

ZZ Exploration Pty Ltd

EL 20/2002

ANNUAL REPORT JANUARY 2005 - JUNE 2006

June 2006

Project No. 1416.003

ZZ EXPLORATION



**SCIENTISTS
ENGINEERS
MANAGERS &
FACILITATORS**



PREFACE

LIMITATIONS STATEMENT

This document has been prepared in accordance with the scope of services agreed upon between SEMF Pty Ltd (SEMF) and ZZ Exploration Pty Ltd (the Client). To the best of SEMF's knowledge, the report presented herein represents the Client's intentions at the time of printing of the report. However, the passage of time, manifestation of latent conditions or impacts of future events may result in the actual project and its impact differing from that described in this report.

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DOCUMENT CONTROL

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FOREWORD

Function of the Annual Report

This Annual Report has been prepared as a public document for submission to Mineral Resources Tasmania (MRT). The report provides a summary of the exploration activities undertaken by ZZ Exploration Pty Ltd (ZZ Exploration) over the Exploration Licence EL 20/2002 (EL 20/2002) during January 2005 - December 2005, with current exploration results up to June 2006 also provided.

Role in the Regulation Process

This document fulfils the role of an Annual Report for EL 20/2002 during January 2005 – December 2005, as required under Section 28 of the *Mineral Resources Development Act 1995*, and as requested of ZZ Exploration by Mineral Resources Tasmania (MRT) on the 2nd May, 2006.



EXECUTIVE SUMMARY

ZZ Exploration Pty Ltd (ZZ Exploration) currently hold Exploration Licence EL 20/2002 (EL 20/2002), which contains a number of known mineral deposits and the potential for new economic mineral deposits to be discovered. This document fulfils the role of an Annual Report for the period January 2005 – December 2005, with current exploration results up to June 2006 also provided.

During January 2005 – June 2006, ZZ Exploration have focused on the exploration of small to large-scale (<0.5Mt to >100Mt) economic resources, based on extensive exploration of previously identified mineral deposits. During this, exploration efforts by ZZ Exploration have focussed on the Oceana and Mariposa prospects, located within EL 20/2002. A summary of exploration activities undertaken is presented below.

Regional Exploration

- Gravity Survey – approximately 18 km of on ground gravity surveying, at 25m spacing has been undertaken by Solo Geophysics Pty Ltd under the supervision of David Leaman; and
- Initiation of a study into the possibility of other outcrops (e.g. Gordon Limestone, Onah Formation, Bell Shale) hosting small scale lead-zinc deposits, nickel mineralization (e.g. Avebury of Melba Flats style deposits), and the potential for iron-magnetite resources proximal to the Heemskirk Granite.

Oceana Prospect

- Completion of five costeans along the surface of the Oceana prospect;
- Geochemical analysis of samples taken from the costeans;
- RC drilling of 100m (3 drill holes, ZZE1-3) at the Oceana prospect;
- Geochemical analysis of RC samples collected from ZZE1-3;
- Development of a mine plan, including pit design and mine layout;
- Carrying out a detailed gravity survey over the Oceana prospect;
- Investigations into the geological mode of deposit formation;
- The reinstallation of the original AMOCO grid;
- Detailed GPS surveying of grid pegs and old drillhole collars;
- Collection of rock density measurements from existing drill core, and amassing core photography to assess previous core recoveries;
- An application for a mining lease covering 220ha was submitted to Mineral Resources Tasmania on the 2 March 2005, with an amended application for a Mining lease covering 48ha submitted to Mineral Resources Tasmania on the 28 April 2005;
- Geological interpretation and block model for the Oceana deposit;
- Creation of a geological database for the Oceana prospect;
- Completion of a valuation of the minerals and production assets of the company's Zeehan projects for inclusion in a public document (Anderson & Schwab Australia Limited);
- A JORC Resource Statement for the Oceana lead-zinc deposit. The completed report includes a block model creation (to JORC Standard) based on a proposed open pit operation to a depth of 175m (SMG Consultants Consulting Pty Ltd);



- Completion of a review by Dr John Cottle (Cotlco Pty Ltd) to define a JORC compliant resource estimation and classification over EL 20/2002;
- Flora and fauna survey of the Oceana prospect;
- A survey for Aboriginal heritage at the Oceana prospect, Zeehan;
- Archaeological study of the Oceana prospect;
- Submission and approval of a drilling program;
- Completion of 665.5m of RC drilling of the Oceana deposit within the Indicated Resource area; and
- Initiation of geochemical analysis of 765 samples collected during RC drilling operations.

Mariposa Prospect

- A survey for Aboriginal heritage at the Mariposa prospect;
- Initial flora and fauna survey of the Mariposa prospect;
- Geological interpretation and block model report for the Mariposa prospect;
- Conceptual open pit optimisation of Mariposa West Lode;
- Conceptual underground mine design – Mariposa West Lode;
- Initial archaeological study of the Mariposa prospect;
- Submission and approval of a drilling program;
- Application for a mining lease over the Mariposa prospect;
- The reinstatement of the original 'Local Grid';
- Investigations into the geological mode of deposit formation; and
- Undertaking resource estimation and definition.



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ABBREVIATIONS

Ag	silver
AMOCO	American Oil Company
ANC	Acid Neutralising Capacity
Anderson and Schwab	Anderson and Schwab Australia Ltd
Coffey Geosciences	Coffey Geosciences Pty Ltd
DIER	Department of Infrastructure, Energy, and Resources
DRP	Decommissioning and Rehabilitation Plan
DTAE	Department of Tourism, Arts, and the Environment
gms/cc	grams per cubic centimetre
GPS	Global Positioning System
ha	hectares
JORC	Joint Ore Resource Committee
km	kilometre
m	metre
m ²	square metre
m ³	cubic metre
MRT	Mineral Resources Tasmania
NAG	Net Acid Generation
NAPP	Net Acid Producing Potential
Pb	lead



ppm	parts per million
RL	Relative Level
ROM	Run Of Mine
S	sulphur
SEMF	SEMF Pty Ltd
SMG Consultants	SMG Consultants Pty Ltd
TALSC	Tasmanian Aboriginal Land and Sea Council
TASI	Tasmanian Aboriginal Site Index
Zeehan Zinc	Zeehan Zinc Ltd
ZZ Exploration	ZZ Exploration Ltd
Zn	zinc



1 INTRODUCTION

1.1 PURPOSE OF THIS DOCUMENT

ZZ Exploration Pty Ltd (ZZ Exploration) currently hold Exploration Licence EL 20/2002 (EL 20/2002), which contains a number of known mineral deposits and the potential for new economic mineral deposits to be discovered.

This document fulfils the role of an Annual Report for EL 20/2002 during January 2005 – December 2005, as required under Section 28 of the *Mineral Resources Development Act 1995*, and as requested of ZZ Exploration by Mineral Resources Tasmania (MRT) on the 2nd May, 2006. Current exploration results up to June 2006 are also provided.

1.2 THE PROPONENT

ZZ Exploration is a wholly owned subsidiary of Zeehan Zinc Ltd (Zeehan Zinc). ZZ Exploration currently holds Exploration Licence EL 20/2002, which includes several known mineral deposits, including the Oceana and Mariposa prospects. ZZ Exploration's long term objective is to be one of the leading mineral exploration companies for Category 1 mineral deposits within the Zeehan area.

ZZ Exploration has applied for mining lease 2M/2005 over the Oceana mine, covering approximately 48ha, and for mining lease 4M/2005 over the Mariposa mine, covering approximately 98ha.

Through the continued exploration for mineral deposits, ZZ Exploration aim to provide Zeehan Zinc's gravity separation plant at the Comstock mine with mineral resources for further processing over the medium to long-term period.

1.3 EXPLORATION LICENCE SCHEDULE

Details of EL 20/2002, including grid coordinates, are provided in Appendix A.

1.4 EXPLORATION LICENCE LOCATION AND OPERATIONS

1.4.1 Site Location and Mineral Exploration Area

EL 20/2002 covers approximately 71km², and is located 1km southeast from Zeehan, western Tasmania (Figure 1). The Murchison Hwy, Zeehan Hwy, and Henty Rd provide road access to EL 20/2002. The Emu Bay Railway and the Murchison Hwy connect the township of Zeehan with the Port of Burnie, located approximately 140km to the north.

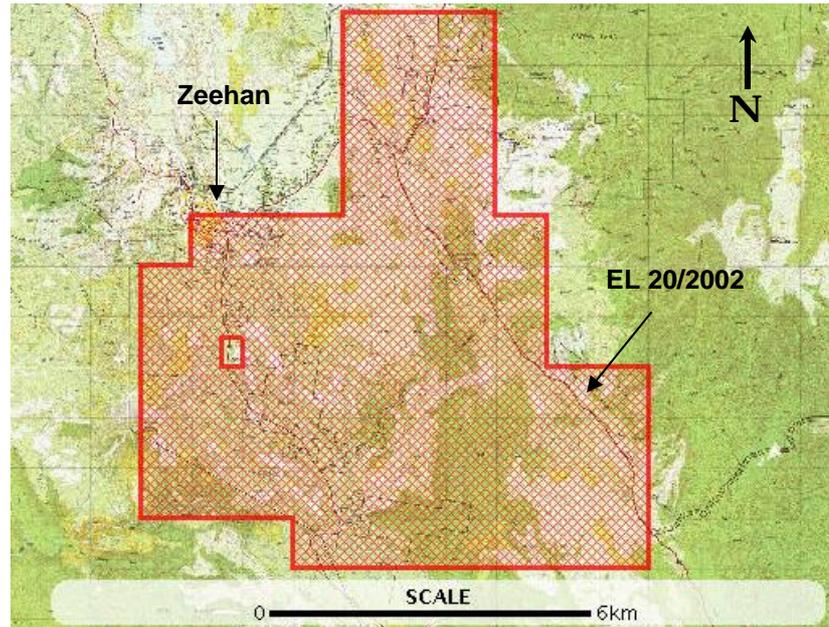


Figure 1: Location of EL 20/2002 relative to Zeehan.

Vegetation cover is generally sparse over EL 20/2002, dominated by button grass on ridges and in valleys, with dense tea-tree and eucalypt scrub occurring along creek lines.

Exploration activities undertaken by ZZ Exploration during the reporting period have included regional explorations, with prospect focused exploration undertaken at the Oceana and Mariposa prospects.

1.4.2 Exploration Lease Tenure

EL 20/2002 was granted to ZZ Exploration on February 7, 2003 for a period of 5 years, and applies to all Category 1 minerals. The licence covers approximately 71km², with excluded areas including:

- Retention Licence 3/1996;
- Any land owned or leased by the Commonwealth of Australia;
- Mining Leases; and
- Crown reservations.

The current land tenure in and around EL 20/2002 is provided in Figure 2.

