

EL 43 / 1992
MELBA PROJECT

ANNUAL REPORT

MARCH 2004

Prepared for:

**Allegiance Mining NL
Level 11, Shaw House
49-51 York Street
Sydney NSW 2000**

05 March 2004



Prepared by:
**Lindsay Newnham, Bsc, FAusIMM, CPGeo
Newnham Exploration and Mining Services
PO Box 183 Exeter Tasmania 7275
Ph: (03) 6394 3434 Fax: (03) 6394 3435**

CONTENTS

- 1. SUMMARY**

- 2. OBJECTIVES and STRATEGY**

- 3. WORK COMPLETED - CURRENT YEAR**
 - 3.1 Drilling**
 - 3.2 Mine Planning**

- 4. FUTURE PLANS**

Maps:

- 1. Location Plan**
- 2. Melba Geology**
- 3. North Cuni Longitudinal Projection**
- 4. Genets Longitudinal Projection**
- 6. Nickel Reward Longitudinal Projection**

1. SUMMARY

Drilling programs completed over the last few years by Allegiance Mining NL at Nickel Reward have identified a high grade nickel sulfide resource estimated to contain 30,000 tonnes 3 % Ni accompanied by significant copper, gold and platinum group metals.

This resource is interpreted as occurring in several discrete (but possibly connected, pods) within 1 or 2 gabbro dikes. The mineralisation occurs over a vertical range of 0-70 m.

Allegiance is currently developing a plan to mine this resource with a view to transporting the ore to Hellyer for processing in the Hellyer pilot plant mill at a rate of 4-5 tph. Some additional shallow resource definition drilling may be required ahead of a commitment to implement this plan.

This drilling is scheduled for April 2004.

A drilling program commenced at North Cuni-Genets area in February 2004 to follow up several narrow high grade nickel-copper-Au-PGM intersections in that area by CRA in the mid 1990s. Whilst this CRA drilling, combined with earlier drilling by other companies, identified a significant resource, Allegiance considers it prudent to complete another program of holes ahead of re-estimation of the resource.

This drilling program, estimated to cost \$100,000, will be completed by late March-early April 2004.

As with the Nickel Reward resource, it is then proposed to develop a small scale, high grade mining plan to extract this resource for transport to the Hellyer pilot plant for upgrading.

It is envisaged that all drilling at both Nickel Reward, North Cuni and Genets will be completed by end of April 2004. Mine planning and permitting is scheduled for completion by end 2004, with first production early 2005.

Expenditure for the year ending 19 April 2004 is estimated at \$120,000.

Resource estimation, mine planning, DPEMP permitting for the year ending 19 April 2005 is budgetted at \$150,000-\$200,000.

2. OBJECTIVES and STRATEGY

At Melba Flats the existence of a series of high grade nickel-copper sulfide pods within a series of gabbro dikes has been known for over 100 years.

These pods, which individually may contain 20,000-50,000 t, occur along a strike length of 3 km.

Several deposits were mined to shallow depths between 1920-1960, but no mining went below about 40 m. Most of these mining campaigns were aimed at producing direct shipping ores.

Past exploration programs have focused on shallow resource extensions of known deposits. There are few drill holes over 50 m vertically below surface.

Past impediments to the development of Melba included:

- lack of an identified substantial resource
- no available milling facility
- adverse metal markets
- remoteness of the resource

However, in the last few years, several factors have combined to make Melba both more prospective and more attractive for development.

These factors include:

- discovery of the Avebury nickel deposit and the subsequent development of genetic models which suggest the Melba area is highly prospective for nickel sulfide deposits
- availability of milling facilities at Hellyer, which is readily accessible by either road or rail
- exceptionally robust base and precious metal markets, which are predicted to remain so for the medium-long term
- development of supportive infrastructure in the Melba area (rail, roads, power, communications)

Following its discovery of the Avebury nickel sulfide deposits, Allegiance now considers the Melba area is highly prospective for three types of base-precious metal deposits:

- (i) Extensions of the known shallow, small pods of massive nickel-copper sulfide, supplemented by significant gold-PGM.

