

Allstate

ALLSTATE EXPLORATIONS NL
Subject to Deed of Company Arrangement

EL 20/94 SALISBURY HILL ANNUAL REPORT

2005



Middle Arm Gorge

P.B. Hills
OCTOBER 2005

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1.0 SUMMARY

EL 20/94 lies south along stratigraphic strike from the BMJV's Beaconsfield Gold Mine, a mesothermal quartz + ankerite + gold reef with a pre-mining resource of 2Moz.

The licence was established in 1994 to facilitate exploration for similar mesothermal style gold mineralisation in the surrounding district. Exploration activity has included a broad programme of gridding, soil sampling, rock sampling and mapping over the entire tenement with additional focus paid to areas of historical workings, particularly the Salisbury Gold Field at the southern end of Salisbury Hill.

Application was made to the Registrar of Mine by letter dated 6th October 2004 for an Extension of Term of Exploration Licence to allow work at the Salisbury Gold Field to be completed and to allow work previously considered for Middle Arm Gorge to take place. The application sought an extension of term over 11km² of the remaining 21km² Exploration Licence. Subsequently, a proposal for Exploration dated 1st December 2004 was submitted for consideration. A relinquishment report was requested for the portion not being retained, and this document was subsequently submitted in February 2005 (Hills, 2005).

Verbal advice that the extension had been approved was received in April 2005, and written notification that the licence had been extended for a period of 2 years from the original expiry date to 28th October 2006 by the Minister for Infrastructure, Energy and Resources dated 24th May 2005, was received subsequently.

The current report has been prepared to meet the requirements for annual reporting of exploration activities. As advised in the Proposal for Exploration referred to above, work during the past year has been solely directed towards obtaining the extension of tenure, negotiating an agreement with Tasmanian Electro Metallurgical Company P/L (TEMCO) for access to their adjoining mining lease 14M/1994, and securing a drilling contractor to undertake the physical work. At the time of writing, negotiations with TEMCO were nearing completion and a drill rig had been secured to commence work in early November 2005.

2.0 INTRODUCTION

2.1 LOCATION AND ACCESS

The remaining portion of EL 20/94 lies immediately south of the township of Beaconsfield in northern Tasmania and covers the strike extension of the Cabbage Tree Slice of Cambro-Ordovician sediments, host stratigraphy of the Beaconsfield Gold Mine, along Salisbury Hill. The location of the licence is illustrated in figure 1.

2.2 TENURE

The licence was granted to Allstate Prospecting Pty Ltd on behalf of the Beaconsfield Mine Joint Venture, operators of the Beaconsfield Gold Mine. The original licence covered 45 skm of which slightly more than 5 skm was excluded by pre-existing mining leases. The licence was reduced to approximately 21 skm to meet a requirement for 50% relinquishment as at 28th October, 1999. The licence was due for final relinquishment on 28th October 2004, however an extension of tenure over approximately 11 skm was granted to allow planned exploration to be completed over a period of 2 years. It was planned that most work would occur during the second year. The remainder of the licence is now due for relinquishment on 28th October 2006.

2.3 TOPOGRAPHY, VEGETATION AND LAND USE

The topography is generally undulating lowlands dominated by the strike ridge of Salisbury Hill which rises to a height of 200m ASL.

The lowlands portion of the licence is developed for agricultural purposes, predominantly grazing, while the remainder is used for forestry.

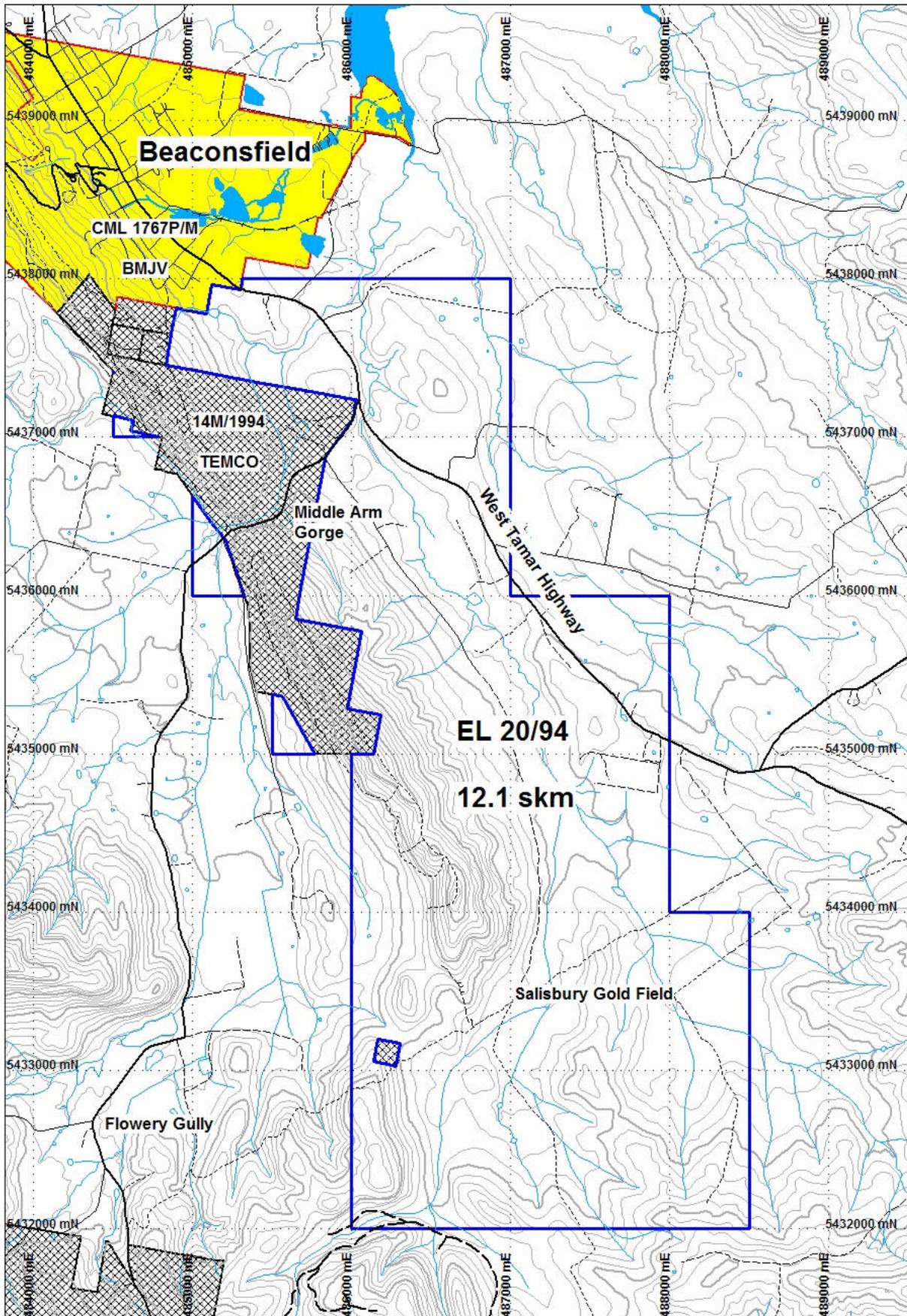


Figure 1. EL 20/94 Salisbury Hill – Locality Plan.

