Saracen Metals Pty Limited

Exploration Licence 47/2003 - Tullah

Annual Report

Year ending 11 June 2006

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All coordinates are AMG in AGD66 Zone 55

1 Introduction

This report summarizes the activities of Saracen Metals Pty Limited (Saracen or the Company) on EL 47/2003 – Tullah during the year ending 11 June 2006.

Work during the year focused on the definition and diamond drilling of targets at the Sterling Gold Prospect (formerly known as the Lakeside Deposit), south of Tullah, as well as at the New North Mount Farrell historic workings. The latter was done as part of a Scoping Study (still in progress) involving testing of water samples from the min shaft as a possible precursor to dewatering for underground access purposes.

However, attempts to secure a suitable drilling contractor were met with difficulty due to tightness in the market in Tasmania. Accordingly, the Company's programmes were delayed significantly, and while work programmes were accelerated during the current year in Tullah EL47/2003, the Company's programmes in neighbouring Mt Block EL48/2003 were affected adversely.

The Company's tenement holdings are shown in Figure 1.

Much of this report is based on the findings of Andrew Habets and Bruce Pertzel, Consulting Geologists, who implemented and supervised the exploration program on behalf of Saracen.

2 Sterling Gold Prospect

Previous Work

At the Hudson Zone a persistent envelope of alteration (chlorite-tourmaline) within the volcanogenic sediments of the Farrell Group encloses significant sulphide associated gold mineralisation. Mineralisation has been intersected in drill holes, drilled by previous explorers (including EZ and Pasminco), over a strike length of some 300 metres and to a depth of 236 metres below surface.

The Hudson Zone gold mineralisation bears a strong spatial relationship, and probably a generic relationship, with the Henty Fault, a major and persistent structure in the region. The gold mineralisation has potential for associated silver, arsenic and tin mineralisation.

The gold mineralisation in the Hudson Zone is situated in the footwall of the Henty Fault within 50 metres of the interpreted fault plane.

At the Hart Zone, 1000 metres to the south, gold mineralisation occurs in association with sulphide zones, dominated by arsenopyrite, hosted by the Mount Black Volcanics. Gold also occurs in sulphide-poor zones. Mineralisation has been intersected in drill holes, drilled by previous explorers, over a strike length of 200 metres and to a depth of 250 metres below the surface.

The gold mineralisation in the Hart Zone is situated in the hanging wall of the interpreted Henty Fault position. The gold mineralisation at Hart Zone occurs in several discrete zones that appear to be parallel to the Henty Fault and offset by cross faulting.

Figure 3 shows the previous drilling in the Sterling Gold Project area.

Saracen Work Program

A total of 833.4 metres of diamond drilling, in five holes, were been completed in the September 2005 quarter at the Sterling Valley. The holes were designed to obtain contemporary information on the tenor of gold mineralization in an alteration envelope within Farrell Group sediments, adjacent to the Henty Fault. (Figure 4)

Another objective of this drilling program was to obtain optimal sampling information of the gold mineralisation. This was achieved by using triple-tube diamond drill coring methods in HQ and NQ core sizes where possible. Optimum sampling of the gold mineralisation in new drill holes was considered an essential pre-requisite to any authoritative assessment of the gold potential of the Sterling Valley Project area.

Other objectives of the program were:

- To replicate an intercept of the gold mineralisation intercepted in the previous EZ drill hole STP212 (drilled in 1979) situated in the centre of the Hudson Zone. This was achieved by drill Hole SVDD001A.

- To test for the presence of high-grade gold mineralised shoots within the alteration envelope at the Hudson Zone. This was achieved by drill hole SVDD002.

- To test the Henty Fault Zone north of the Hart Zone in the vicinity of previous drill holes STP232A and STP232A-1. These holes did not adequately test the gold mineralisation potential of the Farrell Group sediments immediately east of the Henty Fault. This was achieved by drill hole SVDD003A.