- (ii) Deposits of disseminated Ni-Cu sulfide hosted by the gabbro dikes and adjacent to the shallow massive sulfide bodies. Given the prevailing combination of favourable factors above, such deposits down to a cut-off of approximately 1 % Ni should be viable. Past drilling programs have identified intersections of this nature.
- (iii) Genetic modelling based on the Avebury deposit suggests that, as the gabbro dikes (which are differentiates of the Serpentine Hill ultramafic body) approach their parent ultramafic body, they will come under the hydrothermal influence of the granite ridge between Pine Hill and the Heemskirk Granite.

The influence of the granite could produce nickel skarn deposits of the Avebury type either within the gabbros or the parent ultramafic.

Allegiance's strategy at Melba has both a short term and longer term component:

Short term:

- complete resource definition drilling programs at Nickel Reward, North Cuni and Genets by end April 2004
- develop mine plans for these areas by June 2004, which involve the extraction of small tonnages for treatment at the Hellyer pilot plant
- complete permitting for this shallow, small scale extraction by end 2004
- be mining one or more of these deposits by early 2005

Longer term:

- extend the search for shallow high grade deposits by way of ground E-M surveys, followed by core drilling
- aggressively explore for deeper nickel skarn deposits, either in altered gabbros or ultramafics

3. WORK COMPLETED - CURRENT YEAR

3.1 Drilling:

A drilling program was designed to test the North Cuni and Genets area to shallow depths and to follow up previous narrow high grade intersections in the area.

Approximately 20 holes were planned, each 50-80 m long. The permitting process for this work commenced in December 2003, and was completed in January 2004.

The drill contract was let to Almac Drilling Pty Limited and drilling commenced mid-February 2004, using a skid-mounted L-38 drill. All holes are being drilled HQT to maximise core recoveries in an area where recoveries have traditionally been poor.

3.2 Mine Planning:

McKeown Mining Pty Limited was engaged to design both a small scale mining operation on the Nickel Reward resource and to undertake additional shallow drilling necessary to confirm the resource.

4. FUTURE PLANS

The North Cuni, Genets and Nickel Reward drilling programs are due for completion by end April 2004 at a cost of approximately \$100,000.