3.0 EXPLORATION PHILOSOPHY

Principally, the BMJV is exploring for sediment hosted mesothermal gold mineralisation. Empirically, the target model is based upon the developing understanding of the 2Moz Tasmania Reef. The latter is a northeast striking mesothermal quartz + ankerite + sulphide (pyrite + arsenopyrite > chalcopyrite + sphalerite + galena) reef hosted within the Salisbury Hill and Eaglehawk Gully Formations of the Denison Group in the Cabbage Tree Thrust slice of the Beaconsfield Block.

A detailed description of the geology pertaining to the Tasmania Reef is contained in Hills, et al. (2001).

4.0 PREVIOUS EXPLORATION

The area of EL 20/94 has been the subject of several geological investigations and limited exploration programmes over the past 35 years. However, little if any of the work occurred over the portions of the licence being relinquished.

Modern exploration for gold commenced in the early 1970's when the Mines Department drilled two diamond drill holes to test for reported nickel in inaccessible old workings on the historical Salisbury Gold Field. In the early 1980's AMAX carried out a programme of soil sampling, mapping and ground magnetics over the Salisbury Hill prospect as well as detailed mapping and channel sampling of some of the old workings at Salisbury Hill (Poltock, 1980; Hamlyn, 1982).

Further soil sampling and diamond drilling was carried out at the Salisbury Hill prospect by Goldfields Exploration Limited (Pease, 1984).

In 1988 a small programme of costeaning and RAB drilling was carried out again at the Salisbury Hill prospect (Stacpoole and Miedecke, 1988).

More regionally focused stream sediment sampling, mapping and an aeromagnetics survey was completed in the late 1980's by Beaconsfield Gold Mines Limited (Hicks, 1989).

Work on the current licence EL 20/94 has been ongoing over the past 10 years. After a literature review and limited reconnaissance work in the first 2 years of the licence (McKeown, 1995; Hills, 1996), more intensive exploration commenced in 1997 with a high definition ground magnetics survey over the Salisbury Hill prospect. This was followed by reconnaissance scale soil sampling along ridge tops in the region (Hills, 1997). Regional mapping and rock sampling was the focus of the BMJV's exploration of the licence in 1997/98 (MacDonald, 1998) and detailed grid based soil sampling and geological mapping of second priority outcropping palaeozoic geology occurred in 1998/99 and 1999/2000 (MacDonald, 1999; 2000).

A mid-term relinquishment report was completed by Hills & MacDonald (1999).

Allstate Explorations NL, Manager of the Beaconsfield Mine Joint Venture, went into Voluntary Administration in June 2001, and shortly thereafter, junior Joint Venture Partner Beaconsfield Gold NL appointed a Receiver. These events effectively curtailed exploration expenditure by the BMJV. However, in November 2002, an Exploration Agreement was signed with Diamond Ventures NL which allowed exploration to recommence to the account of Diamond Ventures NL. Exploration success was to result in Diamond Ventures NL recouping its exploration expenditure and earning a royalty from subsequent production. Resource sovereignty was to remain with the BMJV.

Work by Diamond Ventures NL saw all regional grid based soil sampling completed over EL 20/94 (Bucknell, 2003) together with targeted percussion and diamond drilling in several areas (Bucknell & Morrison, 2003a; 2003b; Morrison, 2004).

In addition to the exploration activities summarised above, work completed during the period of tenure has contributed significantly to the geological understanding of the district generally, and culminated in collaborative work with Mineral Resources Tasmania to reproduce the Beaconsfield 1:25,000 map sheet (Reed, *et al.*, 2001).

5.0 GEOLOGY

5.1 GEOLOGY

The geology of EL 20/94 has previously been described in various company reports, the most significant of which are those by Poltock (1980), Hamlyn (1982), Pease (1984), Hicks (1989), Hills (1997), Hills & MacDonald (1999), MacDonald (1998; 1999; 2000), Bucknell (2003), Bucknell & Morrison 2003a; 2003b), Morrison (2004) and Hills (2005). The area straddles the boundary between the Beaconsfield (Gee and Legge, 1971) and Frankford (Gulline and Naqvi, 1973) 1 mile series map sheets with discussion in the Explanatory Notes accompanying each of these map sheets by Gee and Legge (1979) and Gulline (1981) respectively. No new work was undertaken during the past year, and consequently the detailed geology has not been reiterated.

The regional geology is described in some detail by MacDonald *et al.*, (2001).

The outcropping geology is illustrated in figure 2 with a stratigraphic column for the pre-Permian stratigraphy focusing on the detailed stratigraphy of the Denison Group and based on the Tasmanian Geological Atlas provided in figure 3.

