

ZZ EXPLORATION_{Pty Ltd}

**PO Box 1603
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**Zeehan Mineral Field
Exploration Licence 18-2003
Annual Report For Period Ending
January 2006**

Prepared by
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March 2006



Oaths Act 2001
Statutory Declaration

I,

.....

.....

(name, address and occupation)

do solemnly and sincerely declare that

.....

.....

.....

.....

.....

.....

(facts)

I make this solemn declaration under the *Oaths Act 2001*.

Declared at.....

(place)

on

(date)

.....

(signature)

Before me

.....

*(Justice, Commissioner for Declarations
or authorised person)*

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Summary

Potential exists for the discovery of new economic metallic deposits within EL 18/2003 plus the opportunity to extract and process minerals from existing deposits with known resources. ZZ Exploration will focus on finding small (<0.5Mt) to large-scale (>100Mt) economic resources based on testing of previously identified and potential anomalies.

Exploration completed on EL 18/2003 during the period February 2005 to January 2006 include a) collation and review of pre-existing datasets, b) creation of a base-metal priority target definition map, c) Review and Valuation of the Mineral Assets, and d) Business Plan.

ZZ Exploration aim to be one of the leading mineral explorers in the Zeehan area and explore EL18/2003 for Category 1, 3, 4, and 5, mineral resources for its Zeehan Zinc Gravity Separation Plant located at the Comstock Mine adjacent to Trial Harbour Road.

Introduction

Exploration Licence 18/2003 (EL 18/2003) covers 14 square kilometres located four kilometres southwest from Zeehan, and an additional 2 square kilometres located eight kilometres west from Zeehan, western Tasmania (Figure 1). ZZ Exploration Pty Ltd (ZZ Exploration) is a wholly owned subsidiary of Zeehan Zinc Limited, and holds the exploration rights to EL 18/2003.

This report covers the period from January 2004 to December 2005. Work completed during this period include:

- 1) Collation and partial evaluation of historical data over EL 18/2003
- 2) A summary list of deposits old workings over EL 18/2003.
- 3) Preliminary investigation of geophysical, image, company and map data to determine a) areas of greater significance for future exploration b) prioritise ground held under EL 18/2003 and c) facilitate decisions regarding future possible relinquishments.
- 4) Business Plan Review and updates January 2006
- 5) Review and Valuation of Mineral Assets of Zeehan Zinc Limited

Trial Harbour Road provides access to EL 18/2003.

Vegetation cover is varied over EL 18/2003, dominated by button grass and Western wet scrub.

