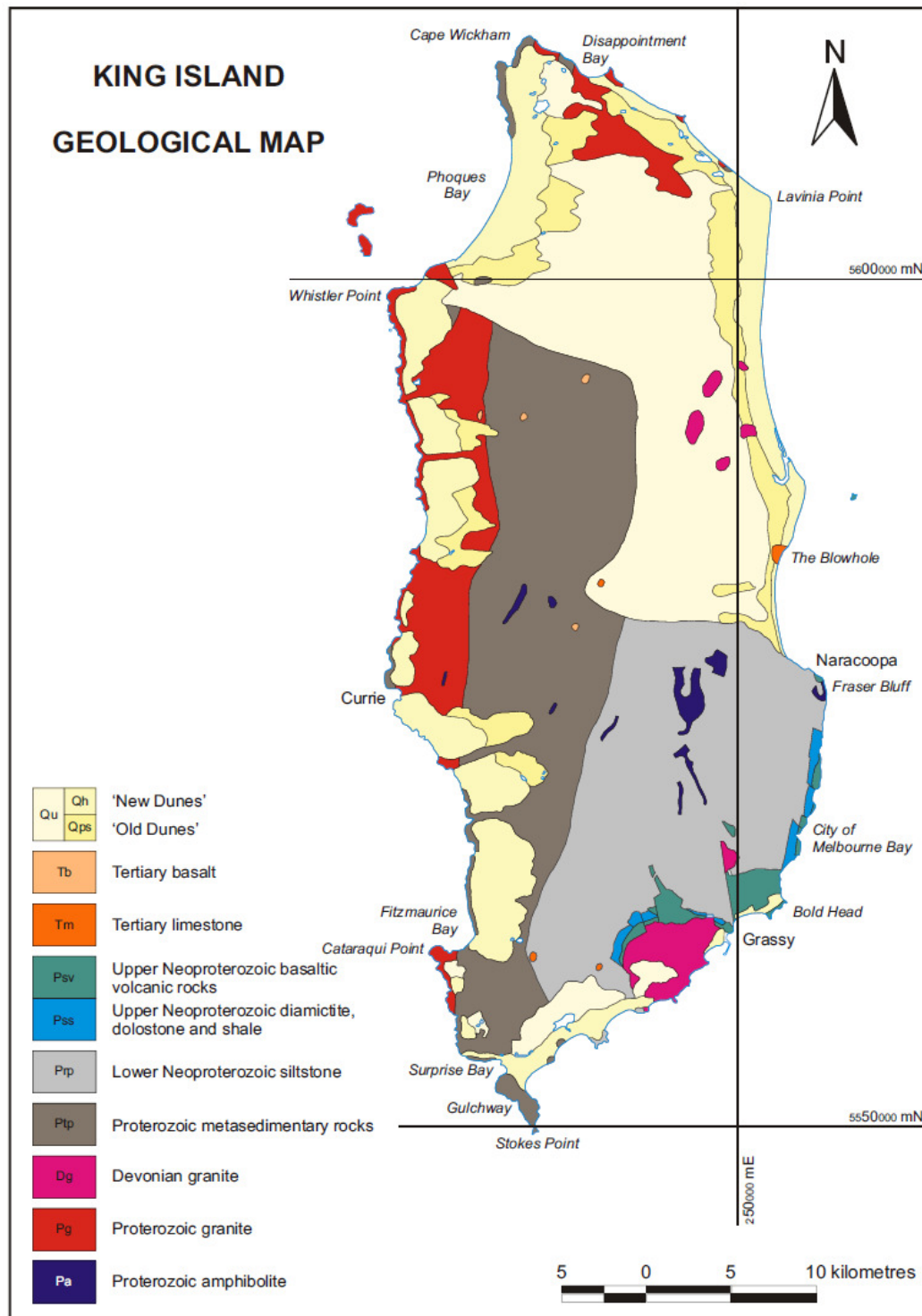


Figure 2. Regional Geology of King Island, (Calver 2007). Coordinates GDA94.