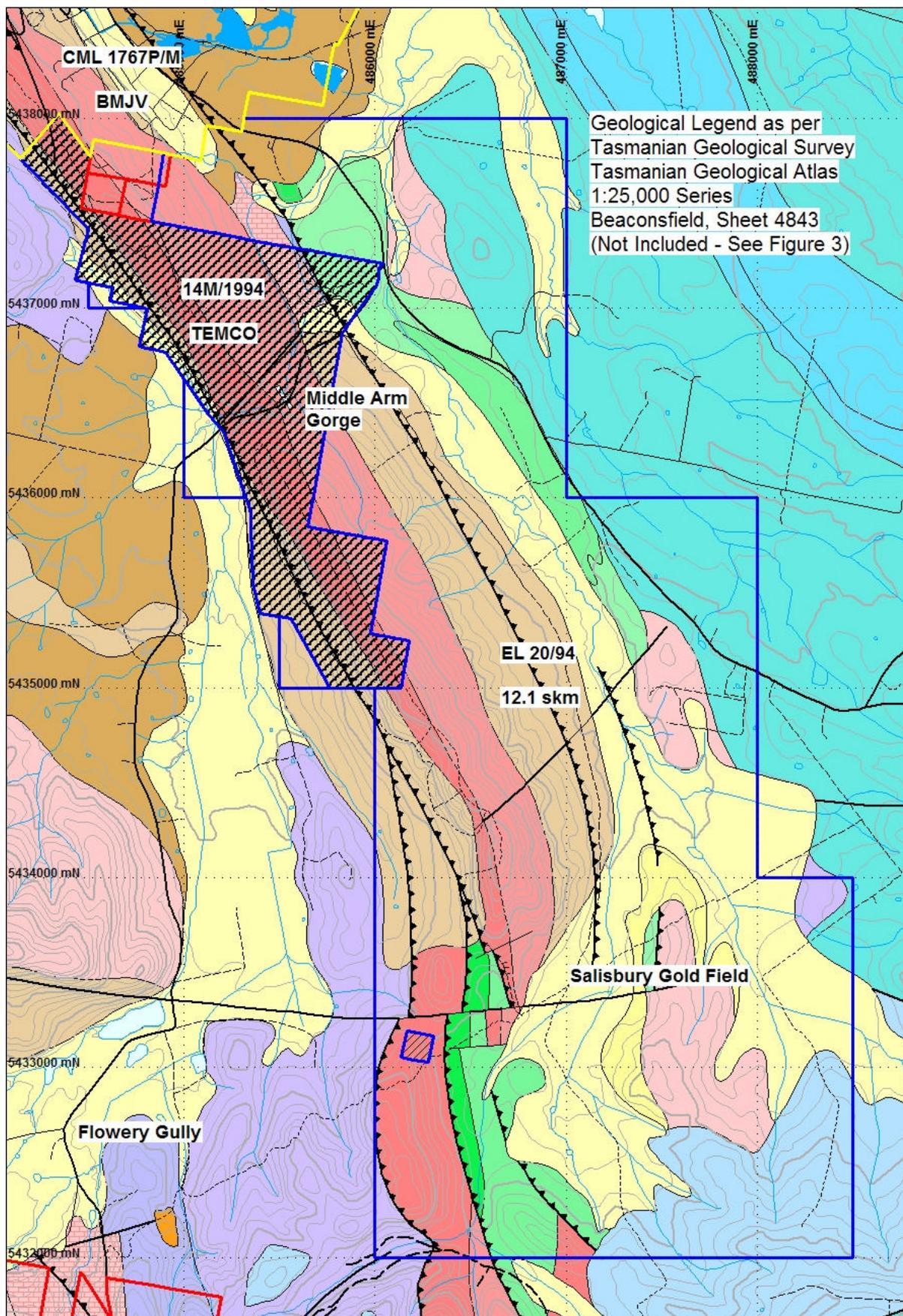


Figure 2. Geological Map of the Flowery Gully Area EL 20/94.

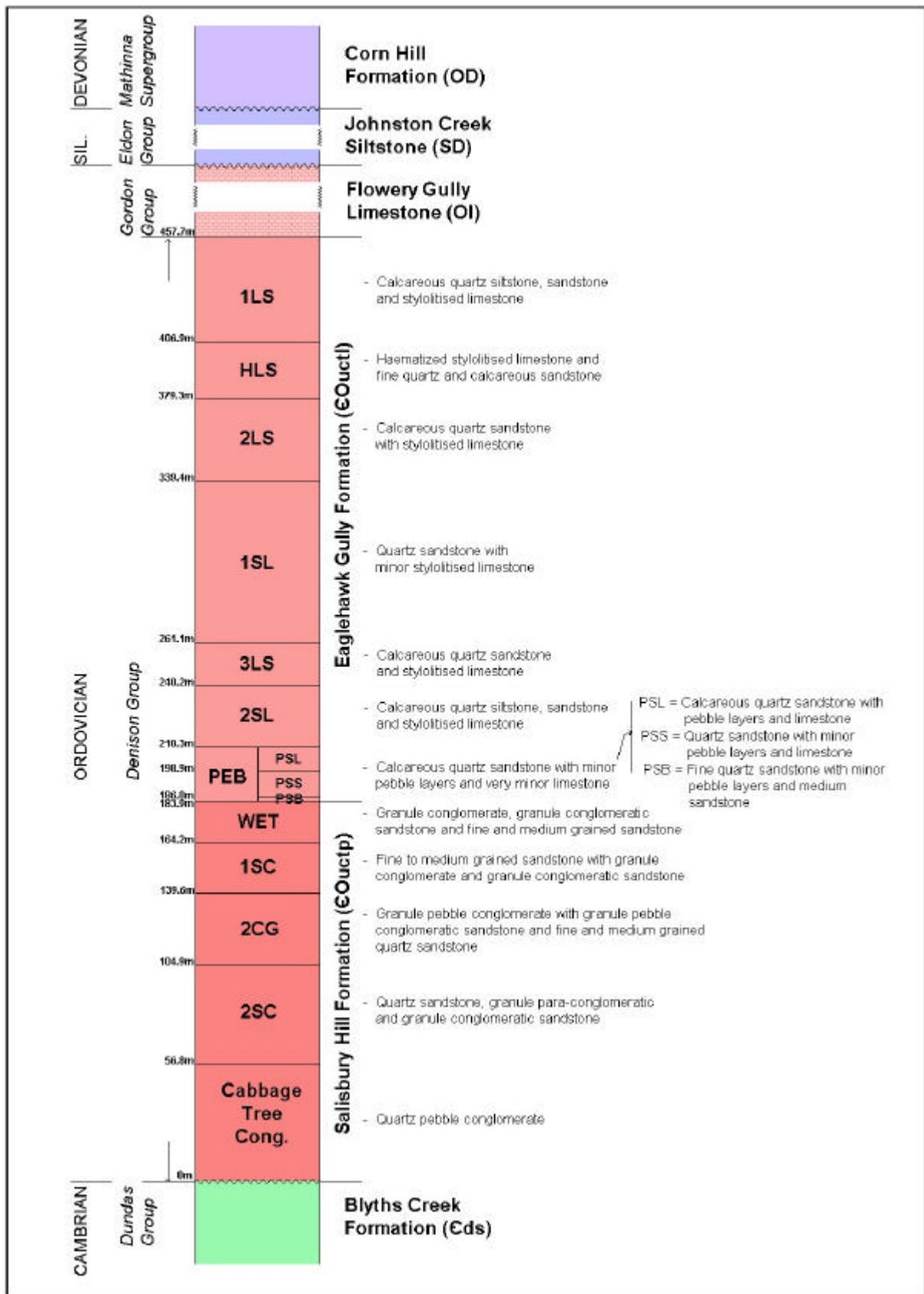


Figure 3. Pre-Permian Stratigraphic Column for the Beaconsfield Area.