- To obtain a reliable estimate of the gold content of the arsenopyrite-rich sulphide zones at the Hart Zone. Drill holes SVDD004 and SVD005 were designed to achieve this objective.

- To generate exploration vectors for use in better assessing the gold mineralisation potential, in the optimum position along the Henty Fault Zone, in the area between the Hudson and Hart Zones, where gold mineralisation is likely to be best developed.

The table below summarizes drilling progress achieved.

Hole No.	Location	Prospect	From (m)	To (m)	Total (m)	Comment
SVDD001:	Sterling Valley	Hudson	0	51.3	51.3	Abandoned
SVDD001A:	Sterling Valley	Hudson	18.4	231.1	212.7	Continuation of SVDD01
SVDD002:	Sterling Valley	Hudson	0	340.0	340.0	
SVDD003:	Sterling Valley	Hart	0	65.0	65	Abandoned
SVDD003A:	Sterling Valley	Hart	0	146.0	146.0	Re-drill of SVDD03

Drill core was processed in the following manner.

- Core recoveries were checked against driller's log.
- Core was marked up with metre depths written on core, after reassembly, in chinagraph pencil.
- Core was photographed in controlled conditions at the company's core processing facility in Rosebery.
- Core was logged.
- Selected intervals were marked for sampling.
- Selected sample intervals were sawn by diamond core saw and the half core is bagged for sample dispatch.
- Samples of half core were sent to Burnie Research Laboratories, Burnie, for preparation and analysis.

Drill hole logs are contained in Appendix I.

Results and Discussion

Drill Hole SVDD001A in the centre of the Hudson Zone intercepted 3.25 metres with an average gold content of 1.04 g/t and confirms the tenor of the mineralization at this position in the Hudson Zone. This is in accord with the result achieved by Pasminco's 1997 reverse circulation drilling at shallower depth in the central portion of the Hudson Zone. The nearest hole LSRC4 returned an intercept of 3 metres containing an average of 1.3 g/t Au.

Drill Hole SVDD003A at the northern end of the Hart Zone intercepted 2.0 metres (estimated true width 1.0m) with an average gold content of 2.05 g/t. This intercept is adjacent to an arsenic-rich zone that contains no detectable gold hosted in the footwall of the Henty Fault, in the Farrell Group sediments and indicates a southwards extension of the Hudson Zone style gold mineralization. The result for SVDD003A indicates a southwards extension of the Hudson Zone style of gold mineralization, ie hosted in the Farrell Group sediments in the footwall of the Henty Fault. It is adjacent to a narrow arsenopyrite-rich zone that contains no detectable gold mineralization.

Drill holes SVDD001 and SVDD003 were abandoned short of target depths. Drill holes SVDD001A and SVDD003A are the respective continuations of these holes to target depths.

A third hole, SVDD002, designed to test the existence of an high-grade shoot of gold mineralization at the northern end of the Hudson Zone encountered a similar zone of mineralization to that intercepted in SVDD001A. The core from SVDD002 indicates that the sulphide-mineralised zone intersected in the target position appears similar to that intersected in SVDD001A.

3 The Mount Farrell Deposits

Previous Work and Historical Information

The deposits of North Mount Farrell and New North Mount Farrell (NNFM), as well as the older Mackintosh set of workings, are located just outside the township of Tullah (previously called Farrell prior to 1905) (see Figure 2).

The North Mount Farrell and NNFM mines have produced a total of 715,200t at 12.4% Pb and 408g/t Ag between the period of 1899 to 1974 (Electrolytic Zinc Company (EZ) internal report May 1985). Zinc was either not excavated during that time or if it was it was brought to the surface as blended ore, it was used as backfill (Jim Powell -Tullah resident, personal communication, & EZ internal report May 1985). Old records show that the town, before the road was pushed through in the mid 1960's, was supported solely by the mine (North Farrell then the New North Farrell) which produced an average of 5 tons of high grade concentrate per day, with a mining cut of 9 inches thickness. These records also show very high concentrations of silver (logbooks held by Les Johnson – Tullah resident).