Three granite bodies, the Grassy, Bold Head and Sea Elephant plutons intrude the Proterozoic sediments on the southeast coastline of King Island. The intrusions are classified as I-type monzogranite-granodiorite (Calver, 2007). The Bold Head Granite may be a sliver of the larger Grassy granite, separated by the N-S trending Grassy River Fault (Figures 1 and 2).

The Bold Head Granodiorite is porphyritic with large pink k-feldspar phenocrysts. The mineralogy consists of quartz, k-feldspar, plagioclase, biotite and amphibole with minor apatite, allanite, sphene, magnetite and zircon.

Scheelite skarn mineralisation has formed within the metamorphic aureole of the Bold Head and Grassy Granodiorite plutons where they have come into contact with the calcareous sediments and carbonates of the Lower Grassy Group Cumberland Creek Dolostone. Both the Bold Head and Grassy mineralisation is hosted in a similar stratigraphic sequence, although the carbonate units appear to be thicker in the Grassy area (Danielson, 1975, Figure 2). Mineralisation has formed by selective metasomatism, mainly within and immediately adjacent to carbonate horizons. The deposits formed over a 100-200m sequence of complex skarn mineralogy located in the lower part of the Grassy Group, with two main host horizons known as B and C lens hosted in carbonates of 10-30m thickness separated by a similar thickness of skarn altered volcanic sediments. Mineralisation appears to have occurred where carbonates come into direct contact with the intrusion, or adjacent to brittle faults tapping into the nearby intrusion. Mineralisation grades increase towards major structures such as the Central, Decline and Grassy Faults at Grassy and the Number 2 and Boundary Faults at Bold Head.

Mine sequence rocks have been intensely contact metamorphosed and metasomatised and are described in Geopeko drill logs and maps by the resultant skarn mineralogy and not the stratigraphic protolith described in the regional geology. Geopeko logging codes include:

DDH logging codes

Code	Geology
um	Upper metavolcanics
bh	Biotite-actinolite hornfels
pbh	Pyroxene-biotite hornfels
pgh	Pyroxene-garnet hornfels banded pyroxene andradite skarn (+/- Scheelite)
gh	Garnet hornfels, andradite skarn (+/- Scheelite)
ch	Marble
bfb	Banded footwall beds, interbedded marble and biotite-pyroxene grossularite skarn (+/- garnet, Scheelite)
lv	Lower metavolcanics

Mineralisation occurs predominantly as coarse Scheelite with lesser Powellite in either garnet-hornfels, pyroxene garnet hornfels and garnet-pyroxene altered banded footwall beds.