5.2 MINERALISATION

Regionally the most significant gold deposit is the Tasmania Reef. The Tasmania Reef is a quartz + ankerite + gold + arsenic + chalcopyrite + sphalerite + minor galena reef of mesothermal style. The reef is approximately 320-350 metres long and averages 2.5 metres in width (Hills, 1998; Hills *et al.*, 2001). It is analogous in many ways to mesothermal slate belt deposits in northeastern Tasmania, Victoria and elsewhere in the world. The main difference is the actual host rocks themselves, which in the case of the Tasmania Reef, are the Denison Group siliciclastics.

Exploration throughout EL 20/94 has targeted this style of mineralisation.

6.0 WORK COMPLETED AND PLANNED

The work programme proposed for the retained portion of EL 20/94 was outlined in a letter to Dr Geoff Green, Managing Geologist, Mineral Resources Tasmania, dated 1st December 2004, and remains essentially unchanged. A copy of the letter is appended. Granting of the extension of tenure of the licence occurred later than anticipated. However, correspondence with TEMCO regarding access to their mining lease 14M/1994 commenced informally in March 2005 and was followed by letter dated 20th April 2005. A copy of that letter is also appended.

At the time of writing, negotiations with TEMCO were nearing completion. A diamond drilling rig has been sourced, and it is anticipated that drilling the Middle Arm Gorge prospect will commence in November 2005. This date is within a month of that predicted in the December 2004 proposal.

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BEACONSFIELD MINE JOINT VENTURE



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1st December 2004
Dr Geoff Green
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Attn Mr David Green

Dear Dr Green

PROPOSAL FOR EXPLORATION EL 20/94

Further to a telephone conversation with Mr David Green of MRT on 18th November 2004, the purpose of this letter is to outline the BMJV strategy for exploration of EL 20/94 should our application for an extension of tenure over an 11km² portion of the 21km² tenement be successful.

History

Prior to the JV Partners going into Administration in June 2001, BMJV had been actively exploring the tenement from the grass roots level. Work to that time had focused on the interpretation of aerial magnetic data, completion of a ground magnetic survey over the Salisbury Prospect, commencement of grid based soil geochemistry, geological mapping, lithogeochemical sampling and establishment of a database, some petrological and palaeontological studies. Detailed investigation including mapping and sampling of historical working, particularly in the vicinity of the Salisbury Prospect, but also at Eaglehawk Gully also occurred. Details of the work are covered in the various Annual Reports as well as in the data that was provided to MRT to assist with the publication of the Beaconsfield 1:25,000 digital map sheet in 2001.

There was a focus leading towards the 5th anniversary of the tenement in 1999 to delineate those areas which would be compulsorily relinquished as per the previous Act.

Expenditure to the end of year 6 totaled \$385,207.10 and was in excess of the statutory commitment at that time by \$148,457.10.

Diamond Ventures NL Agreement

Once the project was placed in Administration in June 2001, exploration, as a non-key function in-so-far as maintaining the immediate future of the Project was concerned, ceased. However, the stakeholders at the time recognised the potential of the tenements, and sought ways to see exploration continue without impacting on the day-to-day cash flow. Discussions with Diamond Ventures NL

BEACONSFIELD MINE JOINT VENTURE

(DDV) saw the establishment of an Exploration Agreement (EA), which was executed on 7th November 2002. The EA required DDV to commit \$350,000 per annum on the combined BMJV tenements to earn an 8% Royalty on production from any discovery made. The EA operated for a period of 2 years, during which time DDV spent in the order of \$500,000 on the combined tenements. Of this total, \$312,512.50 is recorded as expenditure against EL 20/94, bringing total expenditure to date to \$697,719.60.

As at 8th November 2004, DDV had failed to maintain expenditure at the level required under the EA. As a consequence, the EA has now lapsed. BMJV is applying for an extension of tenure over a portion of the tenement (as illustrated in Figure 1 below) for a period of 2 years to allow for further expenditure in the vicinity of \$350,000 to complete the exploration programme that it commenced.

Future Work

It is the belief of the BMJV that two significant targets on the tenement remain incompletely tested. The first of these is Middle Arm Gorge. Middle Arm Gorge was reputedly the site of alluvial gold discovery up to 20 years prior to the discovery of the Tasmania Reef. The gorge itself is aligned parallel to the Tasmania Reef and presents as an ideal target for investigation. A number of historical workings in the gorge and nearby Eaglehawk Gully attest to long held interest in the area. However, during the tenure of EL 20/94, access to this target area has been restricted due to the coincidence of Mining Lease 14M/1994 held by Tasmanian Electro Metallurgical Company P/L (TEMCO) for the extraction of quartzite.

Prior to Administration, BMJV had sought permission from TEMCO to gain access to 14M/1994 for the purpose of mapping and minor geochemical sampling of a regional reconnaissance nature. BMJV remains keen to investigate the potential of the Middle Arm Gorge target. However, doing so will require the negotiation of an acceptable agreement with TEMCO to provide right of access and guarantee of sovereignty over any discovery, prior to work commencing.

The Salisbury prospect is the second target which the BMJV still wishes to pursue. The area at the southern end of Salisbury Hill was a recognised mining field in the late 1800's. Extensive workings remain. Geochemical sampling has found the prospect to be anomalous for gold, and it was the site of the majority of the work on the tenement complete by DDV. The principle target of recent activity has been the Johnson Creek Fault, and despite the efforts of DDV over the past 2 years BMJV remains of the opinion that the potential of that target has not been fully tested.

The sites of interest to BMJV are illustrated in figure 1 below.