Location

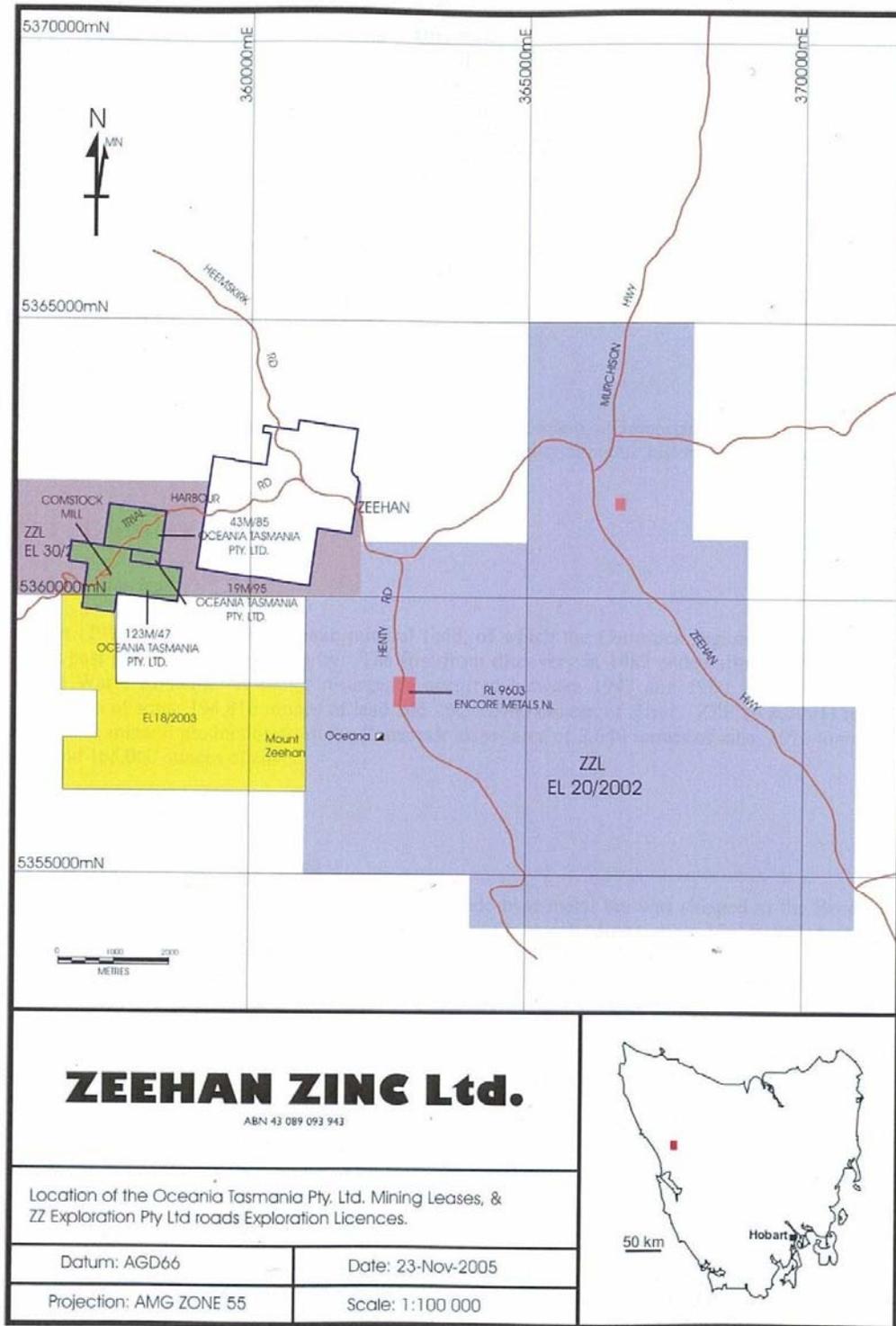


Figure 1. Location of ZZ Exploration Pty Ltd EL18/2003

Tenure

EL 18/2003 was granted and to ZZ Exploration on 3 February 2005 for a period of five years and applies to all Category 1, 3, 4 and 5, minerals. The licence covers 14 square kilometres (Figure 1 and 2). Excluded areas include a) EL 30/2002, b) any land owned or leased by the Commonwealth of Australia, c) mining leases and d) crown reservations *Act 1995*. Refer to Appendix 1 for EL 18/2003 Schedule.

