DOLPHIN PROJECT

RL 2/1998

ANNUAL REPORT, 2012

KING ISLAND

NW TASMANIA

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KING ISLAND SCHEELITE

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1 EXECUTIVE SUMMARY

Retention Licence 2/1998 is an integral component of the tenement package required for the development of the King Island Tungsten Project. The RL covers 8 square kms of prospective ground around the Grassy Granite and hosts a number of significant deposits and exploration targets.

During 2011/12, King Island Scheelite Limited (KIS) focused on the Definitive Feasibility Study (DFS), to the reopen the Dolphin and Bold Head underground mines together with reprocessing historic tailings. Numerous concurrent technical studies were undertaken including resource and reserve estimation, metallurgical testwork, environmental management plans and permitting, mining plans, process design, construction schedules, cost estimates and financial models. This year the DFS was completed, environmental approvals for the revised plan obtained and necessary land acquired.

Drilling programs including resource definition drilling of the historic tailings dam and resource extension exploration at South Dolphin were also completed as part of the DFS work. Drilling is expected to resume when underground access is established.

Subject to funding, the project to recommence production from tailings in combination with the Dolphin and Bold Head underground operations is now 'development ready' with all the necessary approvals, land and plans now in place. The key focus for the coming year is to progress discussions with potential off-takers, financiers and potential equity partners before commencing construction activities.

2 INTRODUCTION

The Dolphin 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 the development of the King Island Scheelite Project. The tenements are held by Australian Tungsten Pty Ltd a wholly owned subsidiary of KIS a public company listed on the Australian Securities Exchange.

RL2/1998 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 as remnants and extensions of bodies mined in the former Dolphin and Bold Head operations together with the historic tailings.
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.

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.

A detailed Feasibility Study and Development Program and Environment Management Plan were completed in 2006, based on plans to extend the former

open pit operation. A 560ha Mining Lease, 1M/2006 was issued subject to the payment of bond monies before being activated.

Since then a revised plan has been developed to retreat former tailings in conjunction with reopening underground operations at Dolphin and Bold Head. Removing any need to extend the former open pit, this plan together with an improved processing plant utilising latest recovery techniques, demonstrates acceptable economic returns with an improved risk profile and significantly lower impact on the environment.

Significant funds have been invested to date evaluating and progressing the redevelopment of these resources, culminating in the finalisation earlier this year of the DFS.

Both the EPA and MRT have reviewed and approved the amended plan and associated environmental effects report together with revised bond requirements.

Future work will focus on developing ML 1M/2006 and bringing the former mine into production. In addition longer term resource extension opportunities exist on RL 2/1998 and bordering Exploration Licences, these were tested through an exploration programme last year, and will continue from underground platforms once the mine is reopened and underground access re-established.

With the granting of ML 1M/2006 over most of RL 2/1998, the latter now exist in discrete sections (see Figure 1 below).The southern section being off-shore and south of Grassy Harbour.