Work Programme

Most effort will be focused on the Middle Arm Gorge target. An initial programme of 4 x 500m diamond drill holes is proposed to investigate the potential of a Tasmania Reef style target aligned more-or-less parallel to, and possibly obscured by, Middle Arm Creek. Recent work by Beaconsfield Gold NL on its tenement to the east of EL 20/94 provides a degree of encouragement for this target beyond the preliminary reconnaissance work which BMJV has undertaken (Morrison & Muir, 2004). Holes will be drilled toward the northwest from sites south of Flowery Gully Road. All holes will be angled at approximately 40° with the aim of covering the maximum territory. The programme will be similar in scope to a previous programme at Pease Creek (Hills & MacDonald, 1999). The tentative location of the holes is illustrated in figure 2 below.

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Some 2000m of drilling at \$110.00 per metre is budgeted at \$220,000. Support services including site preparation, assay costs, geology, survey etc. are budgeted at 25% of the drilling cost, \$55,000.

A total of \$10,000 is allowed for fees associated with negotiating an access agreement with TEMCO.

A single 300m diamond drill hole is planned to further test the Johnson Creek Fault zone at the Salisbury prospect. BMJV does not necessarily concur with the model proposed by Morrison (2004) for mineralisation at the Salisbury prospect following the completion of diamond drill hole BFDD-74 by DDV in July 2004. Specifically, BMJV is not satisfied that the earlier model for the Johnson Creek Fault proposed by Bucknell & Morrison (2003) has been fully tested, and that contrary to the recommendation of Morrison (2004), a twin hole for BFDD-74, originally planned to be drilled from south to north, is indeed required. BMJV maintains that if the Model of Bucknell & Morrison (2003) is correct, and that if BFDD-74 is projected onto the section included as Figure 3 in that report, then the hole would not have reached the target position of the Johnson Creek Fault. The proposed hole is illustrated in figures 3 and 4 below.

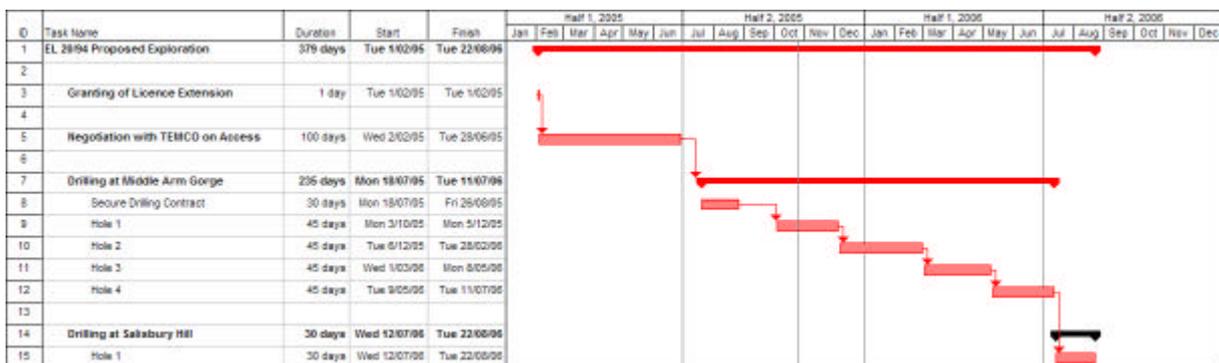
Drilling is budgeted to cost \$33,000 with a further \$8,000 for support.

A contingency fee for the exploration programme of 7% or \$24,000 will cover management, reporting, statutory fees etc. for a total budget of \$350,000 for this initial phase of activity. Clearly exploration success will dictate further expenditure.

Timeline

The BMJV proposes to conduct the drilling programme sequentially. In part, this is because logistical issues such as drill rig and drilling crew availability are currently at a premium within the industry. Securing quality equipment and personnel requires a significant continuous work programme, and that programme needs to be booked well in advance.

Clearly however, the first priority is to secure an agreement with TEMCO to allow the proposed work at Middle Arm Gorge to proceed. For the purposes of this proposal, it has been assumed that the licence extension will be ratified by MRT by 1st February 2005. A period of 5 months (100 business days) has been allowed for the negotiation process with TEMCO, with the expectation that work on the ground could be commenced by October 2005 once a contractor has been secured. The following chart illustrates an expected timeline for the completion of the proposed drilling on the basis that drilling would proceed on a single shift 5 day week and be completed by August 2006. The drilling rate is estimated with reference a previous similar hole completed at Pease Creek (Hills & MacDonald, 1999).



Following the completion of drilling, or at any stage during the programme should sufficiently positive results be returned, a decision may be made to commence accelerated activity. A period of 5 months

BEACONSFIELD MINE JOINT VENTURE

will remain to allow further work to be undertaken if necessary. Alternatively, BMJV will relinquish the tenement early if it is deemed at any time that there is no further prospect of immediate success. BMJV adopted this approach when it relinquished EL 7/88 after 1 year of a 2 year extension in 1999. No further request for extended tenure in any form will be made without measurable success from the proposed exploration programme.