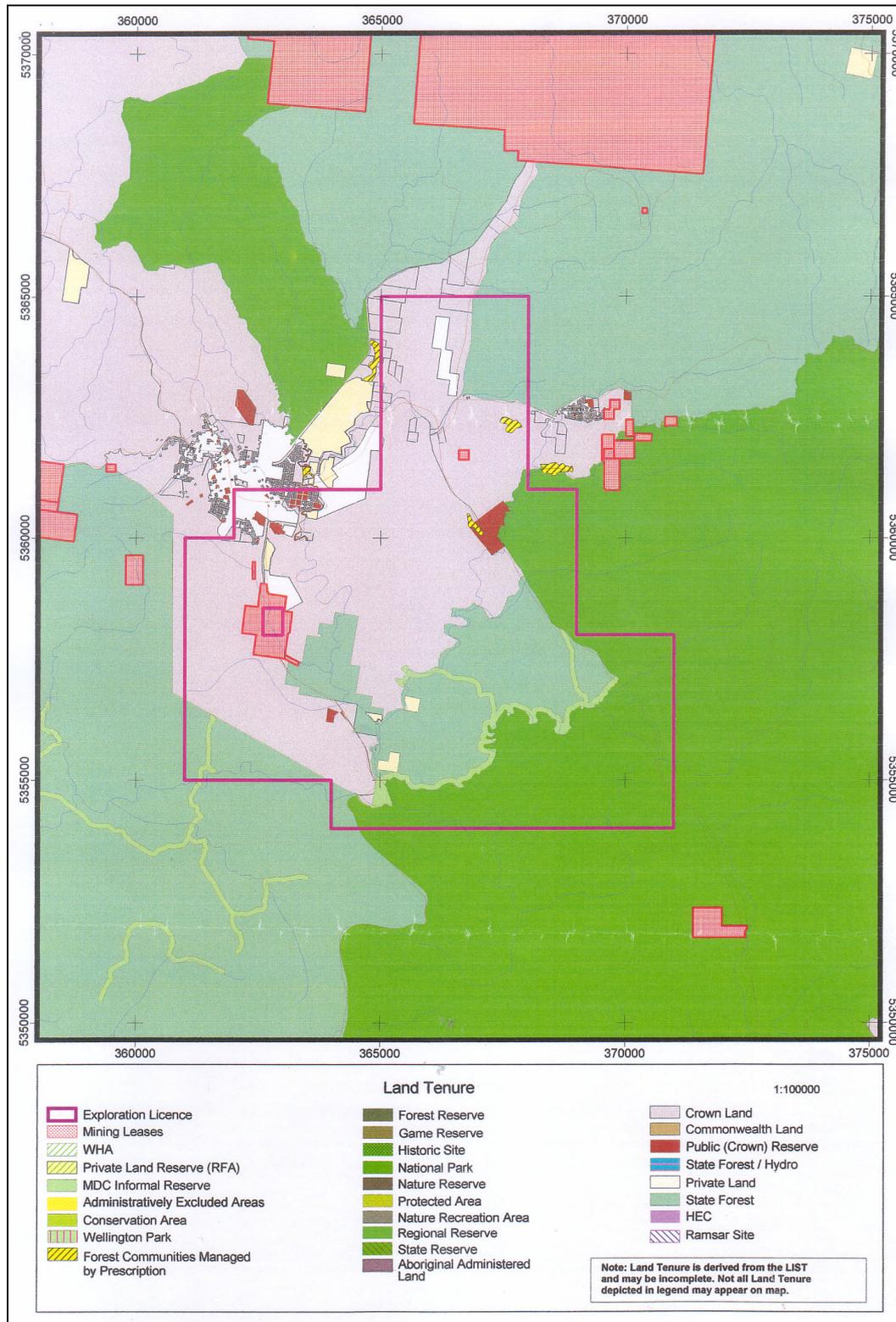


Figure 2: Land tenure for EL 20/2002.

1.5 STRUCTURE OF THIS DOCUMENT

A brief description of the structure of this report is provided in Table 1.

Table 1: Brief description of the report structure

Section Heading	Brief Description of the Information Provided
Executive Summary	A summary of the exploration activities undertaken within Exploration Licence 20/2002.
1.0 Introduction	Brief description of the proponent, the exploration licence location and tenure.
2.0 Summary of Previous Work	Summary of geological exploration previously undertaken with the area covered by EL 20/2002.
3.0 Regional Exploration Undertaken during 2005-2006	Description of exploration activities by ZZ Exploration on a regional scale within EL 20/2002 during the reporting period.
4.0 Exploration at the Oceana Prospect 2005-2006	Details of exploration activities by ZZ Exploration at the Oceana prospect during the reporting period.
5.0 Exploration at the Mariposa Prospect 2005-2006	Summary of exploration activities by ZZ Exploration at the Mariposa prospect during the reporting period.
6.0 Exploration Expenditure	Summary of exploration expenditure by ZZ Exploration over EL 20/2002 during the reporting period.
7.0 Proposed Work Program	Description of the proposed exploration program within EL 20/2002 during 2006.
8.0 Summary of Exploration Activities within EL 20/2002	Brief summary of all exploration activities undertaken within EL 20/2002 during the reporting period.



2 SUMMARY OF PREVIOUS WORK

2.1 PREVIOUS MINING AND EXPLORATION WITHIN EL 20/2002

2.1.1 Regional Exploration Activities

A series of limestone-hosted base metal prospects are located around Zeehan and have been subjected to substantial previous mineral exploration. The Oceana lead/zinc deposit/mine provided much of the impetus for such exploration to be undertaken over all the outcropping areas of the Gordon Limestone in the general Zeehan area (SMG Consultants 2005).

The known mineral deposits within EL 20/2002 have been subjected to various phases of mineral exploration which date back to the 19th century (Appendix B). The regional geology of the area has been described in Blissett (1962), Taylor (1983), Jones (1988), and McGilvray (2003), and also provided in previous Annual Reports for EL 20/2002.

2.1.2 Prospect Based Exploration Activities

A brief summary of the history of mining exploration at the Oceana and Mariposa prospects, which were the focus of ZZ Exploration's activities during the reporting period, are provided below.

Oceana Prospect

The Oceana prospect has been the subject of several phases of mining during the past 2 century's:

- Open-cut mining at Oceana commenced in 1887;
- Underground mining commenced in 1892;
- Mine idle and leases surrendered in 1895;
- Mine reopened in 1896 and underground mine extended;
- Mine abandoned in 1899 after collapse of the main shaft;
- Small scale mining operated from 1909 -1925; and
- Mine reopened in 1954 and operated until 1960 (Kostoglou 2006a).

Details of the local geology and mineralisation of the Oceana prospect are described in detail Chapters 3 and 4 of McGilvray (2003).

Mariposa Prospect

Similarly, the Mariposa prospect has also been subjected to discontinuous phases of mining and mineral exploration:

- Underground mining commenced in the 1890's;
- Various attempts at re-opening the mine during the early 1950's;
- Further exploration of the mine during the 1970's;
- Extensive surface exploration over the main Mariposa Lode during the 1980's; and
- Detailed drilling program conducted during the mid 1990's (Tear 2006b)

Details of the episodes of mining and exploration are provided in Tear (2006b).

3 REGIONAL EXPLORATION UNDERTAKEN DURING 2005-2006

ZZ Exploration has undertaken regional and prospect based exploration activities within EL 20/2002, during January 2005 – June 2006. Prospect based exploration activities are discussed in detail in subsequent sections.

As part of the regional exploration of EL 20/2002, ZZ Exploration undertook a detailed gravity survey across the Oceana mine and the Austral valley (Figure 3) (Plates 1 and 2). Details of the gravity survey are provided in Appendix C.

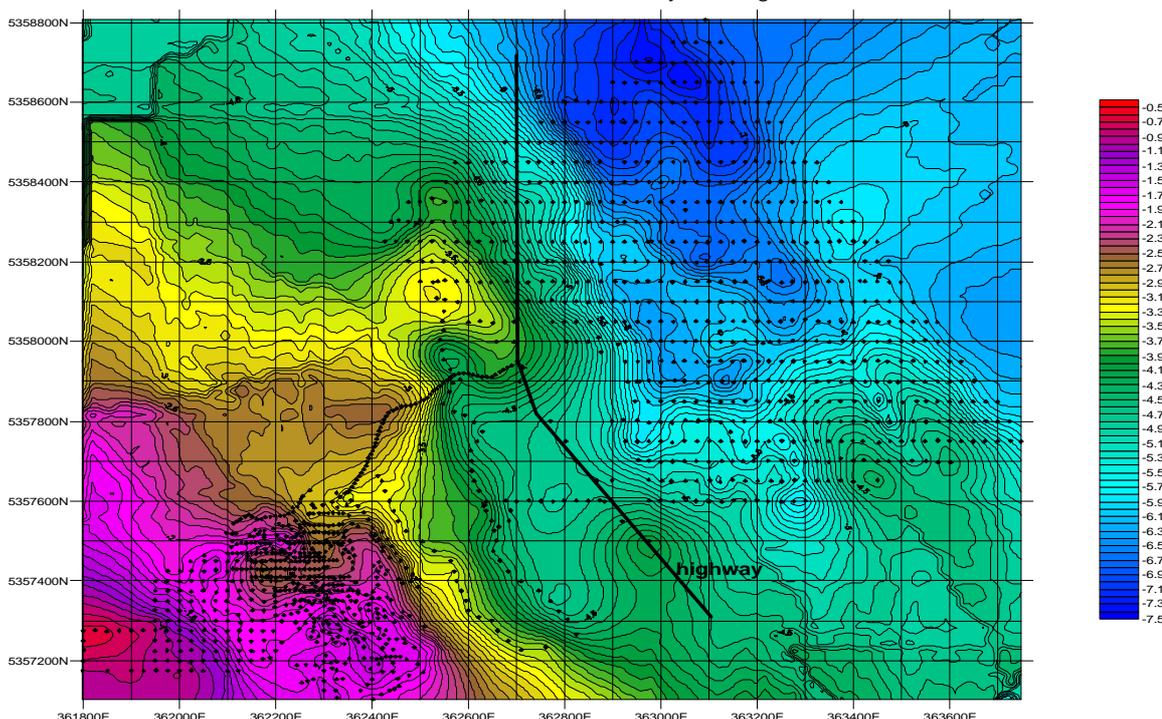


Figure 3: Combined Oceana and the Austral Valley gravity survey results (at 2.67 gms/cc) (Solo Geophysics 2006).

Plate 1: Surveying at the Oceana Mine.



Plate 2: Surveying the Austral Valley.



Photos courtesy of Solo Geophysics (2006).



ZZ Exploration have also initiated a detailed regional study within EL 20/2002 (Appendix D), focussing on:

- The possibility of other outcrops (e.g. Gordon Limestone, Oonah Formation, Bell Shale) hosting small scale lead-zinc deposits (e.g. Mariposa style deposits);
- The possibility of nickel mineralization (e.g. Avebury or Melba Flats style deposits); and
- The potential for iron-magnetite resources proximal to the Heemskirk Granite.

4 EXPLORATION AT THE OCEANA PROSPECT, 2005-2006

4.1 GEOLOGY

4.1.1 Deposit Type

The Oceana mine is primarily a lead (Pb), zinc (Zn) and silver (Ag) deposit, and is considered to be an Irish Type deposit, located along the Henty Road, near Zeehan. The ore is a stratabound massive sulphide deposit, hosted by steeply dipping calc-siltites and calcarenites of the Ordovician Gordon Limestone (SMG Consultants 2005, Appendix E). The mineralisation is split into two sections by the cross cutting Oceana mine Fault with the northern limit of mineralisation truncated by the cross cutting Oceana Fault (SMG Consultants 2005) (Figure 4). The deposit consists of two parallel bodies of galena/sphalerite mineralisation, generally more lead dominant with localised massive pyrite. There are areas of substantial siderite alteration attributed to the mineral system (SMG Consultants 2005).