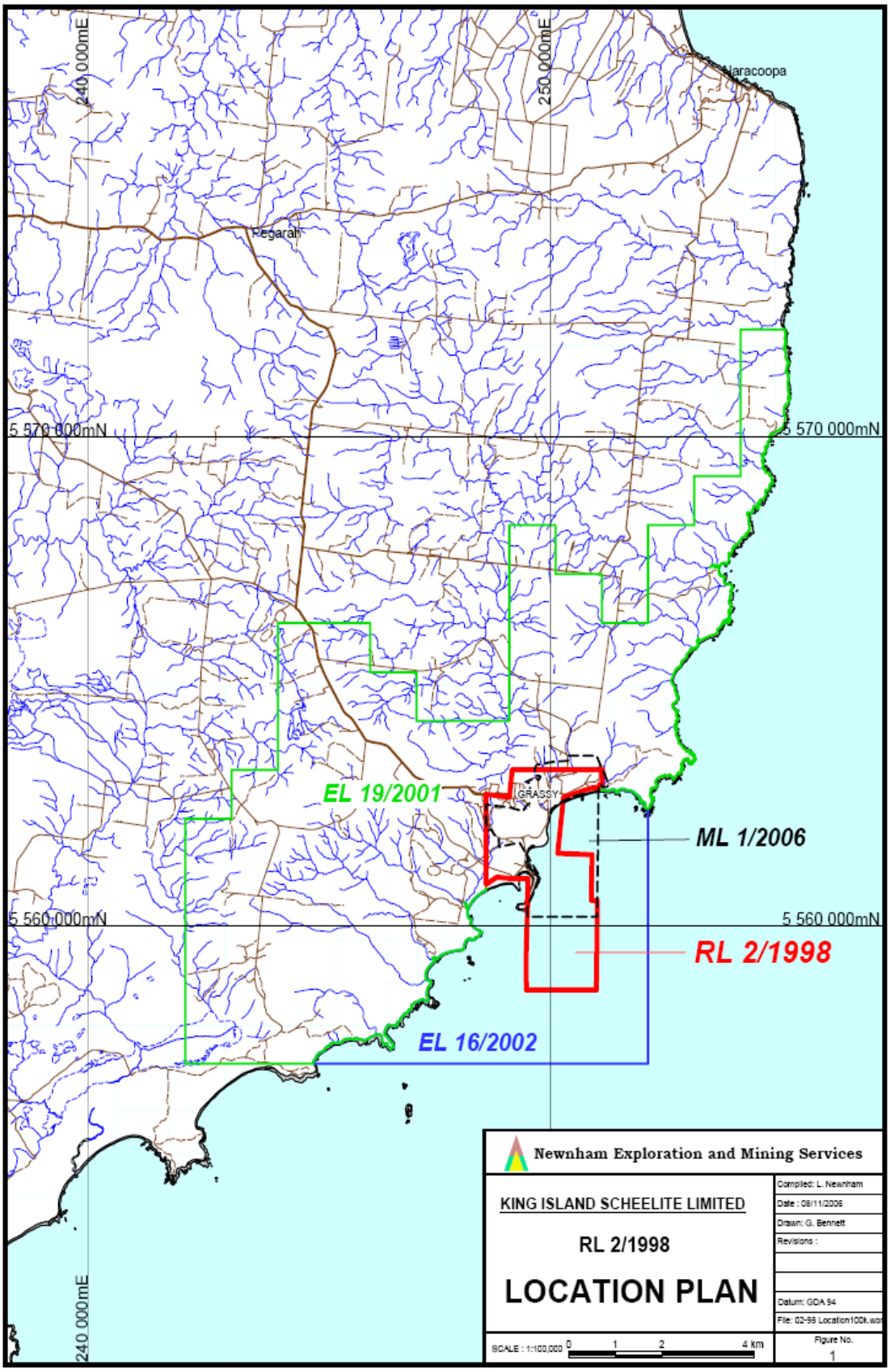
240 000mE
250 000mE
Naracoopa
Pegarah
5 570 000mN
5 560 000mN
EL 19/2001
GRASSY
ML 1/2006
RL 2/1998
EL 16/2002
Newnham Exploration and Mining Services
KING ISLAND SCHEELITE LIMITED
RL 2/1998
LOCATION PLAN
Compiled: L. Newnham
Date : 08/11/2006
Drawn: G. Bennett
Revisions :
Datum: GDA 94
SCALE : 1:100,000
0 1 2 4 km
Figure No.
1

Figure 1.

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

The resource and reserve estimation of the Dolphin and Bold Head Deposits and historic tailings storage facility have been completed over the last 2 years and form the basis of the Dolphin Project DFS (Table 1 and 2).

TABLE 1. KING ISLAND SCHEELITE PROJECT RESOURCES			
	Tonnes	**WO_3**	**Tonnes WO_3**
Dolphin	0.70% WO_3 cut off		
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
Tailings	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	**WO_3**	**Tonnes WO_3**
Dolphin Probable	2,687,000	1.04	28,060
Bold Head Probable	609,000	0.76	4,640
Tailings Proven	1,910,000	0.19	3,630
Total	**5,206,000**	**0.70**	**36,330**

Technical studies associated with the DFS that have now been completed include:

- Resource estimation
- Mining studies
- Reserve estimation
- Metallurgical test work
- Process flow sheet design
- Cost estimates and construction plans
- Environmental management plan
- Negotiations with potential market off-taker
- Financial modeling
- Negotiations with potential project funding providers
- Resource extension drilling

Most of the work over the past year focused on the Mine Lease 1M/2006 technical studies to complete the Definitive Feasibility Study. Consequently limited work on either EL 19/2001 or EL 16/2002 has been completed this year though both remain integral to the overall plans and are expected to add longevity to the project through exploration once operations recommence.