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Yours Sincerely

Peter Hills
Chief Geologist

BEACONSFIELD MINE JOINT VENTURE

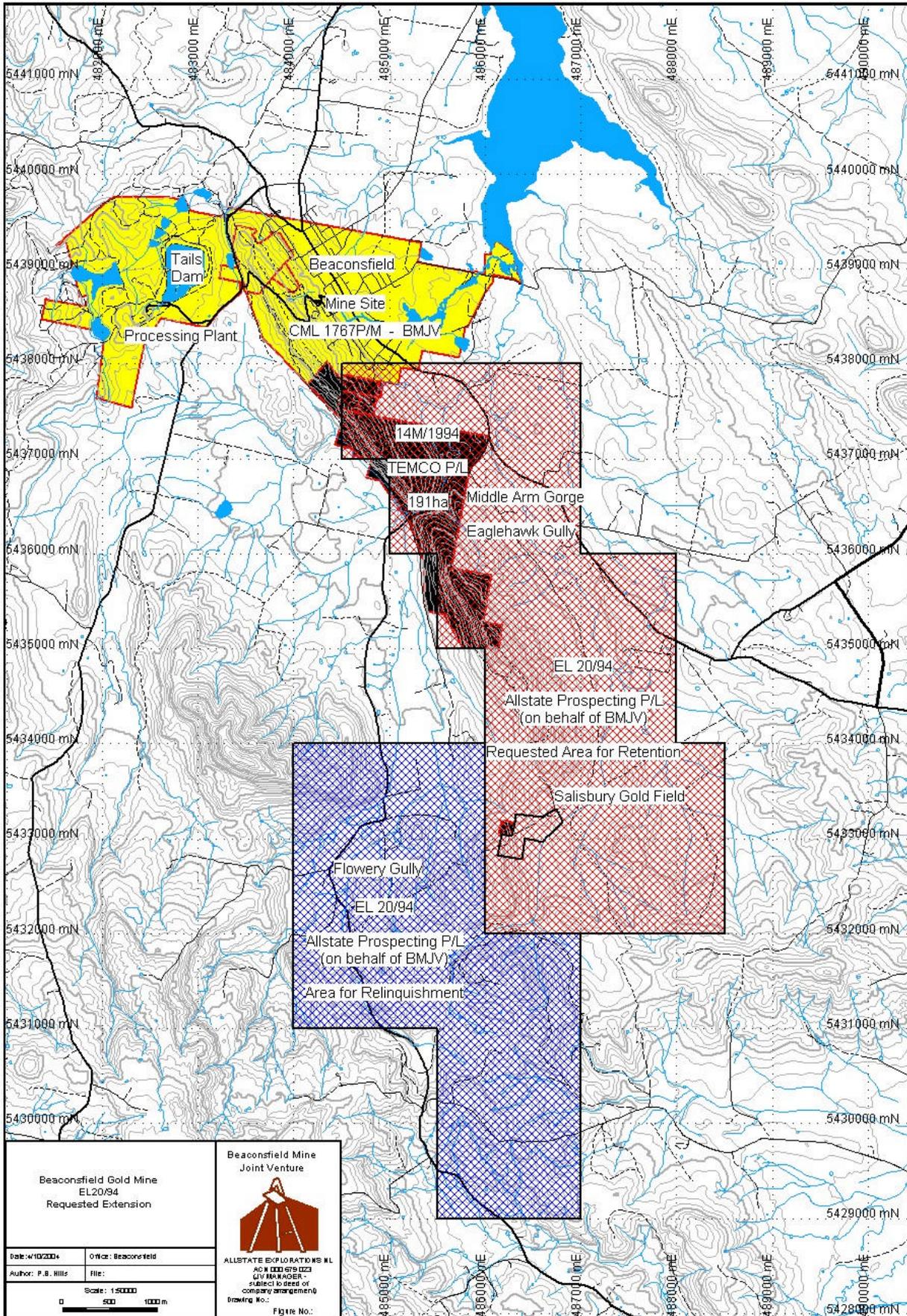


Figure 1. General layout EL 20/94.

BEACONSFIELD MINE JOINT VENTURE

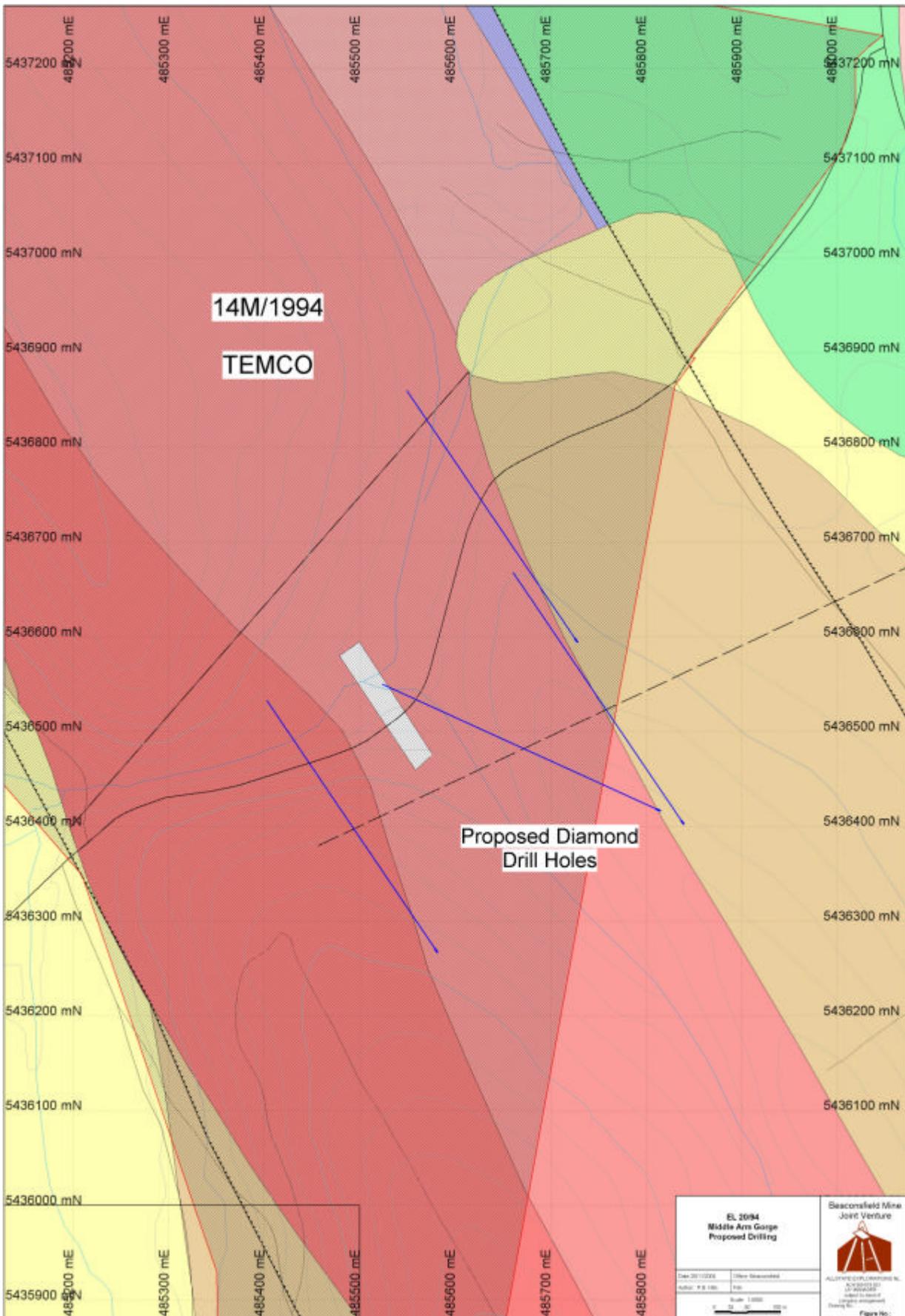


Figure 2. Proposed drilling Middle Arm Gorge.