Geology

Documentation of the geology, as well as surveying, of the underground Farrell workings is sparse. Discussions with two former miners (Jim Powell and Les Johnson) who worked in the New North Farrell Mine (NNFM) revealed that little testing ahead of and within the developments was conducted. Miners tended to work along productive horizons and simply "follow ore" (Jim Powell personal communication 2006). Some short horizontal diamond drill holes tested the immediate working environment.

The only known testing to advance ore reserves was by:

- EZ who carried out vertical to subvertical underground exploration below level 9 at the New North Farrell Mine, before the mine was allowed to be flooded,
- EZ who drilled three deep surface diamond drill holes from two pads between 1965 and 1967, and
- Pasminco, who carried out a set of shallow surface diamond drill holes between 1995 and 1996 to delineate an open-pittable lead-silver-rich resource.

Lead/silver-rich ore is generally associated with a persistent zone of shearing, structures that provided pathways for mineralisation. This zone of shearing is

observed within pyritic black shales and crystalline grey tuffs. Little documentation has been sighted for descriptions of mineralisation outside the Farrell Slates / Shales (see discussion below). Farrell Group Sediments (FGS) are overlain by porphyritic volcanics (generally andesite). These volcanics (the Central Volcanic Sequence – CVC) host minor veins of galena.

Base-metal sulphides are developed within a distinctly cream coloured carbonate-rich (ankerite or siderite) vein system. Consultant petrologist P Ashley has interpreted this system as follows: It …. "... *represents a veined and brecciated, low grade metamorphosed and deformed black shale. Rocks have been recrystallised into a quartz-sericite assemblage, with minor graphitic material and disseminated pyrite. Veining, grading into brecciation, has occurred, with early infill by fine to medium grained quartz plus carbonate, with local pyrite aggregates and a little biotite-chlorite, followed by the main infill of medium to coarse grained carbonate, with minor quartz and a little biotite-chlorite and pyrite, and followed by late quartz-rich veining. The last veining has "epithermal" textures. Carbonate may be ankerite or siderite."* (Appendix 4 Report Number 133835).

Saracen Work Program

At New North Mount Farrell a program of eight diamond drill holes was completed. These were designed to principally intercept ore blocks as previously defined by EZ in the NNMF Mine, to test for possible depth extensions to these blocks, to gain a better understanding of the geology and nature of the base-metal mineralisation, and to incorporate the data into a three dimensional model of the existing workings.

A total of 2450 metres of core was drilled over 146 shifts between 7 September 2005 and 10 April 2006. A total of 185 drill core samples were cut and sent for analysis.

Sampling and Quality Control

Experienced contractors prepared drill core at a facility in Rosebery rented by Saracen. Core was orientated, measured for recovery and logged for lithology, mineralogy and structure. Sampling took place at zones specified by a geologist supervising the programme. A maximum sample distance of 1.5m was used, with a more general distance of 0.5 – 1.0m adopted. Half core was cut using a diamond saw, samples were dispatched immediately to Burnie Research Laboratory (BRL).

The analytical techniques adopted by BRL is summarised below:

SAMPLE PREPARATION

- Oven Dry
- Jaw crush entire sample
- Riffle split 1kg, nominally no less than 1/16th of original sample
- Pulverise entire split, so that 90% passes 200 mesh
- Take 2 x 200g splits from pulverised material
- Store one 200g split for future reference
- Store residues until further notice

ANALYSIS:

- Pb, Zn, Ag, Fe, Cu, Au - acid dissolution, AAS from 50g sample charge

Gold content was determined by fire assay for samples from drill holes FDD02 and above. Samples from FDD01 were analysed using both acid dissolution/AAS and fire assay.