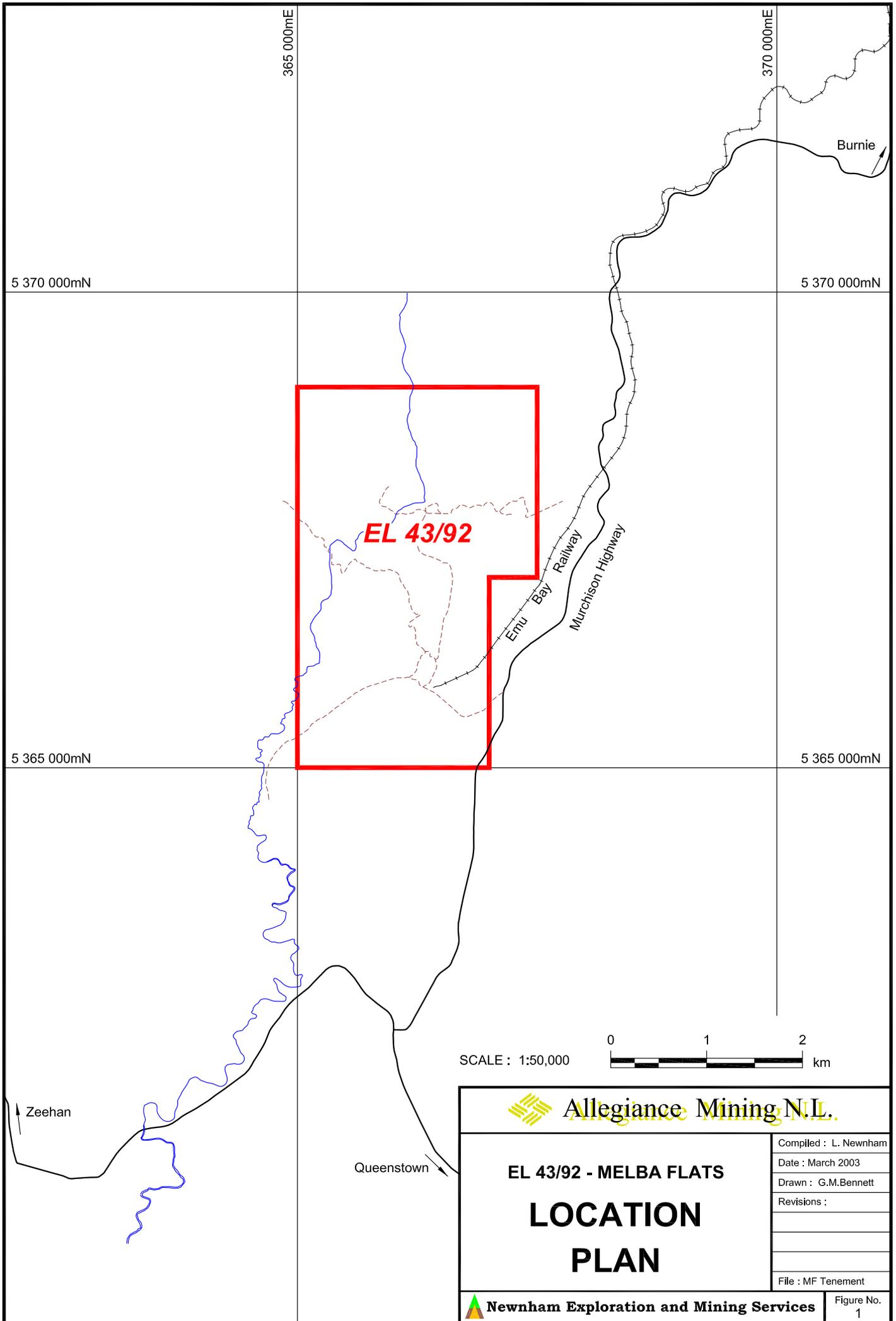
Mine planning at Nickel Reward and North Cuni-Genets and treatment negotiations at Hellyer are scheduled for completion by end June 2004.

Total expenditure for EL 43/1992 for the year ending 19 April 2004 is estimated at \$120,000.

If, following this work, development is considered commercially viable, a permitting process will be immediately commenced and should be completed by end 2004. This process will involve application for a mining lease and preparation of a DPEMP to facilitate development.

Expenditure during 2004-2005 on EL 43/1992 (or a subsequent Mining Lease) is estimated as \$150,000-\$200,000.

.....