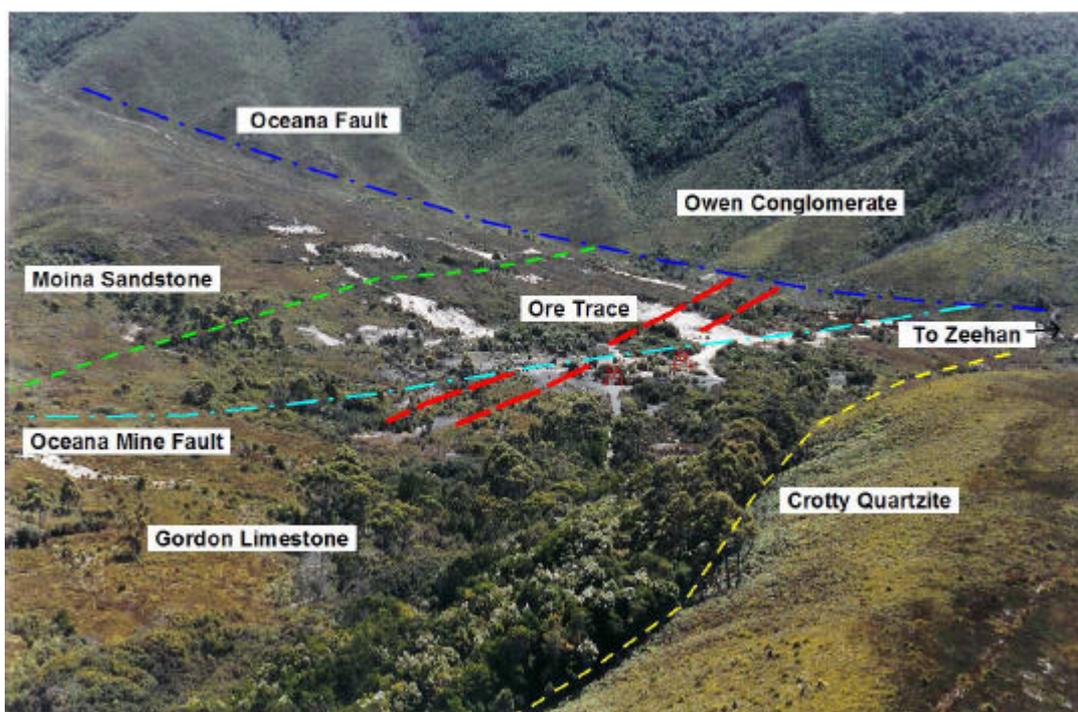


Figure 4: Local geology of the Oceana prospect (looking west) (SMG Consultants 2005).

4.1.2 Reinstallation of the AMOCO Local Grid

To assist in drilling operations and resource estimation, ZZ Exploration reinstalled the previous American Oil Company (AMOCO) local grid (Findlay 2006, Appendix F). Re-gridding was undertaken using a topolite, a handheld compass, a Global Positioning System (GPS), existing maps, and the remaining pegs from the previous AMOCO local grid (Findlay 2006).

Following the installation of the AMOCO local grid, drill sites were located using the local grid, and then marked using a GPS.

4.1.3 Drilling Program

Approvals

ZZ Exploration submitted a proposed drilling program for approval from MRT on 21 February, 2006 (Appendix G). Further information was subsequently provided by ZZ Exploration on the 16 March 2006. On 21 April, confirmation of approval for the Oceana drilling program was received by ZZ Exploration from MRT.

Reverse Circulation Drilling

In April 2005, ZZ Exploration drilled 100m at the Oceana mine using a truck-mounted Reverse Circulation (RC) drill. The drilling log summary sheets, and geochemical analysis data undertaken on samples collected from the drilling operation is provided in Appendix H. Details regarding the drilling program were included in the 2004 Annual Report for EL 20/2002.

During February – April 2006, ZZ Exploration conducted an extensive RC drilling program over the Oceana Prospect. In total 665.5m was drilled, spanning 20 holes. Table 2 provides a summary of the results of geochemical analysis of RC samples collected during drilling. Figure 5 identifies the locations of the drill holes within the Oceana mine area, and Plates 3 and 4 illustrate drilling operations at the Oceana prospect during 2006.

ZZ Exploration is currently awaiting the final results for several drill holes. A complete report detailing the drilling and sampling method, drill hole location, and geochemical analysis results will be submitted to MRT once ZZ Exploration have received the complete geochemical results for the Oceana mine drilling program.

Table 2: Summary of geochemical analysis of samples collected during the RC drilling program at the Oceana mine (ZZ Exploration is still awaiting further results).

Hole ID	From (m)	To (m)	Intersection (m)	Pb (%)	Zn (%)	Ag (ppm)
<i>ZZE01</i>						
	0.00	6.00	6.00	3.23	2.45	18
<i>ZZE02</i>						
	9.00	40.00	31.00	7.71	1.21	19
<i>ZZE03</i>						
	0.00	1.00	1.00	3.03	0.19	9
<i>ZZE14</i>						
	2	14	12	4.4	1.85	35
incl.	6	10	4	7	1.35	48
<i>ZZE15</i>						
	2	28	26	2.9	1.4	
incl.	10	12	2	6.0	0.5	
incl.	20	24	4	6.7	4.0	
incl.	20	28	8	4.8	2.6	
<i>ZZE16</i>						
	23	32	9	1.60	0.56	11
	40	47	7	1.71	0.64	3
<i>ZZE17</i>						
	2	53	51	0.6	1.76	3
incl.	20	27	7	2.25	2.67	14

Hole ID	From (m)	To (m)	Intersection (m)	Pb (%)	Zn (%)	Ag (ppm)
incl.	20	39	19	1.17	2.44	6
ZZE18						
	2	15	-	-	-	-
ZZE19						
	3	36	33	4.5	1.3	25.5
incl.	6	9	3	11.5	1.67	55
incl.	23	25	2	8.7	3.1	66
incl.	29	33	4	9.3	3.4	59
ZZE20						
	1	23	22	3.64	1.57	22
incl.	10	18	8	6.4	2.59	39
incl.	11	15	4	8.47	2.32	48

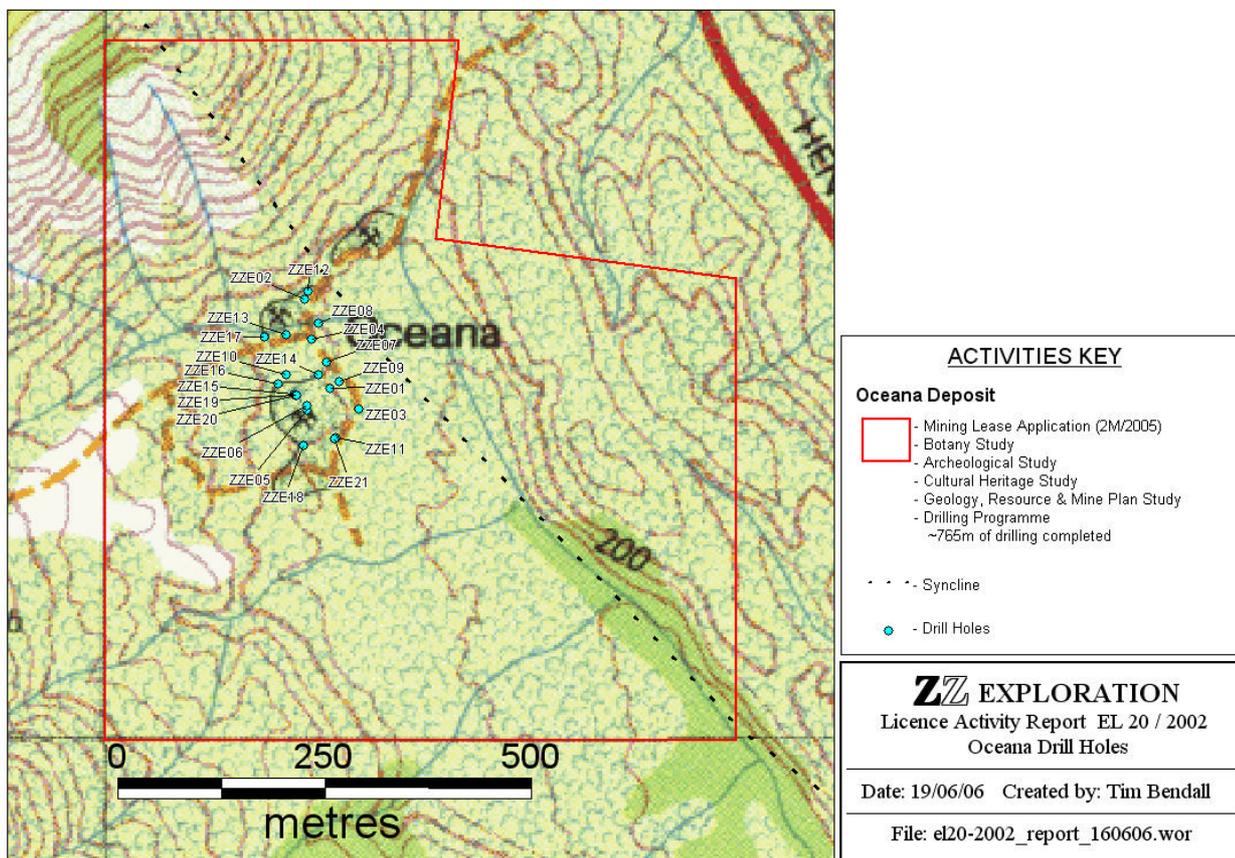


Figure 5: Location of RC drill holes at the Oceana prospect.

Plates 3 & 4: Drilling at the Oceana mine.



4.1.4 Waste Rock Characterisation

As part of the initial planning process, ZZ Exploration has undertaken preliminary testing on rock material (collected from RC drill chips drilled in early 2005) that will be removed during mining operations to begin the waste characterisation process. Table 3 presents the results of the sampling program that has occurred to date. For the complete sampling report, refer to Appendix I. The initial waste characterisation tests have indicated that the rock types sampled are generally considered to be non-acid producing.

Table 3: Summary of the waste characterisation results from Oceana mine drill core (SEMF 2006a).

Sample	NAPP	NAG	NAG pH	ANC	Total %S	Overall Classification*
	kg H₂SO₄ / tonne					
ZZE 2 (0-1m)	-1.25	1.96	6.11	0.22	2.1 x 10 ⁻⁴	NAF
ZZE 2 (1-2m)	-1.25	0.98	6.15	0.15	2.2 x 10 ⁻⁴	NAF
ZZE 3 (2-3m)	-77	34.3	4.07	0.28	5.35 x 10 ⁻⁶	UC (NAF)
ZZE 3 (8-9m)	-51.2	43.1	2.88	0.24	1.34	UC (NAF)
ZZE 3 (15-16m)	-89.5	<0.50	8.95	14.6	1.48	NAF

* Where NAF = Non-Acid Forming, and UC = Uncertain

The Oceana deposit is hosted within the Ordovician Gordon Limestone, and MRT has noted that the Oceana mine is a significant source of acid mine drainage (Gurung, 2005).