At least one standard was included in each sample batch. Standard samples were also sent to an alternate laboratory for cross checking. Replicate analyses of 1 in 10 duplicates were conducted by BRL and selected quarter-core or duplicate pulverised pulps were subjected to check assaying by both BRL and an alternate laboratory.

Results and Discussion

Drill logs are shown in Appendix 2. Drill sections are shown in Appendix 3. Four key points become apparent from the eight holes drilled into the New North Farrell prospect:

a) Mineralisation in not limited to the shales and slates of the Farrell Group Sediments (FGS). Mineralisation also extends into what has been described as the Mackintosh Tuff (MCT). Ashley in petrology report number 133913 (Appendix 4) describes this formation as follows:

"a former porphyritic felsic volcanic rock (e.g. tuff) or derived clastic sedimentary rock (epiclastic with relict quartz and plagioclase grains) that has undergone rather strong deformation and recrystallisation. The rock is now a fine grained quartz-sericite-albite-carbonate schist, with minor chlorite and pyrite, with some preservation of original phenocrystal grains of quartz and altered plagioclase." (Appendix 4)

The MCT has been intersected in the following holes (where it is mineralised to some degree):

- FDD05 between 196.6 and 209.8 metres
- FDD07 at 483.75 metres
- FDD03 at 246.4 metres

This tuffaceous schist has not previously been recognised as containing ore bearing material in the environs of the NNFM. Structures observed in core suggests that it is likely to be a manifestation of a continuous geologic event that the path of mineralisation crosses, rather than a wedge or unconformity of the overlying volcanic sequence (CVC). Further study is required to clarify its setting.

b) Zinc and copper mineralisation appears to predominate over lead and silver at depth. This is most evident in the deeper holes drilled on the southern edge of the NNFM area but is less obvious in the northern deep holes (FDD02).

Examples occur in the following holes:

- FDD06 between 363.0 and 365.0 metres
- FDD07 between 377.7 and 379.0 metres

Tables of relative metal ratios are presented in Appendix 3b. Further scrutiny is required to understand if apparent metal zonation is a local or regional phenomenon.

c) The footwall of the ore lode in the most southern block drilled, appears to be truncated by a substantial fault with associated fault breccia and clay pug. This fault carries significant water, as discovered during drilling, and confirmed by miners who worked that particular area. This region carried significant combined metal grades of over 8% and was intersected at two levels. The geologic setting of this ore shoot (which returned the highest grade intersection of the drill programme) and its position (between the NNFM and the earlier North Mount Farrell Mine) presents opportunities for discovering larger shoots and continuations of existing shoots in untested ground to the south.

d) The ore lodes appear to be manifest in a predictable, repeatable pattern along strike and down dip. Discrete markers; Interbed Zone (IZ); Major Fault (referred to as the Henty Fault by previous explorers, but not confirmed in the results of the Saracen drilling program); first appearance of cream-coloured carbonate veining (FCC); and the main lode zones can be used to predict the relative positions of intercepts of mineralisation of both sphalerite and galena, as shown in the table below.

Table 1 Spatial Relationships of Mineralised Intercepts and Geology

Hole Number	Interbed Zone (IZ) Start	Finish	Interval	Major Fault at	Distance Below IZ	1st Q-Carb (FCC) at	Distance below IZ	Lode Zone at	Distance between FCC & Ore
FDD01	150	154	4	157	3	198	44	223	25
FD002	211	223	12	228	5	295	72	314	19
FDD03	163	165	2	174.5	9.5	188.4	23.4	195.9	7.5
FDD04A	208.2	211.1	2.9	214	2.9	254	42.9	340	86
FDD05	124.05	134	9.95	184	50	147.9	13.9	202	54.1
FDD06	278	282	4	366	84	339	57	364	25
FDD07	280	284	4	380	96	358	74	378	20

Measurements are down hole intervals, distances are in metres

Assay Results

A summary of drill hole grade intercepts, sub surface UTM coordinates and comments are shown below. These will be converted to Local Farrell Grid coordinates and included into a three-dimensional computer model to compliment digitised archival material already collected.