SCALE : 1:50,000



 **Allegiance Mining N.L.**

EL 43/92 - MELBA FLATS

**LOCATION
PLAN**

Compiled : L. Newnham

Date : March 2003

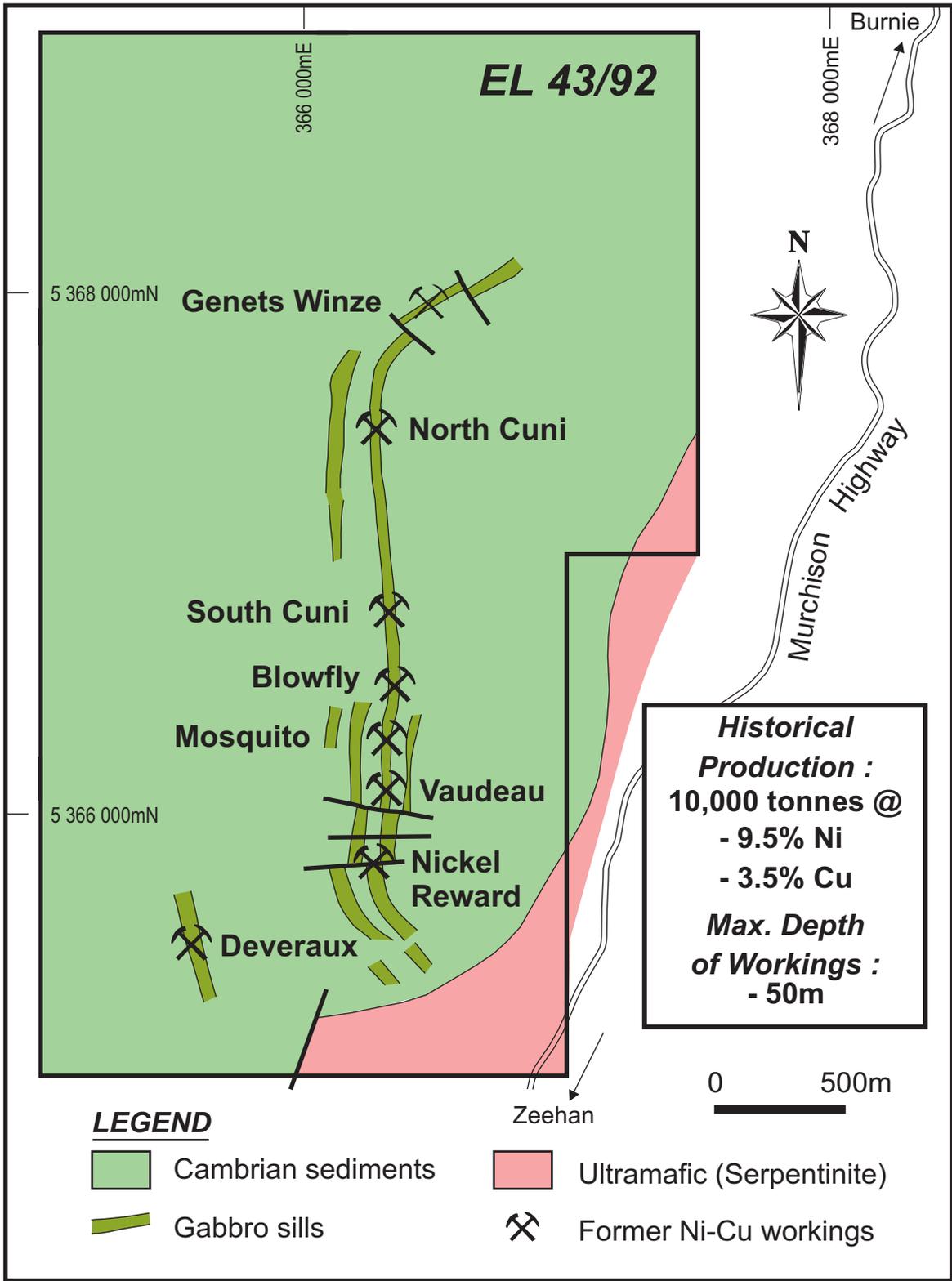
Drawn : G.M.Bennett

Revisions :