Throughout the mine development and operation, ZZ Exploration will continue to undertake waste characterisation tests on waste rock and tailings material, to ensure that the materials can be disposed of suitably and avoid adverse environmental impacts.

It has been suggested that the underlying Gordon Limestone provides little acid buffering capacity for acid mine drainage, which is believed to be related to a restricted ability for neutralisation and the relatively high NAPP of the ore material (Gurung, 2005).

4.2 GEOPHYSICS

During March – May 2006, a combined GPS and gravity survey was conducted over the Oceana prospect (Solo Geophysics 2006). Survey lines were at 25m intervals, with the grid located in a valley where Mt Zeehan forms the western slopes, and sandstone and quartz ridges form the eastern slopes.

Some sections of the gravity survey were not completed at the Oceana prospect due to the presence of:

- Steep slopes;

- Existing open, water filled shafts;
- Sinkholes hidden in the local vegetation;
- Thick vegetation; or
- Flooded creeks (Solo Geophysics 2006).

Figure 6 provides the results of the gravity survey for the Oceana prospect, with the complete results of the gravity survey detailed in Appendix C.

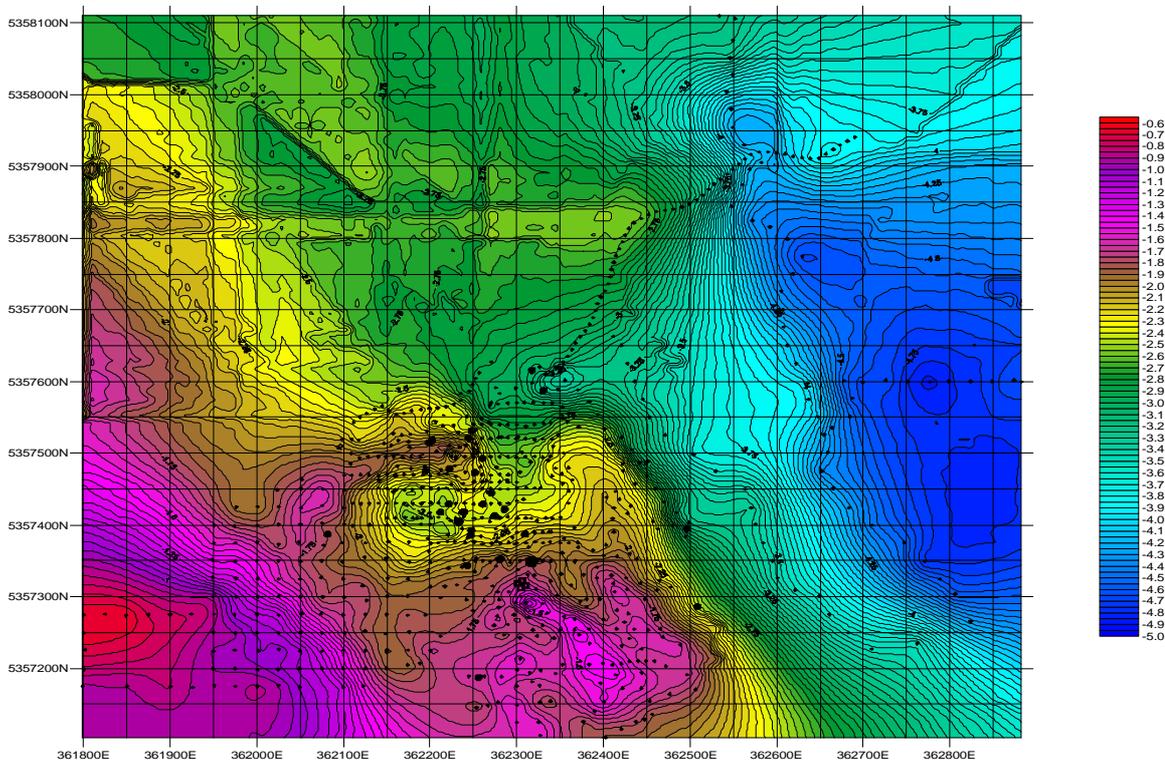


Figure 6: Oceana gravity survey results (at 2.67 gms/cc) (Solo Geophysics 2006).

4.3 MINERAL RESOURCE

4.3.1 Resource Estimation

ZZ Exploration has undertaken several activities to assist in resource calculations at the Oceana mine including:

- The reinstallation of the original AMOCO grid;
- Detailed GPS surveying of grid pegs and old drillhole collars;
- Collection of rock density measurements from existing drill core;
- Amassing core photography to assess core recoveries;
- Development of a block model; and
- Investigations into the geological mode of deposit formation.

ZZ Exploration has subsequently commissioned two independent 'competent' geologists (SMG Consultants Pty Ltd (SMG Consultants) and Cotlco Pty Ltd) to undertake resource estimations following the Joint Ore Resources Committee (JORC) Code (Appendices J and K). SMG Consultants reviewed the initial resource calculation during based on open pit optimisation and the results of more geological data. A summary of the resource estimates at the Oceana deposit are presented in Table 4.

As part of the resource estimation, a block model for the Oceana prospect was also developed (Appendix L).

Table 4: Summary of the resource estimate for the Oceana mine (Anderson and Schwab 2006).

	Tonnes	Pb (%)	Zn (%)	Ag (ppm)	Source
Indicated	665,531	5.2	2.3	29.8	SMG Consultants (2006c)
Inferred	938,147	2.6	1.2	16.3	
Indicated (open pit to 120m)	665,531	5.2	2.3	29.8	SMG Consultants (2006e)
Indicated and Inferred (open pit to 120m)	1,386,991	3.8	1.7	22.5	
Inferred	2,100,000	9.2	2.6	88	Cotlco (2005)
Inferred (open pit to 50m)	208,100	7.5	1.7	57	

SMG Consultants have also investigated the resource to reserve conversion factors for the Oceana deposit, based on the Oceana pit resource review (Appendix J) and the optimisation of the Oceana resource (Appendix M). The resource to reserve calculation factor is estimated to be 77.6% for the in pit resource (Table 5, Appendix N).

Table 5: Resource to reserve conversion factor estimate (SMG Consultants 2006g).

	Tonnes	Pb (%)	Zn (%)	Ag (ppm)
Planned mineable resource to 1070mRL	1,076,491	4.6	2.0	27.0
Resource down to pit floor at 1070mRL	1,386,991	3.8	1.7	22.5
Total resource to 1000mRL	1,603,678	3.7	1.7	21.9
Likely in pit resource to reserve conversion (%)				77.6
Likely total resource to reserve conversion (%)				67.1

4.3.2 Resource Valuation

ZZ Exploration commissioned Anderson and Schwab Pty Ltd (Anderson and Schwab) in 2005 to undertake a review of the mineral assets of Zeehan Zinc Ltd (Zeehan Zinc), which includes the Oceana prospect (Appendix O). In May 2006, Anderson and Schwab reviewed the resource valuations, following further exploration activities by Zeehan Zinc (and associated companies). The valuation of the mineral assets of Zeehan Zinc are provided in Table 6.

Table 6: Estimated resource valuations of the mineral assets of Zeehan Zinc Ltd (Anderson and Schwab 2006).

Asset	Valuation Method	Value		
		Low	Market	High
Comstock mine (Allison's Lode, Balstrup Fault, Main Lode including West Lode) and Oceana deposit	NPV of discounted future cash flows	\$93.5m	\$267 m	\$316.0m



4.3.3 Mining Lease Application

On 2 March, 2005, ZZ Exploration applied for a mining lease over the Oceana mine (ML 2M/2005) (Appendix P). MRT subsequently advised on 12 January, 2006 that further information was required before the mining lease could continue to be processed. ZZ Exploration provided the necessary information May, 2006 (Appendix Q).

4.3.4 Business Plan

In 2003, Zeehan Zinc Ltd (the parent company of ZZ Exploration) developed a business plan. In October 2005, the business plan was subsequently reviewed to reflect current changes to metals prices and exchange rates (Appendix R). In consideration of the significant increases in metal prices since October 2005, the business plan was reviewed in January 2006 (Appendix S).

4.4 PROPOSED MINE PLAN

ZZ Exploration commissioned SMG Consultants and Coffey Geosciences Pty Ltd (Coffey Geosciences) to develop conceptual open pit designs for the Oceana mine.

Coffey Geosciences was commissioned in February 2006 to develop conceptual open pit mine designs for the Oceana mine. The conceptual pit designs indicate and quantify materials within the pits and detail the geometry of excavations in terms of access, prominent topography and ore extraction extents (Coffey Geosciences 2006). The pit designs are not optimised in terms of economics or grade, but present concepts for ore extraction based on reasonable strip ratios and practical mining parameters (Coffey Geosciences 2006).

Three pit designs were investigated based on ore recovery requirements. Details of the Coffey Geosciences pit designs and the parameters used to define the framework for each design are provided in Appendix T.

Table 7 provides an inventory and ore resource tonnage for each of the three designs, with Appendix T illustrating the three pit design options.

Table 7: Pit design option volumes and ore tonnages for the Oceana mine (Coffey Geosciences 2006).

Pit Design Option	Total Volume (m ³)	Volume of Waste (m ³)	Volume of Ore (m ³)	Tonnes of Ore
Option #1	1,640,500	1,416,187	224,313	605,644
Option #2	2,905,267	2,567,952	337,315	910,745
Option #3	4,723,689	4,326,249	397,440	1,073,082

SMG Consultants were commissioned in March 2006 to develop an optimised open pit design for the Oceana deposit, following recent revisions of the Oceana ore resource. Pit designs were varied based on the pit wall angle. Table 8 provides an inventory and ore resource, for the optimised pit designs developed by SMG Consultants.

Table 8: Pit design option volumes and ore tonnages for the Oceana mine (SMG Consultants 2006e).

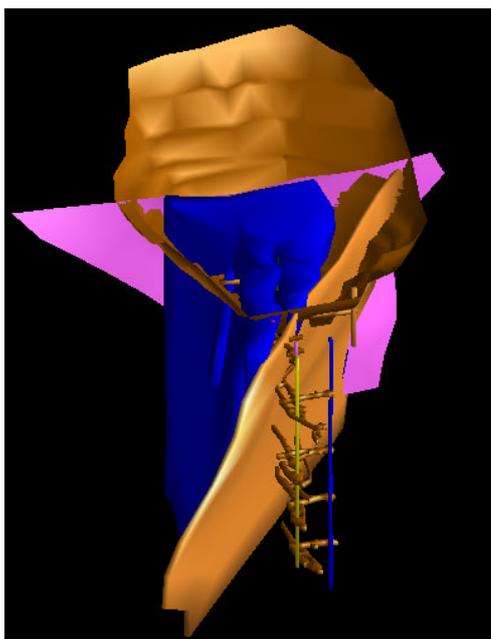
Pit Design Option	Total Volume	Volume of Waste	Volume of Ore	Tonnes of Ore
60° Pit Wall	1,540,938	931,188	609,750	1,859,738
50° Pit Wall	1,559,938	931,188	628,750	1,917,688
65° Pit North Wall Only	1,432,751	931,188	501,563	1,531,586

Note that in the pit optimisation the volume of waste remains constant despite changes to the pit design. This is because the pit optimisation is based on a block model with optimisation aimed at improving the amount of ore extracted only.