Table 2 Mineralised Intercepts – Silver (values above 1 g/t Ag)

Hole ID	Depth From	Depth To	m	Ag g/t			Coord North	Coord East	RL
FDD01	208.00	209.25	1.25	2.00			385928.3	5379551	31.725
FDD01	212.15	226.00	13.85	47.81			385931.3	5379551	28.8422
FDD01	231.00	238.00	7.00	5.86			385944.9	5379551	15.7479
FDD02	287.50	296.30	8.80	3.63			385851.5	5379571	-89.4398
FDD02	305.65	308.38	2.73	1.38			385857.6	5379575	-106.163
FDD02	312.55	322.40	9.85	15.12			385860.1	5379576	-112.416
FDD03	187.85	201.70	13.85	27.61			385894.4	5379546	31.8203
FDD03	222.00	235.90	13.90	6.99			385916.9	5379545	6.15096
FDD03	244.65	246.60	1.95	2.00			385932.3	5379545	-10.4142
FDD03	272.90	274.00	1.10	1.00			385951.9	5379545	-30.7458
FDD03	274.60	275.65	1.05	1.00			385953.1	5379545	-31.965
FDD04A	317.80	325.20	7.40	4.97			385906.6	5379739	-106.123
FDD04A	332.30	335.40	3.10	4.77			385910.7	5379743	-119.317
FDD04A	341.80	351.50	9.70	6.36			385913.6	5379746	-127.944
FDD05	147.60	151.00	3.40	2.65			385958.8	5379666	96.0915
FDD05	157.00	161.00	4.00	2.25			385966.5	5379665	90.7997
FDD05	166.20	170.00	3.80	5.74			385974	5379664	85.6551
FDD05	182.30	210.00	27.70	6.19			385987.1	5379662	76.6521
FDD05	213.00	217.90	4.90	4.18			386012.2	5379657	59.4849
FDD06	133.20	135.00	1.80	39.11			385642.7	5379331	59.3113
FDD06	357.00	367.60	10.60	10.93			385771.9	5379349	-111.516
FDD07	373.80	379.00	5.20	2.98			385759.2	5379343	-148.895
FDD07	400.80	409.00	8.20	1.33			385775.4	5379345	-170.438
FDD07	409.60	411.00	1.40	1.33			385780.7	5379346	-177.426

Ag 1 g/t cut

Table 3 Mineralised Intercepts – Pb, Cu, Fe (values above 0.5% Pb)

Hole	Depth	Depth	m	Pb	Cu	Fe	Coord	Coord	
ID	From	to		%	ppm	%	North	East	RL
FDD02	313.50	315.80	2.30	1.13	176.67	9.11	385860.4	5379576	-113.277
FDD02	320.20	322.40	2.20	2.04	133.33	6.76	385862.9	5379578	-119.349
FDD03	222.00	223.00	1.00	1.18	20.00	3.49	385916.9	5379545	6.15096
FDD05	193.50	195.00	1.50	1.77	65.00	8.09	385996.3	5379660	70.3892
FDD06	133.20	135.00	1.80	1.63	410.00	7.57	385642.7	5379331	59.3113
FDD06	364.00	365.00	1.00	2.10	2250.0	10.82	385777.9	5379349	-115.016

Pb 0.5% cut

Table 4 Mineralised Intercepts – Zn, Cu, Fe (values above 0.5% Zn)

Hole	Depth	Depth	m	Zn %	Cu ppm	Fe %	Coord	Coord	
ID	From	To			ppm	%	North	East	RL
FDD01	223.00	225.00	2.00	0.51	40.00	9.06	385939.1	5379551	21.3052
FDD04A	334.30	335.40	1.10	1.71	145.00	7.71	385911.3	5379744	-121.137
FDD04A	345.10	347.00	1.90	1.45	90.00	7.62	385914.6	5379747	-130.935
FDD06	363.00	365.00	2.00	6.20	2250.00	10.82	385777	5379349	-114.516
FDD07	377.70	379.00	1.30	1.72	960.00	13.45	385761.6	5379344	-152.02

Zn 0.5% cut

Drill holes FDD01 and FDD03 (and possibly FDD02) encountered old mine workings. These are tabulated below.