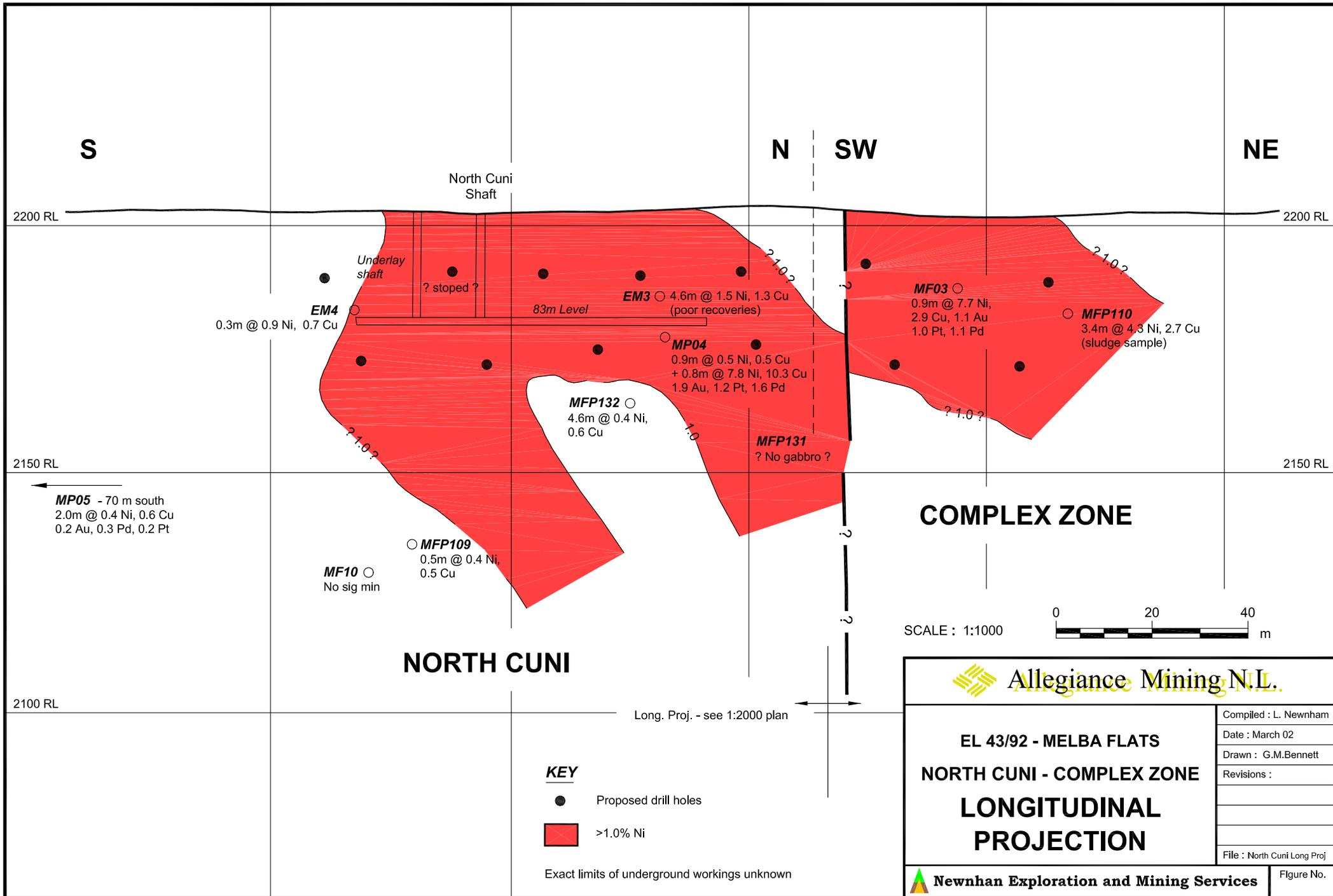
File : MF Tenement