It is anticipated that exploration will focus on resource extension and regional exploration once project funding is completed and construction has commenced in late 2013. The map below sets out in more detail the geology, tenements and prospects in the area covered by this project.

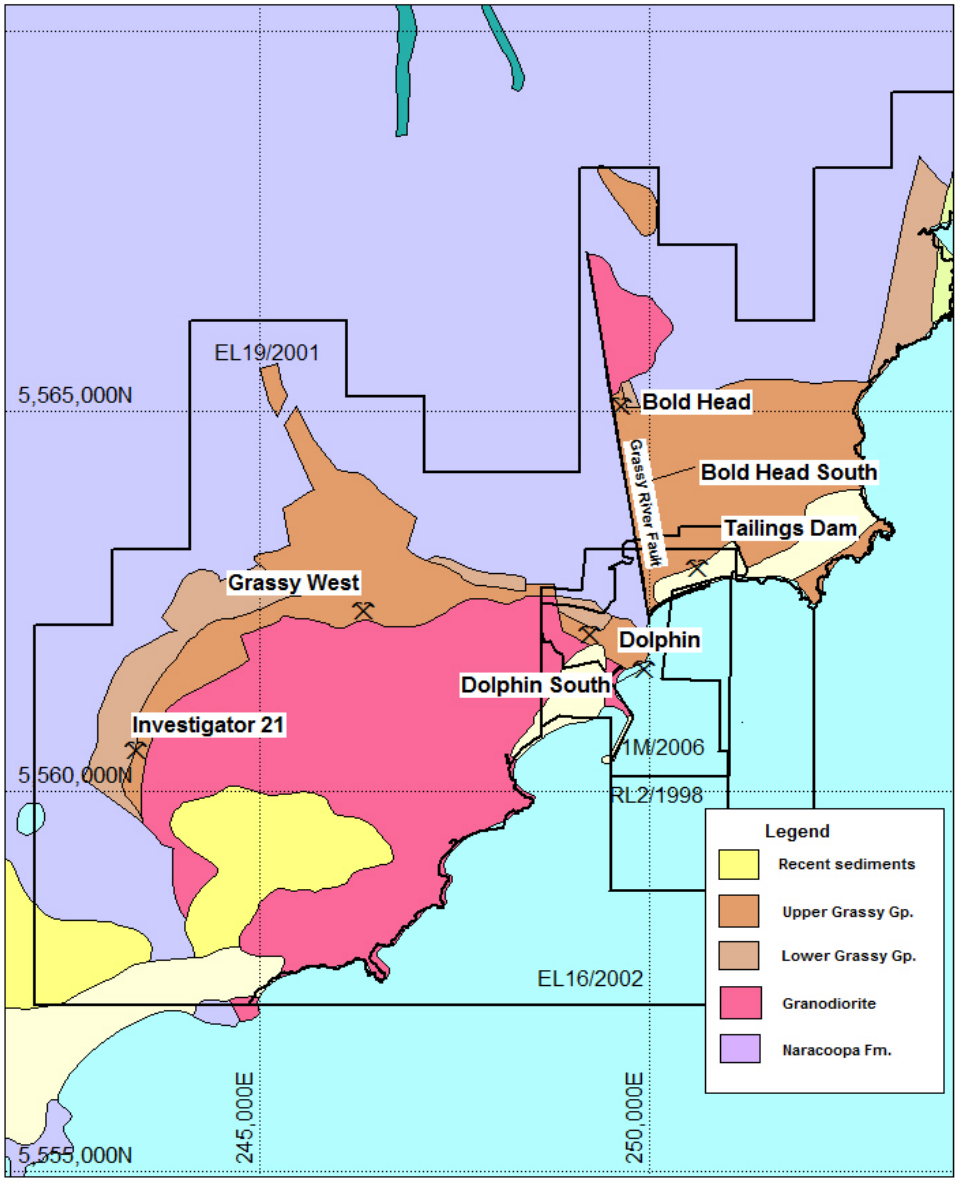

Figure 2. King Island Project Geology, Tenements and Major Prospects.