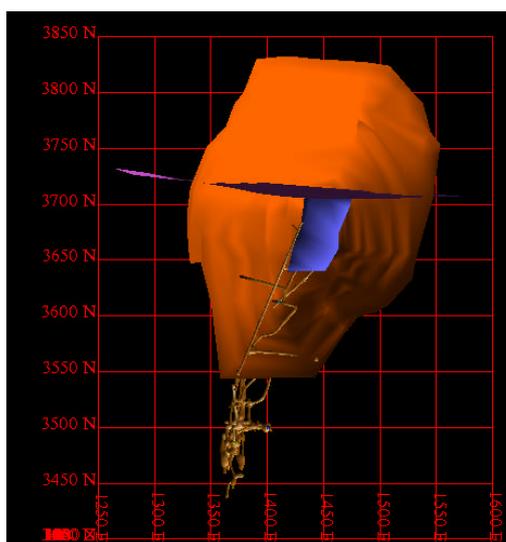
The final optimised pit design is for the mining of the total mineable resource of 1,386,991 tonnes, including the indicated resource of 660,000 tonnes (SMG Consultants 2006e).

Details of the pit designs and the parameters used to define the framework for each of the SMG Consultants designs are provided in Appendix T.

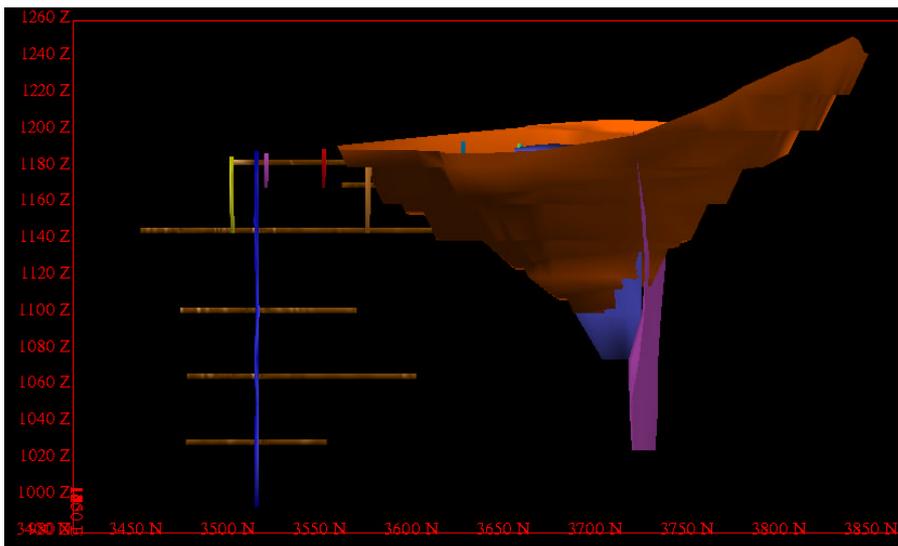
Figure 7 presents geological models with the optimised pit design, total resource, Indicated resource, the local faults and the old workings.



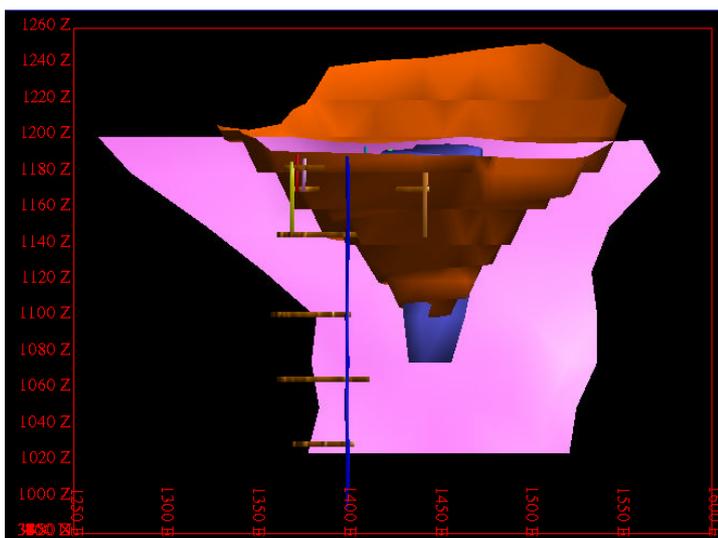
a) The proposed pit, old workings and local geology, with the Oceana Fault in pink, Oceana mine Fault in yellow, and total resource in blue.



b) Plan view of proposed pit, old workings and local geology, with the Oceana Fault in pink (Indicated resource shown in blue).



c) Side view of proposed pit, old mine workings and local geology, with the Oceana Fault in pink (Indicated resource shown in blue).



d) Front view of proposed pit, old workings and local geology, with the Oceana Fault in pink (Indicated resource shown in blue).

Figure 7: Proposed open pit design and local geology at the Oceana mine.

The proposed location of the open pit, tailings and waste rock co-disposal facility, ROM stockpiles, mill infrastructure (including a small gravity pre-concentration plant and associated site buildings) is illustrated in Figure 8.

Site access will utilise the existing tracks, as illustrated in Figure 8, with some upgrading of the tracks required prior to mine development.

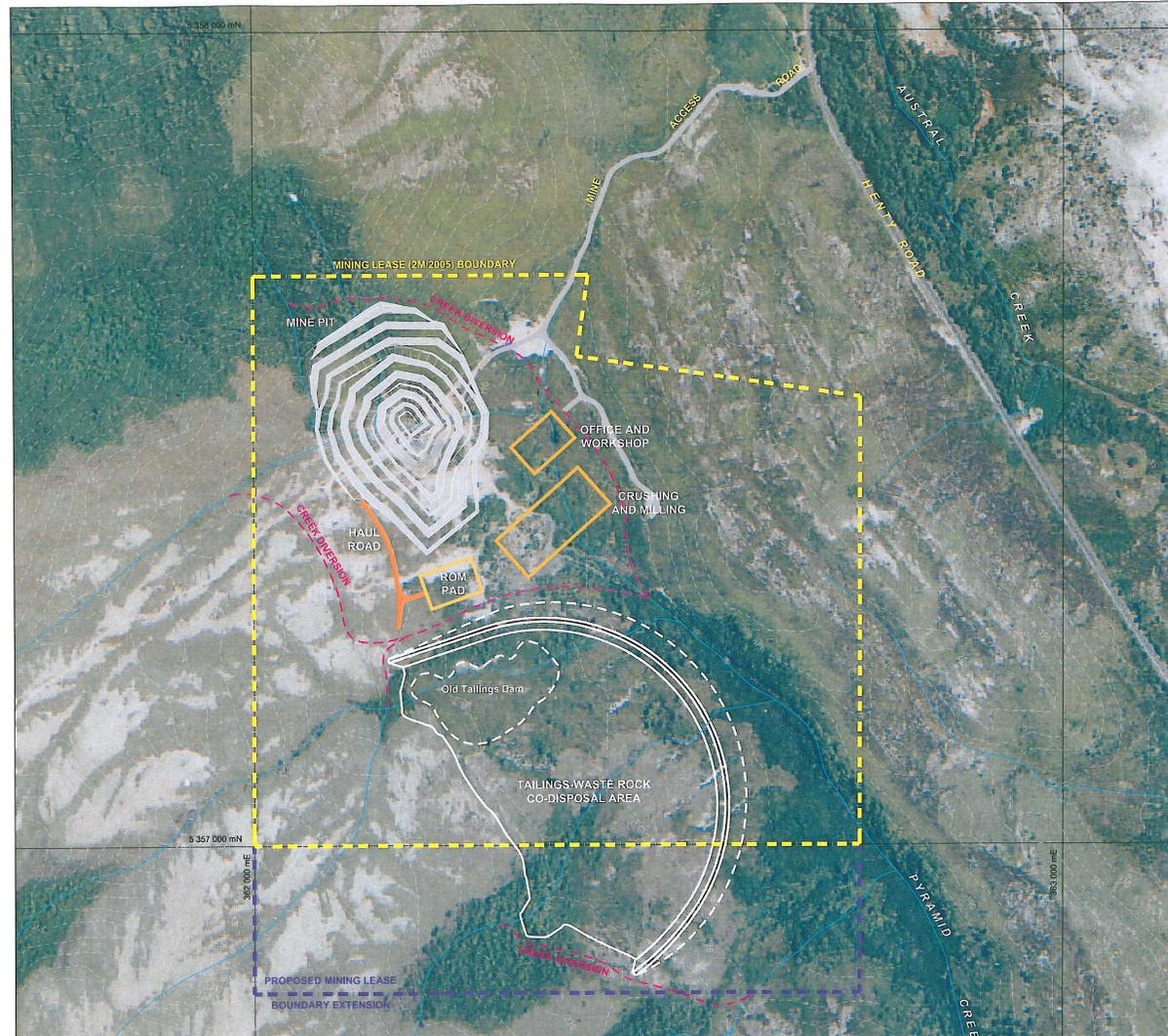
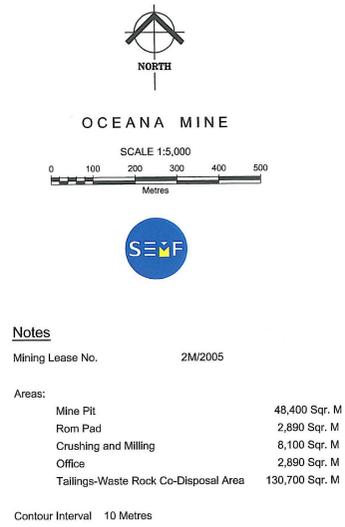


Figure 8: Proposed Oceana mine layout.

4.5 EXISTING ENVIRONMENT AT THE OCEANA MINE

As part of the mine planning process, during the report period, ZZ Exploration has undertaken an extensive research program into the existing natural environment at the Oceana mine and the immediate surrounds. The results of the research program are summarised below.

4.5.1 Flora

In February 2006, a comprehensive flora and fauna survey was undertaken at the Oceana mine site. Ninety vascular plants were recorded within the Oceana lease area, and of the ninety species recorded, seven species were endemic to Tasmania, and twelve species were introduced species (French 2006a, Appendix U).

Six distinct vegetation communities were recorded within the lease area. The plant communities identified were a factor of the past fire regimes and disturbance associated with mining (French 2006a). The vegetation communities were mapped considering the current floristic composition and what it would equate to under natural regimes (French 2006a). A summary of the plant communities recorded is provided in Table 9.

Table 9: Summary of plant communities and their conservation status (French 2006a).