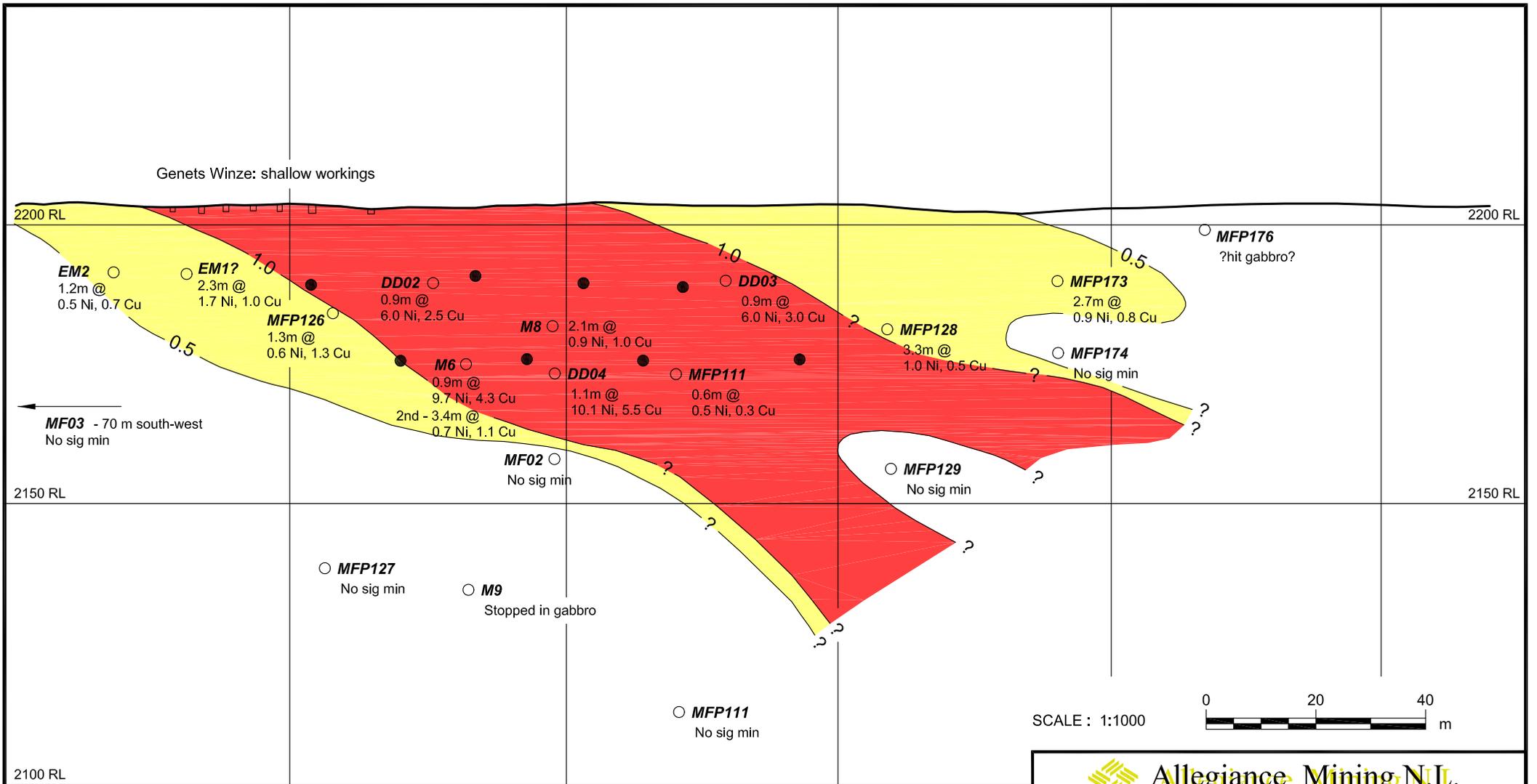
 **Newnham Exploration and Mining Services**