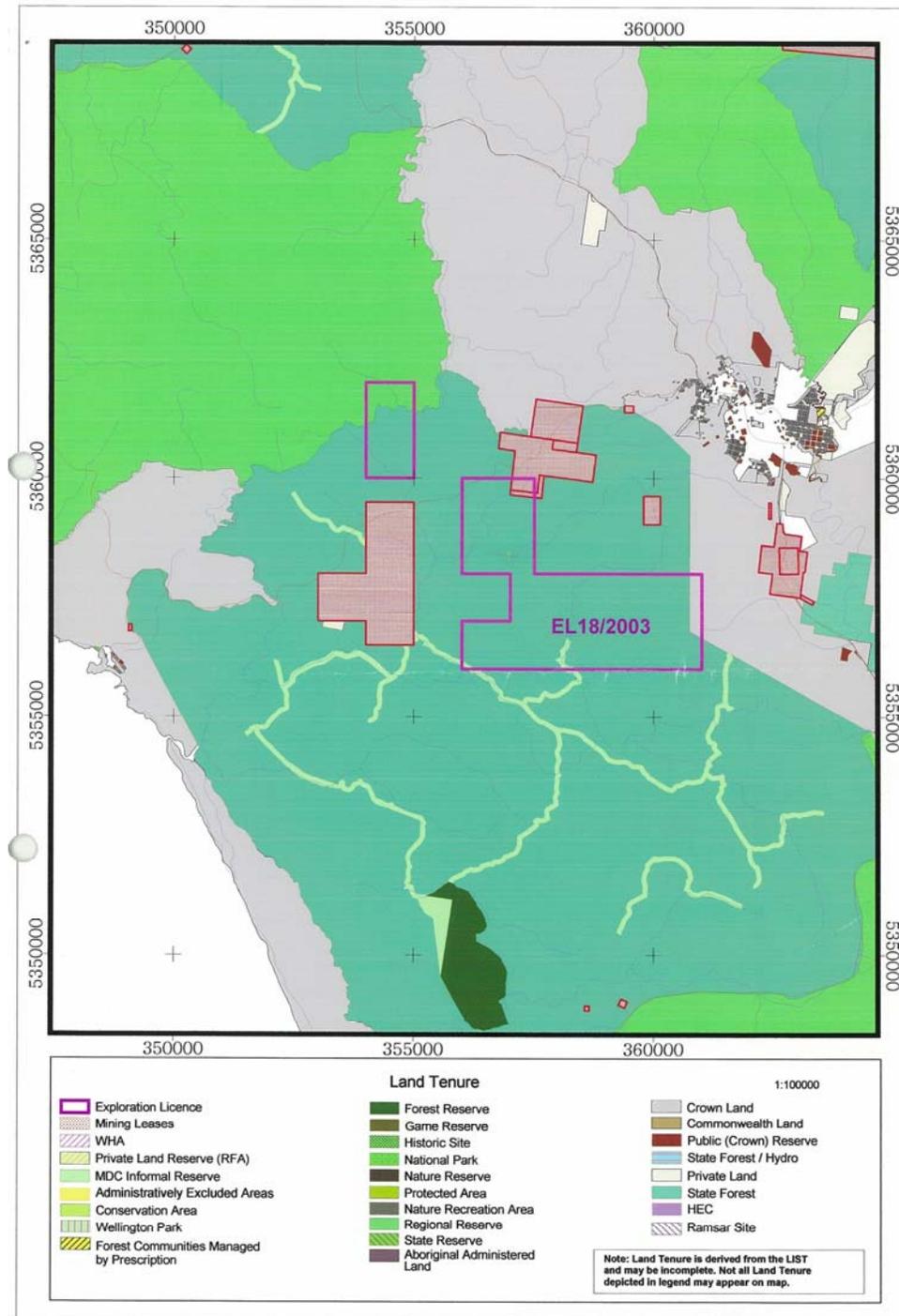


Figure 2. Land Tenure within and around EL18/2003.

Previous Exploration and Mining

A review of previous mining and exploration can be downloaded from the Mineral Resources Tasmania website at www.mrt.tas.gov.au

Geology

Regional Geology

The regional geology of the area has been described in Blissett (1962).

Work Completed (February 2004 – January 2005)

Review

ZZ Exploration has not limited the scope of its exploration program to look only for granite-related or Irish-type deposits and associated metal types. ZZ Exploration has focused on finding small (<0.5Mt) to large scale (>100Mt) economic resources based on the testing of previously identified and potential anomalies. Exploration activities previously undertaken within EL 18/2003 include, 1) Collation and partial evaluation of historical data over EL 18/2003, 2) A summary list of deposits old workings over EL 18/2003 3) Preliminary investigation of geophysical, image, company and map data to determine a) areas of greater significance for future exploration b) prioritise ground held under EL 18/2003 and c) facilitate decisions regarding future possible relinquishments, 3) Review and Valuation of the Mineral Assets of Zeehan Zinc Limited, 4) Business Plan Update 2006.

Regional exploration activities

ZZ Exploration's objective has been to collate and enter geological information from various reports/drill logs into one comprehensive database to enhance the prospectivity of deposits for commercial extraction. This includes reviewing known old workings, prospects and deposits that occur within EL 18/2003 (Appendix 2).

Prospective-based exploration activities

In December 2003, ZZ Exploration commissioned Ochre Australia Pty. Ltd. to complete a Phase 1: 'Image Processing and Target generation' map over EL18/2003 (Appendix 3).

Consultant geophysical review (EL 18/2002)

Phase 1 includes:

Characterising available datasets, including geophysical satellite, topographic and report data.

- a) Preliminary processing of main datasets including, where available, magnetics, radiometrics, gravity and EM
- b) Comparison with mapped geology and geological trend
- c) Preliminary target definition
- d) Summary report

*Below are some target concepts sought by ZZ Exploration:

Target concepts for Devonian granite-related sediment-hosted Zn-Pb-Ag deposits:

- a) Carbonate-replacement associated with extensions of known structures (e.g. Sylvester, Balstrup, Bendall's and the Tenth Legion Faults) as well as other structures active during the Tabberabberan Orogeny and/or associated with Devonian granite emplacement (e.g. Balstrup Massive Sulfide Body and Bendall's Sulfide Body).

- b) High-grade mineralised linkage structures associated with tensional opening between major faults (e.g. Allison's Lode).
- c) Zn-Pb-Ag sulfide replacement of Upper Oonah Formation carbonates at lithological and sheared lithological contacts (e.g. Main Lode and Hooke's Lode).
- d) Stratabound Zn-Pb-Ag sulfide replacement of Upper Oonah Formation carbonates (e.g. Boss Lode).
- e) Known Zn-Pb-Ag lodes and Upper Oonah Formation carbonates extending from the Comstock Mining Leases.
- f) Outcropping Fe-stones along strike from, and similar to those within the Comstock Mining Leases.