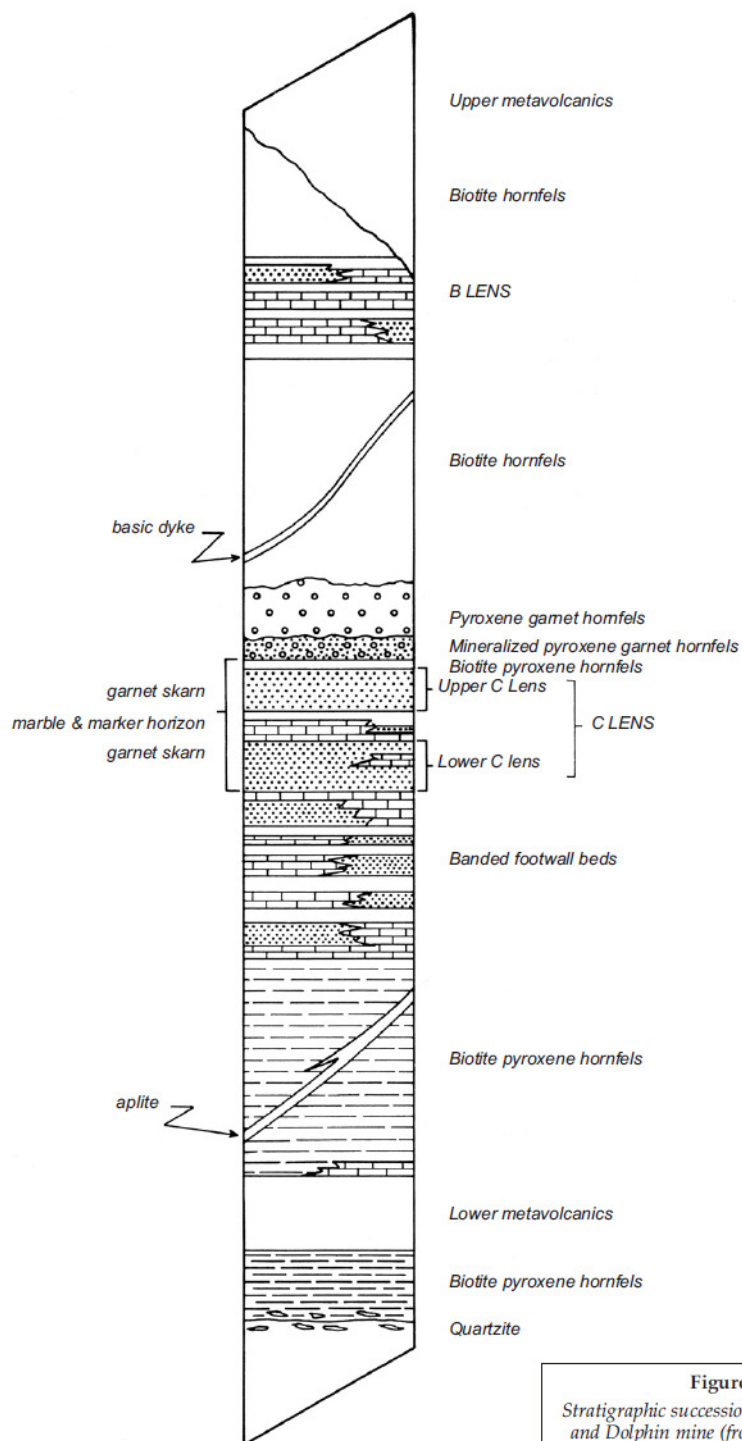


Figure 4
Stratigraphic succession, No. 1 Open Cut
and Dolphin mine (from Brown, 1990).

Figure 3. Stratigraphic column of the Grassy Group host sequence in the Grassy open cut (from Brown, 1990). The sequence is very similar to the Bold Head sequence 3km north.

3 EXPLORATION TARGETS EL16/2002

EL16/2002 hosts two conceptual scheelite skarn targets southeast of the Dolphin Mine the Teredo Prospect and Grassy East (Figure 1).

The Teredo Prospect is a conceptual exploration target postulated by Brown (1981) located 1-2km further south along the eastern side Grassy Fault (Figure 1). Aeromagnetic images suggested Grassy Group volcanics are present in the area. One interpretation of the data suggests the Decline Fault swings southwest controlling the eastern margin of the granite. This area is very difficult to test and will require exploration from underground mine infrastructure. However it remains a promising conceptual target and, if proven may significantly extend mine life as the area is large.

The Dolphin South extensions are vital to the exploration of this area. If additional resources are defined at Dolphin South, a drill drive/ventilation drive can be justified to the south, providing access for exploration of this area.

Dolphin East (Figure 4) is a similar conceptual target to the Bold Head South target, with a possible host horizon and granodiorite position located on the eastern downthrown side of the Grassy Fault. As the prospect is located out to sea it is a very difficult area to assess. Extending one of the Dolphin South exploration holes to approximately 1km depth would provide vital information testing this conceptual target. If the concept is confirmed, the area will be a significant area for resource delineation in the longer term.

The target is reminiscent of the Rendeep Project completed a Renison Bell in the 1990's which added significant high grade resources through a focused exploration program on the downthrown side of the Federal Basset Fault. The potential resource of this area is unknown but could conceivably be extensive along the edge of the Grassy River Fault to the north and south.