3 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 3).

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 WO_3 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 volcaniclastic interbeds.

Grimes Intrusive Suite - Gabbroic intrusive sills of andesitic composition.

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

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

Bold Head Volcanics - Tholeiitic basalt, volcaniclastic sandstone and conglomerate.

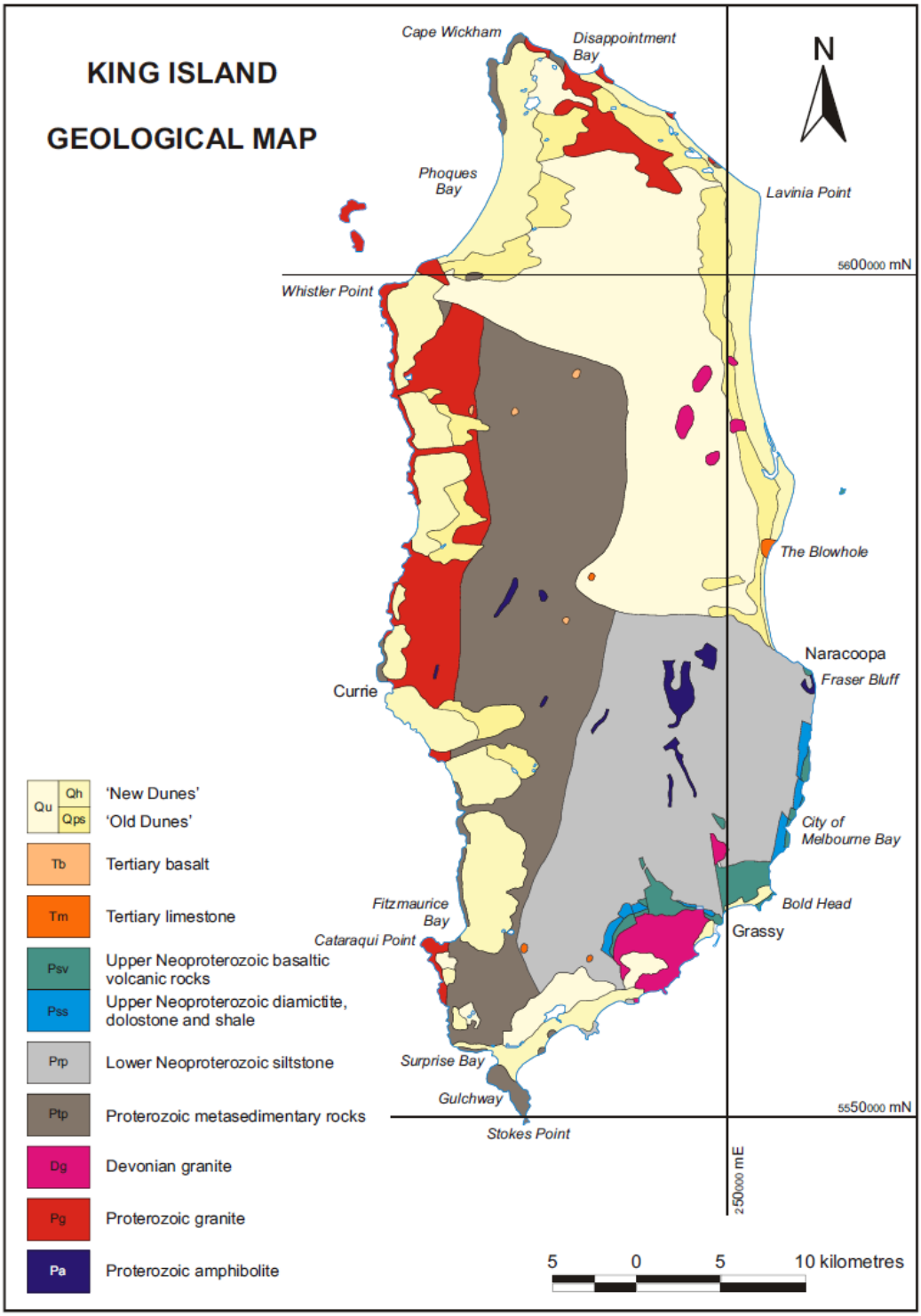

Figure 3. Regional Geology of King Island, (Calver 2007). Coordinates GDA94.