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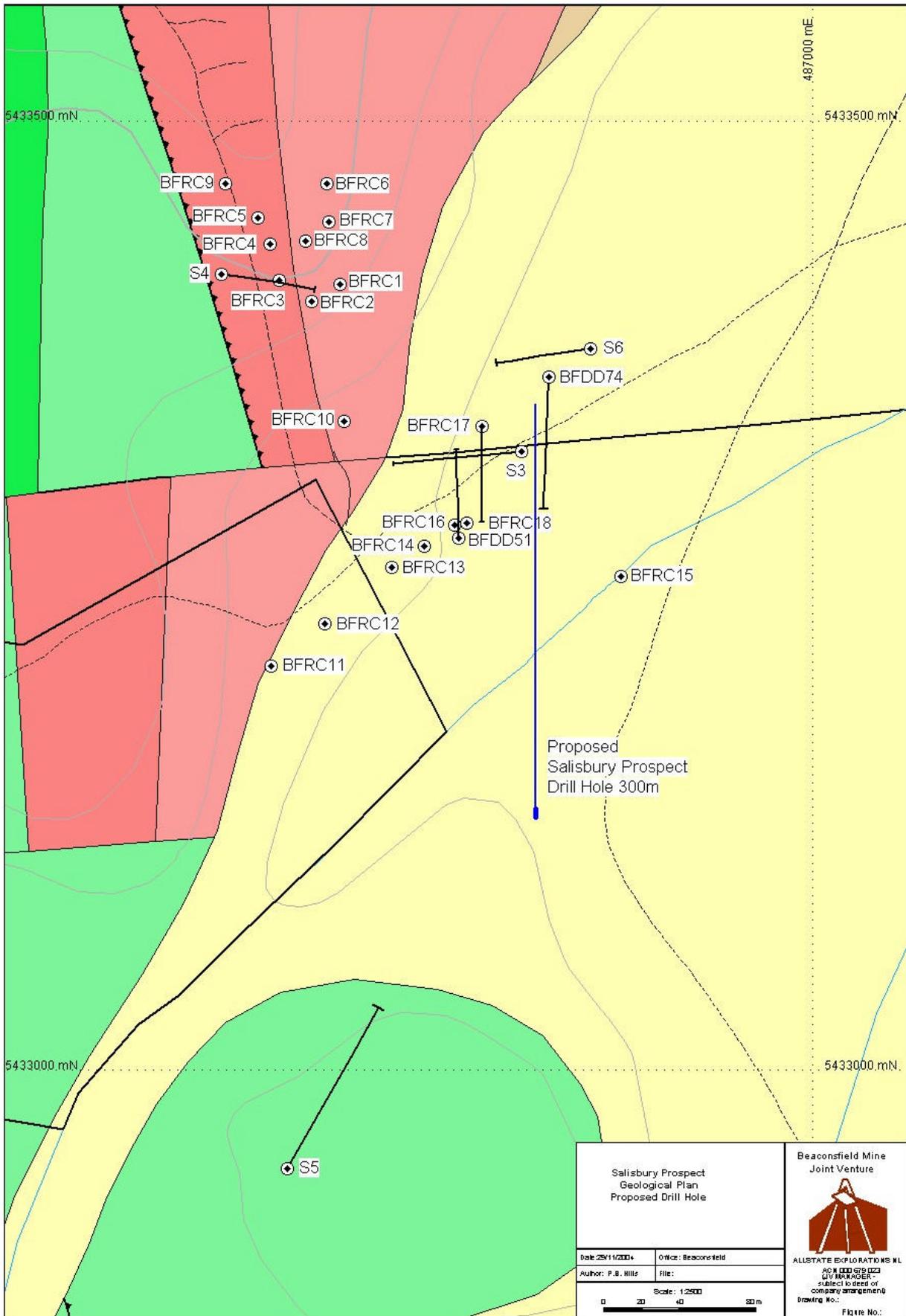


Figure 3. Proposed drilling Salisbury Prospect.

BEACONSFIELD MINE JOINT VENTURE



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20th April 2005

TEMCO

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Attn Mr Shane Filgate

Dear Mr Filgate

Exploration – Middle Arm Gorge

Further to our recent telephone conversation and correspondence between our respective managers Matthew Gill and Greg Hannan, I am writing to outline what we would like to do in respect of exploration at Middle Arm Gorge near Beaconsfield.

Background

Allstate Exploration NL on behalf of the Beaconsfield Mine Joint Venture has held exploration licence EL 20/94 for the past 10 years. The primary target area for exploration in that time has been the historical Salisbury Gold Field at the southern end of Salisbury Hill, although reconnaissance scale work has occurred across the tenement. The tenement was due to expire in 2004, but Allstate Explorations NL has made application to Mineral Resources Tasmania to extend tenure over approximately half the property to allow some final work to be carried out.

Exploration Targets

The existing ore deposit at Beaconsfield, the Tasmania Reef, is the primary model for exploration targets in the district. The Tasmania Reef is essentially a tabular vein quartz orebody averaging around 2.5m thickness which occupies a steeply dipping fault cross-cutting the host stratigraphy from northeast to southwest. Structures which meet this basic criteria have been identified at Pease Creek and North Tasmania, both north of Beaconsfield, and at the Salisbury Gold Field to the south.