TASVEG Community	RFA Community	Conservation Status
<i>Eucalyptus nitida</i> forest over <i>Leptospermum</i> (WNL)	Tall <i>E. nitida</i> forest (NT)	Non-priority
Moorland and sedgeland with emergent shrubs (MBS)	Not covered by RFA mapping	Non-priority
Buttongrass moorland (undifferentiated) (MBU)	Not covered by RFA mapping	Non-priority
<i>Acacia melanoxylon</i> on rises (NAR)	<i>Acacia melanoxylon</i> forest on rises (BR)	Non-priority
Queenstown regrowth mosaic (SQR)	Not covered by RFA mapping	Non-priority

A database search (GTSpot) indicated the possible presence of the rare grass *Agrostis thompsoniae* (southern bent), which was previously recorded within the lease area. However, an extensive search of the area did not locate the species (French 2006a).

4.5.2 Introduced Flora

A weed survey undertaken in February 2006 identified several weed species, with the weeds of major importance including gorse (*Ulex europaeus*), blackberry (*Rubus fruticosus* agg.), and himalayan honeysuckle (*Leycesteria formosa*) (Gray 2006, Appendix V). Other weed species identified include common centaury (*Centaureum erythraea*), thistles (e.g. spear thistle (*Cirsium vulgare*), dandelion (*Taraxacum officinale*), cat's ear (*Hypochaeris radicata*), and hawkbit (*Leontodon taraxacoides*).

Species identified which will be the primary target of a weed management plan include gorse, blackberry, himalayan honeysuckle and thistles.

A further weed survey in late spring 2006 is recommended to identify emerging species and species in active growth or flower phases that may have been missed during the initial survey.

ZZ Exploration is committed to undertaking mining operations in an environmentally safe and conscientious manner. As part of this commitment, a preliminary Weed Management

Plan has been developed and is provided in Appendix V, and this plan will be further developed during the commencement of mine development operations.

4.5.3 Fauna

As part of the flora survey conducted in February 2006, a fauna survey was carried also undertaken (French 2006a, Appendix U).

A database search (GTSpot) indicated the presences of the Grey goshawk (*Accipiter novae-hollandiae*), Hydrobiid snails (*Beddomeia zeehanensis* and *Phrantela conica*), and the Spotted-tailed quoll (*Dasyurus maculatus*) recorded as occurring near the Oceana mine (French 2006a). The Wedge-tailed eagle (*Aquila audax fleayi*) and the Orange bellied parrot (*Neophema chrysogaster*) have also been identified by the Tasmanian Threatened Fauna Handbook (1999) as potentially occurring within the area.

During the fauna survey, no sightings of the above species were recorded (French 2006a). The habitat is considered to be suitable for the Grey goshawk, though no nests or the species were observed during the survey.

4.5.4 European Heritage

A European heritage survey was undertaken by Parry Kostoglou in February 2006. The overall cultural significance of the surviving resident mine scape is considered to be low based on the historical, social and technological significance of the mining operations that occurred in the past (Kostoglou 2006a, Appendix W). As a result of the overall low significance attributed to the site, the Oceana mine is not therefore deemed to require any collective protection or proscription regime, although there are several items of mid 20th century infrastructure and surviving 19th century features that are considered worthy of protection. It is recommended that these two different aged sets of features be protected from development related impacts, rather than seeking to protect all of the resident features. A summary of the features considered worthy of protection is provided in Table 10.

Table 10: Summary of European archaeological sites of significance (Kostoglou 2006a).

Feature No. (refer to Kostoglou 2006)	Feature Name	Significance	Recommendations
01	Number 6 shaft	Medium	Protect from impacts
02	Winding shed	Medium	Protect from impacts
03	Slimes drain	Medium	Protect from impacts
04	Collapsed shaft	Medium	Protect from impacts
05	Slime box drain	Medium	Protect from impacts
07	Crushing shed	Medium	Protect from impacts
09	Tailings dam No. 2	Medium	Protect upper most level from impacts
12	Trackside steel frame sections	Low	Features can be removed to another location if required
14	Trackside conical plant footings	Low	Features can be removed to another location if required
18	Hillside adit	Medium	Protect from impacts



The European cultural heritage site assessment was centred over the main mine area, which is most likely to be disturbed during future mine developments. In the event that future development work at the mine site extend into the more peripheral sections of the lease, it is recommended that ZZ Exploration seek to avoid impact on any newly discovered historic cultural heritage sites or features until they have sought advice from a qualified archaeologist.

4.5.5 Aboriginal Heritage

An Aboriginal heritage survey was undertaken by Rocky Sainty in March 2006. As part of the survey, the Tasmanian Aboriginal Site Index (TASI) at the Aboriginal Heritage Office was inspected to identify if any Aboriginal heritage sites had previously been recorded within the Oceana mine area (Sainty 2006a). The search indicated that to date, no sites had been recorded within the mine area (Sainty 2006a).

A field survey indicated that the Aboriginal landscape had been heavily impacted by previous mining operations (Sainty 2006a, Appendix X). Although no Aboriginal sites were located within the survey area, it is recommended that if any shell material is unearthed when mine redevelopment commences, then the works should cease immediately and the Tasmanian Aboriginal Land and Sea Council (TALSC) or the Aboriginal Heritage Office be contacted immediately (Sainty 2006a).

4.5.6 Water Quality

ZZ Exploration has commenced a background water monitoring program for the Oceana mine site, with sampling commencing in October 2005. Collection of samples from the nearby Austral Creek commenced in December 2004. The results are provided in Appendix Y.

In 1997, samples were collected at the Oceana mine by Tim Parr as part of an Honours project investigating acid mine drainage in the Zeehan district. The results from the samples collected in 1997 are also provided in the ZZ Exploration water monitoring report as a comparison.

From the water monitoring that has occurred to date, there are clear indications that acid mine drainage is present in the Pyramid Creek (upstream and downstream), the underground water (No. 6 Shaft) and the nearby Austral Creek. In some cases the pH of the water samples is near neutral or slightly alkaline. However, in all cases the metal concentrations are elevated (SEMF 2006b).

It has been noted by ZZ Exploration that the old tailings dam is an active source of acid mine drainage, as the tails are exposed to the air and subject to extensive water infiltration from local drainage patterns.

As part of the planning process and development of the mine, ZZ Exploration will develop a conceptual water management plan to manage acid mine drainage and minimise the potential for continued acid mine drainage generation. Furthermore, as previously mentioned, the development of a tailings and waste rock co-disposal facility will effectively cover the existing tailings dam site and assist in remediation of the historical acid mine drainage at the Oceana mine site.

4.6 REHABILITATION OF THE OCEANA PROSPECT

4.6.1 Proposed Mine Rehabilitation Approach

Open-cut mining operations and the associated removal and disposal of overburden and waste-rock can lead to significant changes to the topography and stability of the landscape. ZZ Exploration is committed to ensuring that any future mining operations at the Oceana mine do not have detrimental environmental impacts and that when mining operations are completed, the mine site is left in an environmentally safe manner. As part



of this commitment, prior to commencement of mining operations at the Oceana prospect, ZZ Exploration will prepare a Decommissioning and Rehabilitation Plan (DRP).

The preparation of a DRP will ensure that rehabilitation activities achieve environmental stability, maintain public safety, provide compatible land use and aim towards the establishment of sustainable ecosystems as a long-term goal.

Progressive rehabilitation can be an important tool in minimising and managing environmental impacts associated with mining operations. ZZ Exploration will undertake progressive rehabilitation wherever practical, and will list these activities in annual reports submitted to MRT and DTAE. Furthermore, the establishment of progressive rehabilitation targets by ZZ Exploration and assessing the success of rehabilitation operations against these targets will ensure that the company is committed to rehabilitation works during and after mining operations.

Based on the preliminary mine design plans that ZZ Exploration have developed (refer to Figure 8), it is estimated that during mining and associated processing operations, approximately 19.3ha would be disturbed and consequently require rehabilitation following mine closure.

4.6.2 Provision of an Environmental Bond

In August 2005, ZZ Exploration provided a bond of \$9,600.00 to MRT for the exploration activities that ZZ Exploration were planning to undertake.

During the exploration activities undertaken in 2005 and 2006 by ZZ Exploration at the Oceana mine site, any environmental impacts that have occurred are likely to be short-lived and transitory. Drilling operations were carefully managed to avoid adverse environmental impacts and all exploration activities followed the Mineral Exploration Code of Practice (1999).

5 EXPLORATION AT THE MARIPOSA PROSPECT, 2005-2006

5.1 GEOLOGY

5.1.1 Deposit Type

The Mariposa prospect is part of a series of limestone-hosted mineral prospects located around Zeehan that have been subjected to substantial previous mineral exploration. The Oceana lead-zinc deposit is considered to have provided much of the impetus for such exploration to be undertaken over all the outcropping areas of the Gordon Limestone in the general Zeehan area (SMG Consultants 2005).

Similar to the Oceana prospect, the mineralisation that occurs at Mariposa is hosted by calcarenites and calcsilites of the Ordovician-aged Gordon Limestone. The sequence is steeply dipping to the west with the Crotty Quartzite overlying the limestone, forming a distinct topographic high, possibly as a faulted contact (SMG Consultants 2006b) (Figure 9).

For the main Mariposa Lode, now called the Western Lode, the lead-zinc mineralisation is associated with a seemingly strata-parallel, siderite replacement unit. Galena is the dominant sulphide species in conjunction with lesser amounts of sphalerite (SMG Consultants 2006b). This lode has been the subject to the majority of previous diamond drilling operations. The eastern lodges are weakly defined due to limited shallow drilling, but they are perceived to be steeply dipping and strata-parallel (SMG Consultants 2006b). Further details of the Mariposa deposit are provided in SMG Consultants (2006b) (Appendix Z).

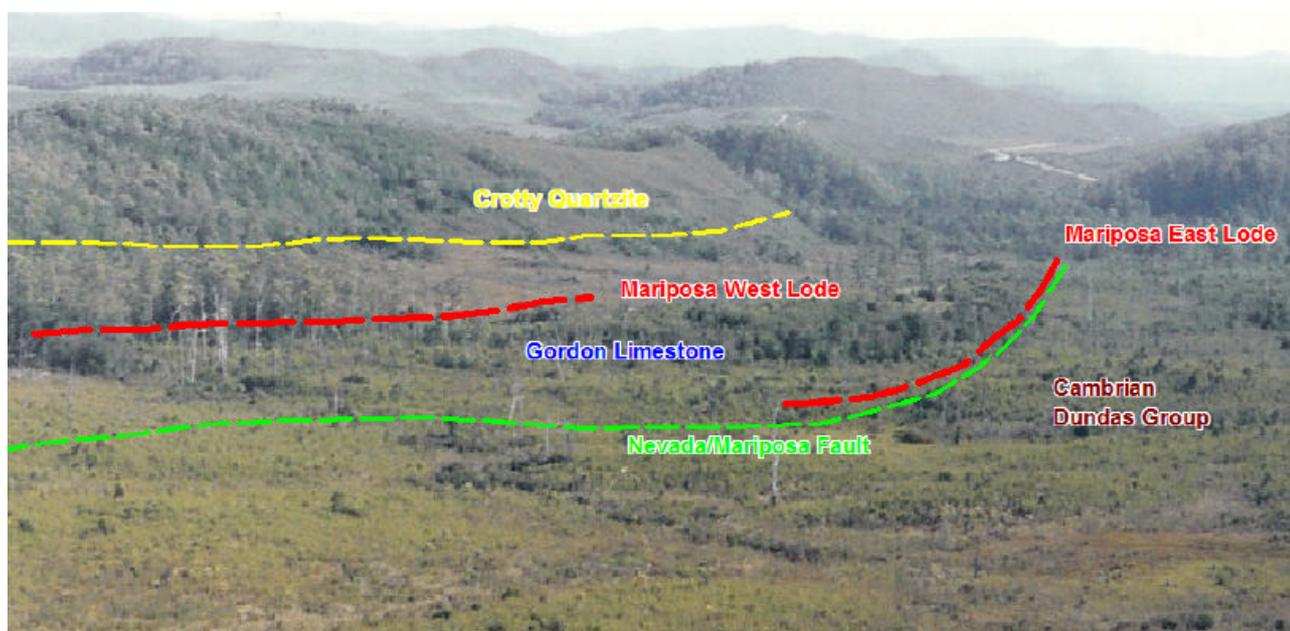


Figure 9: Local geology of the Mariposa prospect (looking north) (SMG Consultants 2006b).