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 2 and 3).

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. 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.

4 EXPLORATION PROSPECTS

The exploration tenements host several advanced prospects including the Bold Head Resource which forms a significant component of the King Island Project. Minor resource extensions are anticipated from exploration adjacent to the Bold Head Resource. A mine plan is currently being finalized for Bold Head and an ML application will be submitted on completion.

A significant conceptual exploration target is located at South Bold Head. South Bold Head is a purely conceptual exploration target located south of the Graham's Road Fault along the eastern side of the Grassy Fault. The Graham's Road Fault is a ductile shear with a south-side down throw of over 200m. Mine sequence is postulated to occur at depth beneath the outcropping upper volcanics of the Grassy Group.

Detailed geophysical surveys were completed in 1982 and reported in 1983 (Brown, 1983). Gravity surveys indicate a number of residual bouger anomaly highs and lows suggestive of a granite surface similar to the Bold Head setting. The presence of the upper volcanic sequence suggests there is the potential for a deep target (800m+) adjacent to the Grassy River Fault on its eastern margin. Although conceptual this target has the potential to host a world class deposit the size of the Dolphin Mine.

A seven kilometer length of Grassy Group volcanics is exposed along the northern and western margin of the Grassy Granite. The contact has been loosely defined by first pass drilling, mapping and magnetic surveys through exploration activities of the previous mine operators. Significant exploration prospects have been located further west of the Dolphin Mine adjacent to the Grassy Granite. The two most advanced of these include Grassy West and Investigator 21, both of which have several significant Scheelite intersections hosted in similar metasomatised lower Grassy Group lithologies as the Bold Head and Dolphin Deposits.

These targets have two of the three components required for large Dolphin style skarn deposits, proximity to the granite and calcareous host lithologies. The third criteria of major brittle fault structures remain to be identified. Additional detailed exploration is required including collation of drilling data and geological information and interpretation of gravity and genetic data followed by further targeted exploration drilling.

Both EL16/2002 and EL19/2001 are of strategic importance to the Dolphin project and maintaining tenure of these is important for the longevity of the future operations.

5 WORK COMPLETED 2012

Following the completion of drilling programmes on the Dolphin Project (1M/2006) during 2011, it was decided to resume drilling activities once underground access could be established. The drilling undertaken included:

- 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.

(see attached Dolphin South - Exploration Drilling Announcement)

As a result no exploration work was directly undertaken on EL19/2001 during 2012.

The main focus for the Dolphin Project in 2012 involved progressing the development plans as follows:

a) Finalised the Definitive Feasibility Study for revised mine development plan

(see attached Dolphin Project - Definitive Feasibility Study Announcement)

b) Acquired the necessary land on King Island for the project development.

c) Obtained all necessary environmental approvals for revised development plan.

d) Undertaken a study on the potential for further beneficiation and worked actively with off-takers and financiers to secure full project funding.

6 PROPOSED WORK 2013

The project work program for 2013 is scheduled to include:

- Review the potential to further optimize the current DFS project economics.
- Confirm development funding for the Dolphin Project.
- Commence mine dewatering, rehabilitation, mill engineering, procurement, construction and other infrastructure development.
- Consider ML application for the Bold Head Mine.

With the Definitive Feasibility Study now complete once 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 2014.

The planned underground operation at Dolphin has the potential to deliver 350,000tpa of ore at average grades of 1.0% WO_3 to the processing facility which is expected to produce some 3,500 tonnes of WO_3 per annum.

KIS 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.

ADDITIONAL NOTES

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.

COORDINATES

All coordinates in this report are recorded in AGD94 Zone 55

ATTACHMENTS

a) Dolphin South - Exploration Drilling Announcement

b) Dolphin Project - Definitive Feasibility Study Announcement

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