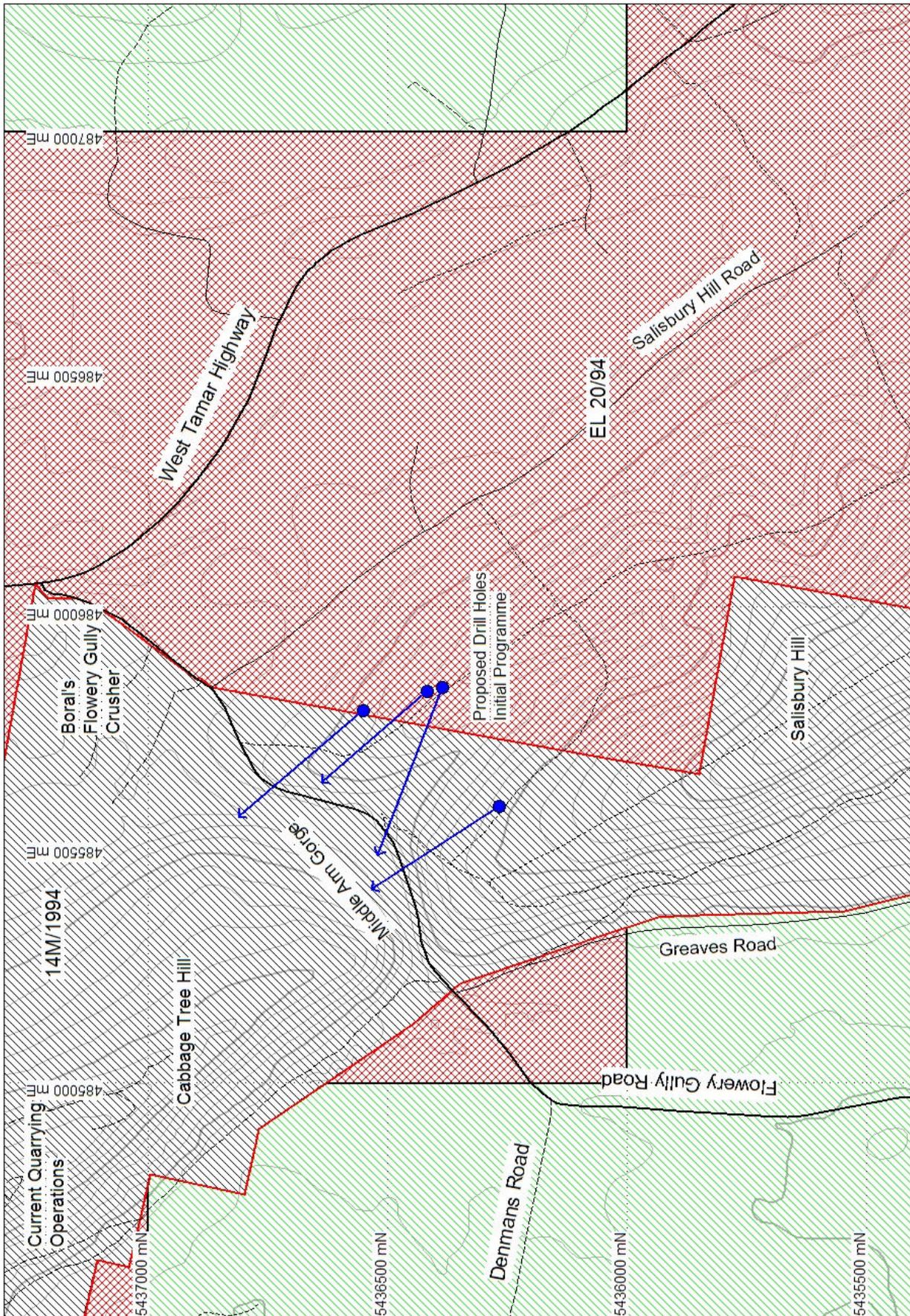
Middle Arm Gorge represents a further parallel feature which warrants investigation. Although mention of alluvial gold in Middle Arm Creek occurs in the historical literature, no modern investigation of Middle Arm Gorge has previously been undertaken. In part, this has been due to the creek itself, but in recent times access to land has been the main detractor.

Tenement Status

Mining Lease 14M/1994 in favour of TEMCO, currently of 191ha, has covered the Middle Arm Gorge area since EL 20/94 was established, and indeed the presence of the mining lease is what

BEACONSFIELD MINE JOINT VENTURE

excludes Middle Arm Gorge from the exploration tenement. The tenement situation is illustrated in following plan.



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Exploration Programme - Impact on TEMCO

The exploration work planned to be undertaken will have no material impact on TEMCO or the activities currently undertaken on TEMCO's mining lease by Boral. Specifically,

- All work will be undertaken on the northern end of Salisbury Hill south of the Flowery Gully Road.
- Initial work will take the form of 4 diamond drill holes drilled in a general northwesterly direction beneath Middle Arm Creek. Indeed 3 of the proposed 4 holes will not be collared on TEMCO land, although all holes will pass into TEMCO land at depth.
- All work will be carried out in accordance with the Tasmanian Exploration Code of Practice published by Mineral Resources Tasmania. All work will be approved by environmental officers from MRT in advance. All access to the worksite will be via existing roads and tracks although some of those may require limited clearing to provide access.
- All sites will be rehabilitated on completion of the work.
- An agreement between the parties will specifically exclude TEMCO and Boral from any liability whatsoever as a result of actions by Allstate Explorations NL or any of its associated entities within the Beaconsfield Mine Joint Venture, or any contractor engaged by it.
- I cannot foresee how the planned activities by Allstate could result in damage to the property of TEMCO or Boral. However, should any damage occur it would of course be to the account of Allstate Explorations NL to remedy.
- In the event that initial exploration is successful, further work will ultimately ensue. In that case, it is most likely that activity will continue to be confined to the northern end of Salisbury Hill south of Flowery Gully Road. Should the exploration ultimately lead to the establishment of a mining operation, a coincident mining lease will need to be established. Advice from the Registrar of Mines indicated that a satisfactory solution will be possible. In any case, there will be no impact placed upon the operation or perceived future operations of TEMCO or Boral. Much of the infrastructure required to be established on surface if mining was ultimately to occur could be placed on BMJV land.

Agreements

Agreements currently exist between Allstate Explorations NL and both TEMCO and Boral in respect of mining leases at Beaconsfield.

In the first instance TEMCO agreed to relinquish a portion of its mining lease 14M/1994 in favour of Allstate with an understanding that TEMCO would retain the right to Quartzite resources within the relinquished portion at any time.

In the latter, Boral allowed BMJV to establish a sublease arrangement over its tenements 14M/60 and 45M/87 while Boral maintained its right to the tenements for the mining of construction materials and for access.

It is anticipated that an agreement to be reached now would be along similar lines in relation to proposed activities by Allstate Explorations NL in Middle Arm Gorge. Such an agreement would outline the arrangements for exploration to be conducted now, as well as provide the basis for the

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establishment of a mining lease by Allstate Explorations NL in the event that exploration was successful. The agreement will provide surety of access to Quartzite resources by TEMCO and Boral which they currently enjoy. I have appended copies of the existing Agreements for your information. Also appended is the relevant section of the BMJV Mining Lease CML 1767P/M on which I have highlighted the references to the areas of mutual interest.

Yours Sincerely

Peter Hills
Chief Geologist