5.1.2 Reinstallation of the Local Grid

To assist in drilling operations and resource estimation, ZZ Exploration reinstalled the previous local grid (Findlay 2006, Appendix F). Re-gridding was undertaken using a

topolite, a handheld compass, a GPS, existing maps, and the remaining pegs from the previous local grid (Findlay 2006).

Following the installation of the local grid, prospective drill sites were located using the local grid.

5.1.3 Proposed Drilling Program

Approvals

ZZ Exploration submitted a proposed drilling program for approval from MRT on 21 February, 2006 (Appendix G). Further information was subsequently provided by ZZ Exploration on the 16 March 2006. On 21 April, confirmation of approval for the proposed Mariposa drilling program was received by ZZ Exploration from MRT.

Reverse Circulation Drilling

ZZ Exploration has developed an extensive drilling program for the Mariposa prospect, consisting of 40 drill holes, targeting the sulphide deposit approximately 45-135m below the surface. Details of the drill hole locations are provided in Appendix G.

ZZ Exploration plan to commence drilling operations in August, 2006.

5.2 MINERAL RESOURCE

5.2.1 Resource Calculation

ZZ Exploration has undertaken several activities to assist in resource calculations at the Oceana mine including:

- The reinstallation of the previous local grid;
- Detailed GPS surveying of grid pegs;
- Development of a geological database containing all previous drilling results;
- Development of a block model; and
- Investigations into the geological mode of deposit formation.

ZZ Exploration has subsequently commissioned an independent 'competent' geologist to undertake resource estimations following the JORC Code (SMG Consultants) (Appendix Z). Resource estimates at the Mariposa deposit are presented in Table 11. For further information regarding resource calculations, refer to Appendix Z.

Table 11: Summary of the resource estimate for the Mariposa mine (Anderson and Schwab 2006).

	Tonnes	Pb (%)	Zn (%)	Ag (ppm)	Source
Inferred	537, 737	5.09	2.02	62	SMG Consultants (2006b)
Inferred (underground)	276,347	10.52	2.79	57	
Inferred (open pit)	73,767	8.3	1.06	55	

5.2.2 Resource Valuation

ZZ Exploration commissioned Anderson and Schwab in 2005 to undertake a review of the mineral assets of Zeehan Zinc, which includes the Mariposa prospect. In May 2006, Anderson and Schwab reviewed the resource valuations in April 2006, following further exploration activities by Zeehan Zinc (and associated companies) (Appendix O). The valuation of the mineral assets of Zeehan Zinc are provided in Table 12.

Table 12: Estimated resource valuations of the mineral assets of Zeehan Zinc (Anderson and Schwab 2006).

Asset	Valuation Method	Value		
		Low	Market	High
EL 20/2002 (includes Mariposa deposit), EL 30/2002, EL 18/2003	Multiple of Exploration Expenditure	\$18.9m	\$23.6 m	\$28.4m

5.2.3 Mining Lease Application

On 22 March, 2006, ZZ Exploration applied for a mining lease (4M/2006) over the Mariposa mine (Appendix AA). MRT subsequently advised ZZ Exploration on 21 April, 2006 that it was considered that there was insufficient information to grant a mining lease over the resource defined at the Mariposa mine. However, an application for a retention licence for 2 years would be received favourably by MRT (Appendix AA).

5.3 PROPOSED MINE PLAN

ZZ Exploration has commissioned SMG Consultants to develop conceptual open pit and underground mine designs for the Mariposa prospect (Appendices BB and CC).

The quantity and grade of resource estimated to be extracted through open cut mining and underground mining are presented in Table 13. Refer to Appendices BB and CC for further details.

Table 13: Resource quantity and grade extraction estimates (SMG Consultants 2006d, f).

	Tonnes	Pb (%)	Zinc (%)	Ag (ppm)
Open cut mining				
45° pit wall	6,1012	8.53	1.08	56.35
50° pit wall	73,767	8.32	1.06	55.19
Underground mining				
Total stoping tonnes (150,130,110m levels)	194,851	12.64	2.95	53.86
Crown pillar resource	37,586	7.05	3.86	55.04
Below 110m level	43,909	4.08	1.17	72.89

5.4 EXISTING ENVIRONMENT AT THE MARIPOSA MINE

As part of the mine planning process, during the report period, ZZ Exploration has undertaken an extensive research program into the existing natural environment at the Mariposa mine and the immediate surrounds. The results of the research program are summarised below.

5.4.1 Flora

In February 2006, a comprehensive flora and fauna survey was undertaken at the Mariposa mine site. Fifty-seven vascular plants were recorded within the Mariposa mine area, and of the fifty-seven species recorded, one species was endemic to Tasmania, and four species were introduced species (French 2006b, Appendix DD).

Three distinct vegetation communities were recorded within the mine area. The plant communities identified were a factor of the past fire regimes and disturbance associated with mining (French 2006b). The vegetation communities were mapped considering the current floristic composition and what it would equate to under natural regimes (French 2006b). A summary of the plant communities recorded is provided in Table 14.

Table 14: Summary of plant communities and their conservation status (French 2006b).

TASVEG Community	RFA Community	Conservation Status
<i>Eucalyptus nitida</i> forest over <i>Leptospermum</i> (WNL)	Tall <i>E. nitida</i> forest (NT)	Non-priority
Moorland and sedgeland with emergent shrubs (MBS)	Not covered by RFA mapping	Non-priority
<i>Leptospermum scoparium</i> – <i>Acacia mucronata</i> forest (NLA)	Not covered by RFA mapping	Non-priority

5.4.2 Introduced Flora

Four introduced species were recorded within the Mariposa mine area (French 2006b):

- *Ulex europaeus* (gorse);
- *Centaureum erythraea* (common centaury);
- *Anthoxanthum odoratum* (sweet vernalgrass); and
- *Dactylis glomerata* (english broom).

Small infestations of the noxious weed, gorse, were recorded along the tracks within the Mariposa mine area. Due to presence of this species and english broom, weed management guidelines will be implemented by ZZ Exploration during further exploration activities at the mine site, and prior to any mine development.

A further weed survey in late spring 2006 is recommended to identify emerging species and species in active growth or flower phases that may have been missed during the initial survey.

Prior to any mine development activities, ZZ Exploration will conduct an extensive survey during spring to identify any weed species that were not recorded during the initial flora survey. A Weed Management Plan will also be developed.

During the proposed drilling program at the Mariposa prospect, ZZ Exploration will ensure that all drilling operations follow weed prevention measures, as outlined in the Mineral Exploration Code of Practice (1999).

5.4.3 Fauna

As part of the flora survey conducted in February 2006, a fauna survey was also undertaken (French 2006b, Appendix DD).

A database search (GTSpot) indicated the presences of the Grey goshawk (*Accipiter novae-hollandiae*), Hydrobiid snails (*Beddomeia zeehanensis* and *Phrantela conica*), and the Spotted-tailed quoll (*Dasyurus maculatus*) recorded as occurring near the Mariposa mine (French 2006b).

During the fauna survey, no sightings of the above species were recorded (French 2006b). The habitat is considered to be suitable for the Grey goshawk, though no nests or the species were observed during the survey. Further assessments are recommended



if vegetation clearance is required, to identify the potential impacts on the Grey goshawk (French 2006b).

5.4.4 European Heritage

A European heritage survey was undertaken by Parry Kostoglou in March 2006 to assess the Mariposa mine site heritage values, with regards to possible impacts from the proposed drilling program (Appendix EE). The following observations were made following the site inspection (Kostoglou 2006b):

- The resident cultural heritage appears to be of modest scale and significance;
- Most mine associated features such as the former tramline have already been re-used and heavily modified by the AMOCO drilling program undertaken during the 1990's; and
- The surviving *in situ* remains such as brick and machinery scatter relating to historic 19th century mining are considered to be incidental features that can be readily avoided by drilling operators.

The proposed drilling program will therefore not have any impacts on the European heritage values at the Mariposa mine site.

Prior to any mine developments, a complete European heritage survey will be undertaken at the site.

5.4.5 Aboriginal Heritage

An Aboriginal heritage survey was undertaken by Rocky Sainty in February 2006. As part of the survey, the TASI at the Aboriginal Heritage Office was inspected to identify if any Aboriginal heritage sites had previously been recorded within the Mariposa mine area (Sainty 2006b). The search indicated that to date, no sites had been recorded within the mine area (Sainty 2006b).

A field survey indicated that the Aboriginal landscape had been heavily impacted by previous mining operations (Sainty 2006b, Appendix FF). At the time of the survey, ground visibility was considered to be poor, with dense vegetation limiting the survey (Sainty 2006b).

Although no Aboriginal sites were located within the survey area, it is recommended that if any shell material is unearthed when mine redevelopment commences, then the works should cease immediately and the TALSC or the Aboriginal Heritage Office be contacted immediately (Sainty 2006b).

6 EXPLORATION EXPENDITURE

6.1 EXPENDITURE DURING THIS REPORTING PERIOD

Table 15 summarises the expenditure by ZZ Exploration over EL 20/2002 during the reporting period.

Table 15: Summary of expenditure over EL 20/2002 during 2005 - 2006.

Expenditure Statement	2005				2006	2005 - 2006
Category	March Quarter	June Quarter	September Quarter	December Quater	March Quater	Category Total
Geology	\$12,987.82	\$8,800.00	\$26,553.00	\$31,552.80	\$119,625.43	\$199,519.05
Geochemistry	\$576.00	-	\$2,460.83	\$523.80	\$3,287.89	\$6,848.52
Geophysics – Air	-	-	-	-	-	-
Geophysics – Ground	-	-	-	-	\$21,270.55	\$21,270.55
Feasibility Studies	\$8,095.69	-	-	\$4,545.45	\$79,695.05	\$92,336.19
Rehabilitation	-	-	-	-	-	-
Drilling (m)	\$1,430.00	\$12,504.16	-	-	\$70,904.14	\$84,838.30
Gridding line km)	-	-	-	-	-	-
Administration	\$1,420.74	-	-	-	\$9,426.03	\$10,846.77
Other	\$71,829.35	\$5,997.50	\$19,678.77	\$31,707.26	\$121,842.55	\$251,055.43
Grand Total	\$96,339.60	\$27,301.66	\$48,692.60	\$68,329.31	\$426,051.64	\$666,714.81

6.2 EXPENDITURE COMMITMENTS

EL20/2002 was granted on 7 February 2003 with an attaching expenditure commitment of \$750,000 for the first two years. As the exploration licence was granted in the March quarter of 2003, expenditure is therefore reported from (and including) the March quarter of one year, through to the March quarter of the next year (e.g. March quarter 2003 – March quarter 2004) (Table 16).