There is a very real possibility that the Bold Head Mine represents the fault offset eastern side of the Grassy Pluton and therefore the Dolphin East orebody. If this is the case then there is little likelihood of additional resources directly east of the Dolphin Mine and Grassy River Fault. The South Bold Head target (See Section 4.2) is therefore a much better target for mineralisation east of the Grassy River Fault. It is also far more accessible for exploration.

The Dolphin East area is possibly accessible from the Dolphin Mine infrastructure lower levels but would require a designated drill platform extending east towards the Decline Fault.

EL16/2002 is of strategic importance to the King Island Scheelite Project and maintaining tenure of the EL is important for the longevity of the King Island Scheelite Project.

4 WORK COMPLETED 2011

No exploration work was directly undertaken on EL16/2002 during 2011.

During 2011 KIS focused on technical studies required for a Definitive Feasibility Study of the King Island Scheelite Project. Technical studies completed on the KIS project during 2011 include:

- Tailings Storage Facility Resource and Reserve Estimation (Callaghan, 2011a, Callaghan, 2011b)
- Tailings Reclamation and TSF storage construction (GHD, 2011)
- Environmental Effects Report for the KIS project (Boardman, 2011)
- Metallurgical testwork of the Dolphin Deposit (Johns and Mooney, in progress)
- Metallurgical testwork of the Historic Tailings (Mooney, in progress)
- Dolphin Revised Mining Plan (Fudge, 2011)
- Process Flow Sheet Design (GR Engineering, *in progress*)
- Mining Cost Estimation (Mancala Mining, 2011)
- Processing Cost Estimation (GR Engineering, 2011)

Drilling programs completed on the project (1M/2006) during 2011 include:

- A 3 hole diamond drilling exploration program for 946.7m was completed on ML 1M/2006 testing the southern extension of the Dolphin Resource.
- A 112 hole reverse circulation air core drilling program for 1212m was completed on the TSF as part of the Tailings reclamation and construction project.

5 PROPOSED WORK PROGRAM 2012

The project work program for 2012 is scheduled to include:

- Completion of the DFS
- Mine dewatering and rehabilitation
- Mill engineering, procurement and construction
- Infrastructure development.
- Commissioning and production is expected to commence in 2013.
- ML application for the Bold Head Mine

Because of the focus on construction and commissioning a limited exploration program is anticipated for 2012. Exploration work is likely to involve historic data collation and targeting in preparation for future exploration drilling programs. Exploration drilling of the tenement package is likely to resume in 2013 once mining operations have commenced.

ADDITIONAL NOTES

LIMITATIONS AND CONSENT

The report is provided to the King Island Scheelite Project in the context of an Annual Report and should not be used or relied upon for any other purpose.

This report has been prepared using information available to the Author at the time of writing. The opinions stated herein are given in good faith and with the belief that the basic assumptions are factual and correct and the interpretations reasonable.

This report is not intended for the use as a public document nor, in whole or in part, in a public document without written consent to the form and context in which it appears.

COMPETENT PERSON AND JORC CODE

The information within this report that relates to Mineral Resources and Reserves and Exploration Results is based on information compiled by Mr Tim Callaghan who is a consultant geologist working for King Island Scheelite. Tim is a Member of the Australasian Institute of Mining and Metallurgy (AUSIMM) and has sufficient experience in the styles of mineralisation and types of deposits in consideration to qualify as a competent person according to the 2004 edition of the Australasian Code for reporting Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). He consents to the inclusion of this material in the form and context in which it appears in this report.

The information within this report that relates to Mineral Reserves is based on information compiled by Consultant Mining Engineer Mr Alan Fudge of Polberro Consulting, who is a Member of The Australasian Institute of Mining and Metallurgy ("AusIMM") and has a minimum of five years experience in the estimation, assessment and evaluation of Mineral Reserves of this style and is a Competent Person as defined in the JORC Code (2004). This announcement accurately summarises and fairly reports his estimations and he has consented in writing to this review in the form and context in which it appears.

STATEMENT OF INDEPENDENCE

Tim Callaghan has no material interest or entitlement in the securities or assets of the King Island Scheelite project or any associated companies.

All coordinates in this report are recorded in AGD94 Zone 55

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