Target concepts for Ni-enrichment associated with Devonian granite-related hydrothermal fluids interacting with Cambrian Mafic-Ultramafic Complexes:

- a) Granite-related magnetite-pentlandite enrichment associated with lithological/faulted contacts between Mafic-Ultramafic Complexes and Oonah Formation carbonates, carbonaceous shale, siltstones and sandstone.
- b) Pyrrhotite-pentlandite deposits hosted by Oonah Formation sediments proximal to Mafic-Ultramafic Complexes.
- c) Massive pyrrhotite-pentlandite deposits proximal to Mafic-Ultramafic Complexes and associated with magnetite-serpentine skarn localised (at depth) along major structures.

Target concepts for Ordovician carbonate-hosted Pb-Zn-Ag deposits within concealed Gordon Group Limestone (\pm correlates) and overlying sediments:

- a) Syngenetic (?) stratiform carbonate-replacement in the middle portion of the Gordon Limestone.
- b) Epigenetic (?) submarine gravitational debris flow breccias related to coeval tectonism (Pre-Tabberabberan) at the margins of the depositional basin.
- c) Pre-Tabberabberan listric roll-overs or domal structures.
- d) Structurally controlled vein or breccia zones in sediments overlying the Gordon Limestone.

Proposed work - Recommendations

During 2005, ZZ Exploration has focused its effort on reviewing potential mineral deposits within EL 18/2003 (Appendix 2). Investigations have established priority areas (Appendix 3) and potential deposits, (Silver Duke, Unnamed Nickel) within EL 18/2003, which could contribute resources to the nearby Zeehan Zinc Gravity Separation Plant.

ZZ Exploration intends to carry out exploration for all category 1, 3, 4 and 5 category minerals over EL 18/2003. Several short-term targets have been prioritised which include:

- 1) Location of old mines within EL18/2003 and grab sampling and/or costeaning of shallow targets around these old workings.
- 2) Grab sampling and mapping of rock types surrounding geophysical anomalies.
- 3) Geochemical analysis of potential shallow targets

Environmental disturbance and rehabilitation

Exploration over EL18/2003 was environmentally low impact due to the existence of numerous sealed and unsealed roads and tracks. ZZ Exploration is confident that the experience of developing the Comstock Mine will greatly assist in exploring the potential of EL18/2003 and that any future developments will be carried out in an environmentally sensitive, responsible and competent manner.

Conclusion

Potential exists for the discovery of new economic metallic deposits within EL18/2003 plus the opportunity to extract and process minerals from existing deposits with known resources.

Expenditure

Table 1. Expenditure - January 2004 to December 2005

Expenditure Statement	Q1	Q2	Q3	Q4	Total
Geology	1,200.00	1,200.00	1,200.00	6,600.00	10,200.00
Geochemistry					-
Geophysics - air					-
Geophysics - ground					-
Feasibility studies				2,272.72	2,272.72
Rehabilitation					-
Drilling (metres)					-
Gridding (line km)					-
Administration					-
Other					-
Total	1,200.00	1,200.00	1,200.00	8,872.72	\$ 12,472.72

References

Blisset, A.H. 1962. Geology of the Zeehan sheet, 1- mile Geological Map Series K/55-5-50, Explanatory Report, Geological Survey of Tasmania.

Ochre Australia., 2003. Investigation of geophysical and image data over the Zeehan field. Unpublished. *In*: Heath, P., 2003. 2003 annual exploration report, ZZ Exploration Pty Ltd. Appendix 4.

List of Appendices

- Appendix 1** Schedule from Exploration Licence 18/2003.
- Appendix 2** Location of Deposits within EL18/2003 (MIRLOCH mineral locations).
- Appendix 3** Ochre Australia., 2003. Investigation of geophysical and image data over the Zeehan field. Unpublished Report.
- Appendix 4** Anderson and Schwab Review and Valuation of Mineral Assets of Zeehan Zinc Limited, Dec, 2005.
- Appendix 5** Zeehan Zinc Business Plan January 2005, Update of Financial Aspects
- Appendix 6** Zinc Prices (London Metal Exchange) – Jan 01, 2005 to 23 March, 2006
Lead Prices (London Metal Exchange) – Jan 01, 2005 to 23 March, 2006
Silver Prices (London Fix) - Jan 01, 2005 to 23 March, 2006