Table 16: Expenditure commitments by ZZ Exploration over EL 20/2002.

Expenditure required (minimum)	EL20/2002 (71km ²)
Years 1 & 2	\$750,000
Year 3	\$1000 per km ² per annum
Year 4	\$2000 per km ² per annum
Year 5	\$5000 per km ² per annum
Total minimum expenditure up to March quarter 2006 (including years 1, 2 & 3)	\$821,000

Information supplied by ZZ Exploration indicates that the actual expenditure for each exploration licence, for the first three year term of EL 20/2002 was \$827,963 (Table 17). This expenditure is in excess of the required commitment for EL 20/2002.

Table 17: Expenditure over EL 20/2002 by ZZ Exploration during 2003 - 2006.

Expenditure Statement	2003	2004	2005	2006	2003-2006
Category	Total	Total	Total	First Quarter	Category Total
Geology	\$87,948.07	\$26,772.54	\$79,893.62	\$119,625.43	\$314,239.66
Geochemistry	-	\$200.00	\$3,560.63	\$3,287.89	\$7,048.12
Geophysics – Air	\$2,200.00	-	-	-	\$2,200.00
Geophysics – Ground	-	-	-	\$21,270.55	\$21,270.55
Feasibility Studies	\$5,488.00	\$3,549.05	\$12,641.14	\$79,695.05	\$101,373.24
Rehabilitation	-	-	-	-	-
Drilling (m)	-	-	\$13,934.16	\$70,904.14	\$84,838.30
Gridding line (km)	-	-	-	-	-
Administration	\$9,992.11	\$497.00	\$1,420.74	\$9,426.03	\$21,335.88
Other	\$4,285.00	\$20,516.50	\$129,212.88	\$121,842.55	\$275,856.93
GST Error	-	-\$200.00	-	-	-\$200.00
Grand Total	\$109,913.18	\$51,335.09	\$240,663.17	\$426,051.64	\$827,963.08

ZZ Exploration was advised by the Minister for Infrastructure, Energy and Resources (DIER), in a letter dated 7 July 2005, that his decision to revoke EL 20/2002 under Section 34(1) of the Mineral Resources Development Act 1995, would stand. The Minister had convened a meeting with the ZZ Exploration on 8 June 2005 regarding the issue of proceeding to revoke EL 20/2002.

ZZ Exploration has advised the Minister in a letter dated 13 April 2005 that expenditure on EL 20/2002 for the first two year period was a total of \$477,731 and that ZZ Exploration would commit to spend an additional \$492,412 on EL20/2002 to cover the shortfall of actual expenditure compared to commitments.

ZZ Exploration advised the Minister, in a letter dated 4 August 2005, that it would appeal against the decision to revoke EL 20/2002. Subsequently, the first hearing of the Mining Tribunal was held in Launceston on the 26 September 2005 and the discovery process initiated. A second hearing for 28 October 2005 was adjourned and the next hearing is set for 28 November 2006.



7 PROPOSED WORK PROGRAM

Exploration during 2006 over EL 20/2002 by ZZ Exploration will consist of the following elements:

- Further RC drilling program over the Oceana prospect;
- Geochemical analysis of RC samples from Oceana;
- Re-pegging of local grids at the Oceana and Mariposa prospects;
- Initial resource estimation for the Mariposa prospect;
- Conceptual open pit and underground designs for the Mariposa prospect;
- RC drilling of the Mariposa prospect; and
- Undertake regional scale studies into the nature of mineral deposits and the possibility of the discovery of new deposits.

Several of the elements that fall under the 2006 work program have been completed or are in progress. These include:

- RC drilling program over the Oceana prospect (drilling completed);
- Geochemical analysis of RC samples from Oceana (660m) (analysis underway);
- Re-pegging of local grids at the Oceana and Mariposa prospects (completed);
- Ground-based gravity survey over the Oceana prospect (completed);
- Initial resource estimation for the Mariposa prospect (completed); and
- Conceptual open pit and underground designs for the Mariposa prospect (completed).



8 SUMMARY OF EXPLORATION ACTIVITIES WITHIN EL 20/2002

A summary of the exploration activities undertaken by ZZ Exploration during the reporting period is as follows:

Regional Exploration

- Gravity Survey – approximately 18 km of on ground gravity @ 25m spacing has been undertaken by Solo Geophysics Pty Ltd under the supervision of David Leaman; and
- Initiation of a study into the possibility of other outcrops (e.g. Gordon Limestone, Oonah Formation, Bell Shale) hosting small scale lead-zinc deposits, nickel mineralization (e.g. Avebury of Melba Flats style deposits), and the potential for iron-magnetite resources proximal to the Heemskirk Granite.

Oceana Prospect

- Completion of five costeans along the surface of the Oceana prospect;
- Geochemical analysis of samples taken from the costeans;
- RC drilling of 100m (3 drill holes, ZZE1-3) at the Oceana prospect;
- Geochemical analysis of RC samples collected from ZZE1-3;
- Development of a mine plan, including pit design and mine layout;
- Carrying out a detailed gravity survey over the Oceana prospect;
- Investigations into the geological mode of deposit formation;
- The reinstallation of the original AMOCO grid;
- Detailed GPS surveying of grid pegs and old drillhole collars;
- Collection of rock density measurements from existing drill core, and amassing core photography to assess previous core recoveries;
- An application for a mining lease covering 220ha was submitted to Mineral Resources Tasmania on the 2 March 2005, with an amended application for a Mining lease covering 48ha submitted to Mineral Resources Tasmania on the 28 April 2005;
- Geological interpretation and block model for the Oceana deposit;
- Creation of a geological database for the Oceana prospect;
- Completion of a valuation of the minerals and production assets of the company's Zeehan projects for inclusion in a public document (Anderson & Schwab Australia Limited);
- A JORC Resource Statement for the Oceana lead-zinc deposit. The completed report includes a block model creation (to JORC Standard) based on a proposed open pit operation to a depth of 175m (SMG Consultants Consulting Pty Ltd);
- Completion of a review by Dr John Cottle (Cotlco Pty Ltd) to define a JORC compliant resource estimation and classification over EL 20/2002;
- Flora and fauna survey of the Oceana prospect;
- A survey for Aboriginal heritage at the Oceana prospect, Zeehan;
- Archaeological study of the Oceana prospect;
- Submission and approval of a drilling program;
- Completion of 665.5m of RC drilling of the Oceana deposit within the Indicated Resource area; and

- Initiation of geochemical analysis of 765 samples collected during RC drilling operations.

Mariposa Prospect

- A survey for Aboriginal heritage at the Mariposa prospect;
- Initial flora and fauna survey of the Mariposa prospect;
- Geological interpretation and block model report for the Mariposa prospect;
- Conceptual open pit optimisation of Mariposa West Lode;
- Conceptual underground mine design – Mariposa West Lode;
- Initial archaeological study of the Mariposa prospect;
- Submission and approval of a drilling program;
- Application for a mining lease over the Mariposa prospect;
- The reinstatement of the original ‘Local Grid’;
- Investigations into the geological mode of deposit formation; and
- Undertaking resource estimation and definition.

An exploration activity map illustrating the areas that have been the focus of exploration during the reporting period and the nature of the exploration is provided in Figure 10.

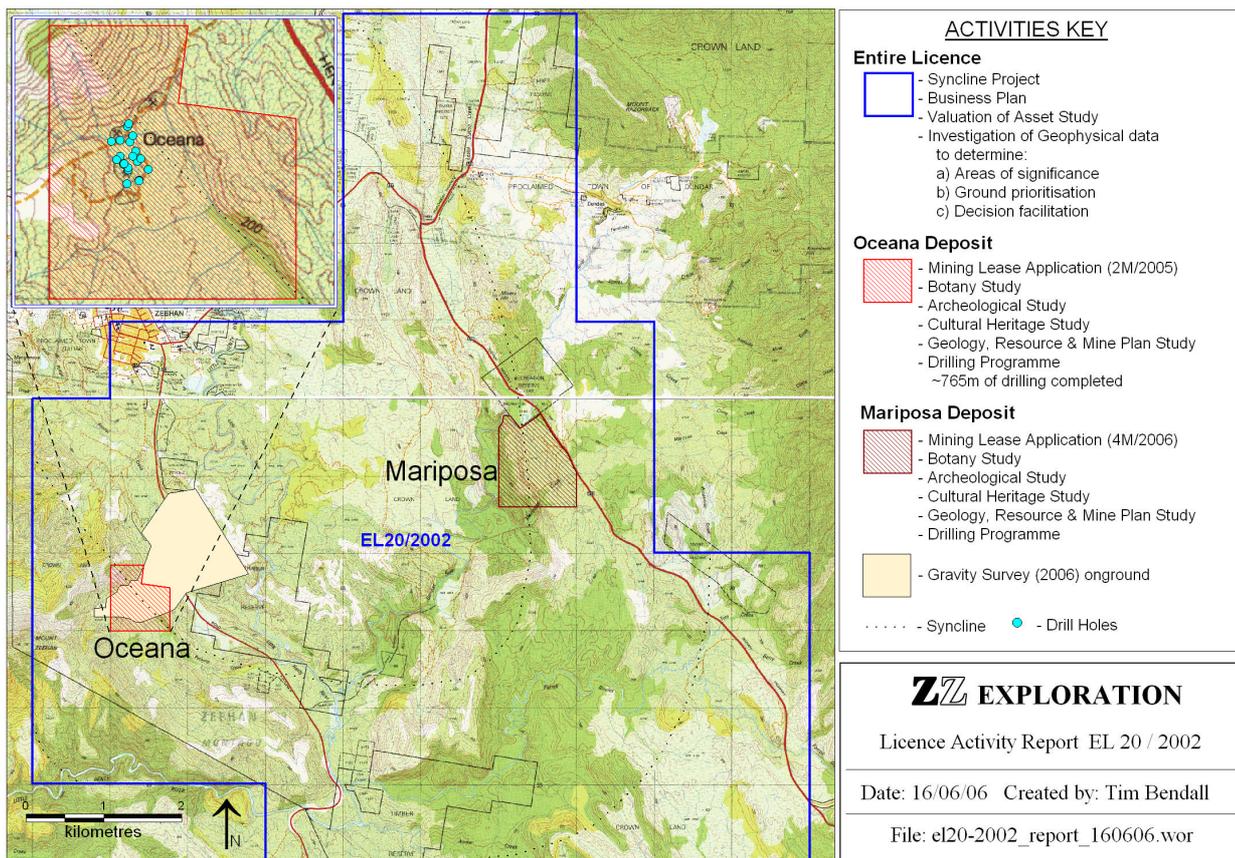


Figure 10: Exploration activity map for EL 20/2002 during 2005.

9 REFERENCES

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