Figure No.
1



Melba Flats - Plan



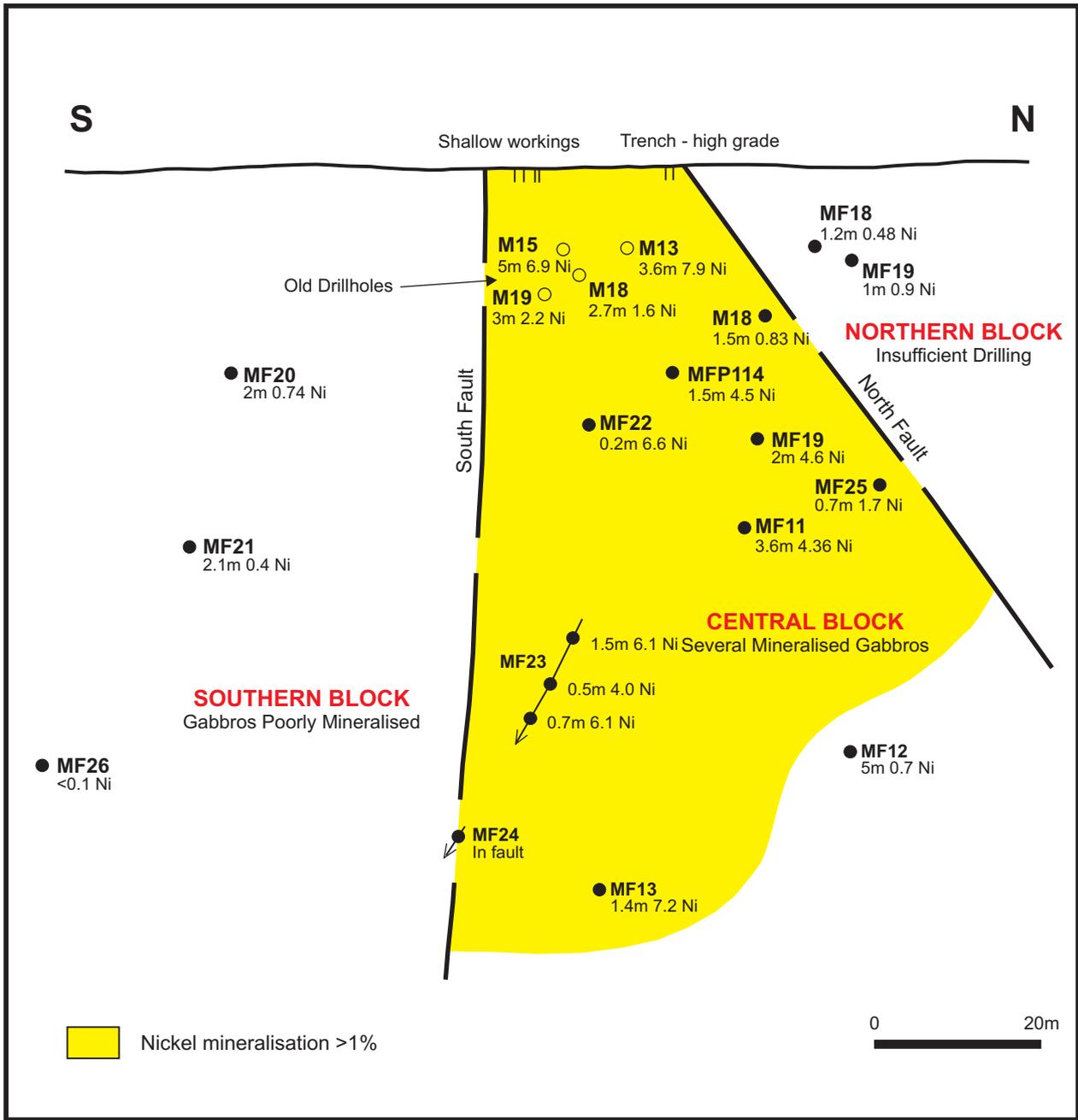


KEY

- Proposed drill holes
- >1.0% Ni
- 0.5 - 1.0% Ni

Longitudinal projection looking NW

EL 43/92 - MELBA FLATS GENETS WINZE LONGITUDINAL PROJECTION	
	Compiled : L. Newnham Date : March 02 Drawn : G.M.Bennett Revisions : File : Genets Long Proj
Newnhan Exploration and Mining Services	Figure No.



Melba Project - Nickel Reward Longitudinal Projection