Table 5 Mineralised Intercepts – Zn, Cu, Fe (values above 0.5% Zn)

Hole Number	Interval From	To	Comment
FDD01	223.40	225.00	CAVITY of 0.30m
FDD01	211.40	215.00	Back fill stope with cavity
FDD02	228.10	229.40	LOST CORE 0.7m Cavity?
FDD03	224.40	225.90	1.5m stope with timber
FDD03	229.60	232.60	0.5m cavity

Generally material from these cavities (back fill) has not been assayed or included in the intersection data. However a representative 100mm pebble of ore material, that was recovered in the back fill from drill hole FDD01, returned assay values of 11.7% Pb and 1.15% Zn and 190g/t Ag (sample number 133829, NNFM - Level 7). This indicates the grades of the ore extracted from the NNFM during previous historic mining.

4 New North Mount Farrell Main Shaft Water Testing Program

As part of the Scoping Study chemical testing of water samples from inside the main old shaft at New North Mount Farrell was undertaken. Coffey Geosciences Pty Ltd did this work. Results and discussion on this work are contained in Appendix 6.

5 Environmental and Rehabilitation

Environmental rehabilitation and site monitoring was carried out during the course of the drilling programme. A geologist was on site for the most part of the programme and regular discussions were held with drill contractors and landowners. Minimal vegetation clearing was required. Sites with existing access were chosen to reduce environmental impact.

Mineral Resources Tasmania personnel (David Gatehouse and John Pemberton on 22 March 2006 and David Gatehouse on 11 November 2005) conducted routine site visits and appraisals during the course of the drilling program.

Recommendations on the Farrell drilling areas and the Sterling Valley drill sites (subject to occupation in an earlier drilling campaign) were made by the MRT and were acted upon by Saracen. All equipment is out of these sites and they have been left in accordance with Environmental Code of Practice 2000. All drill holes have been either filled in or capped with PVC and tagged. Pad locations on private land (pad for FDD01, FDD02, and FDD03 as well pad for FDD06, FDD07 and FDD08) have been cleaned up under the supervision of the landowner and a company representative.

Reports of the environmental clean up and monitoring can be found in Appendix 5.

6 Expenditure

Exploration expenditure for the year totalled $919,795.82. A breakdown of the expenditure is as follows: -

	$
Geology	111,284.80
Geophysics	10,024.12
Drilling	674,098.10
Gridding	-
Administration	86,398.77
Scoping Studies	36,340.03
Rehabilitation	1,650.00
Total	**$919,795.82**

Appendix 1

Drill Logs for Sterling Gold Prospect Drilling

Diamond Drill Holes

SVDD001
SVDD001A
SVDD002
SVDD003
SVDD003A

Appendix 2

Drill Logs for New North Mount Farrell Drilling

Diamond Drill Holes

FDD01
FDD02
FDD03
FDD04
FDD04A
FDD05
FDD06
FDD07

Appendix 3

New North Mount Farrell Diamond Drilling

Cross sections through Diamond Drill Holes

FDD01
FDD02
FDD03
FDD04
FDD04A
FDD05
FDD06
FDD07

Appendix 4

Petrology reports

Appendix 5

Environmental/Rehabilitation Report

Appendix 6

New North Mount Farrell Shaft Water Testing

Appendix 7

Sterling Valley Diamond Drilling

Cross sections through Diamond Drill Holes

SVDD001
SVDD001A
SVDD002
SVDD003
SVDD003A