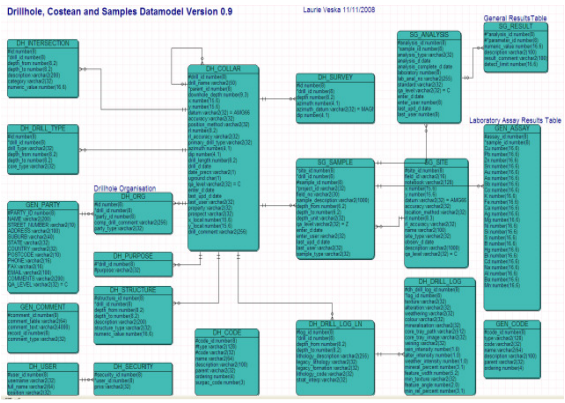
ZZ EXPLORATION Pty Ltd

EXPLORATION LICENCE 18/2003
ANNUAL REPORT

DECEMBER 2007 – DECEMBER 2008



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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 (ZZE) over Exploration Licence 18/2003 (EL 18/2003) during December 2007 - December 2008.

Role in the Regulation Process

This document fulfils the role of an Annual Report for EL 18/2003 during December 2007 - December 2008, as required under Section 28 of the *Mineral Resources Development Act 1995*.

ABSTRACT

ZZ Exploration Pty Ltd (ZZE) currently holds exploration licence 18/2003 (EL18/2003), which is primarily of interest to the company for the potential to host remobilised nickel skarn deposits akin to Avebury.

During the period December 2007 – December 2008 Zeehan Zinc has seen much corporate change. During this challenging time, the exploration focus of the company has shifted almost entirely to the nickel potential of its licences.

An airborne geophysics survey will cover the licence area in 2009, with ground magnetics; soil geochemistry and a geological mapping program planned over resultant areas of interest (see Appendix B in EL20/2002 2008 Annual Report for detailed proposed work program).

CONTENTS

FIGURES

1 INTRODUCTION

1.1 Purpose of This Document

This document fulfils the role of an Annual Report for EL 18/2003 during December 2007–December 2008 as required under Section 28 of the Mineral Resources Development Act 1995.

1.2 The Proponent

ZZ Exploration Pty Ltd is a wholly owned subsidiary of Zeehan Zinc Ltd (Zeehan Zinc). ZZE currently holds Exploration Licence 18/2003, which includes numerous diverse historic mineral deposits. Zeehan Zinc's long term objective is to grow through success in nickel exploration within the Zeehan area, and through mineral acquisition opportunities both in Australia and overseas.

1.3 Exploration Licence Location and Operations

1.3.1 Site Location and Mineral Exploration Area

Exploration Licence 18/2003 (EL 18/2003) covers 12 square kilometres located four kilometres southwest from Zeehan, and an additional two square kilometres located eight kilometres west from Zeehan, in western Tasmania (Figure 1).

The main access to EL 18/2003 is via Trial Harbour Road and a 4WD is required to negotiate the numerous overgrown tracks that cross the area.

EL 18/2003 is dominated by flat open button grass plains, rolling hills, swamps, tea-tree scrubland and dense eucalypt regrowth. The latter is particularly dense along creek beds and in other low-lying areas.

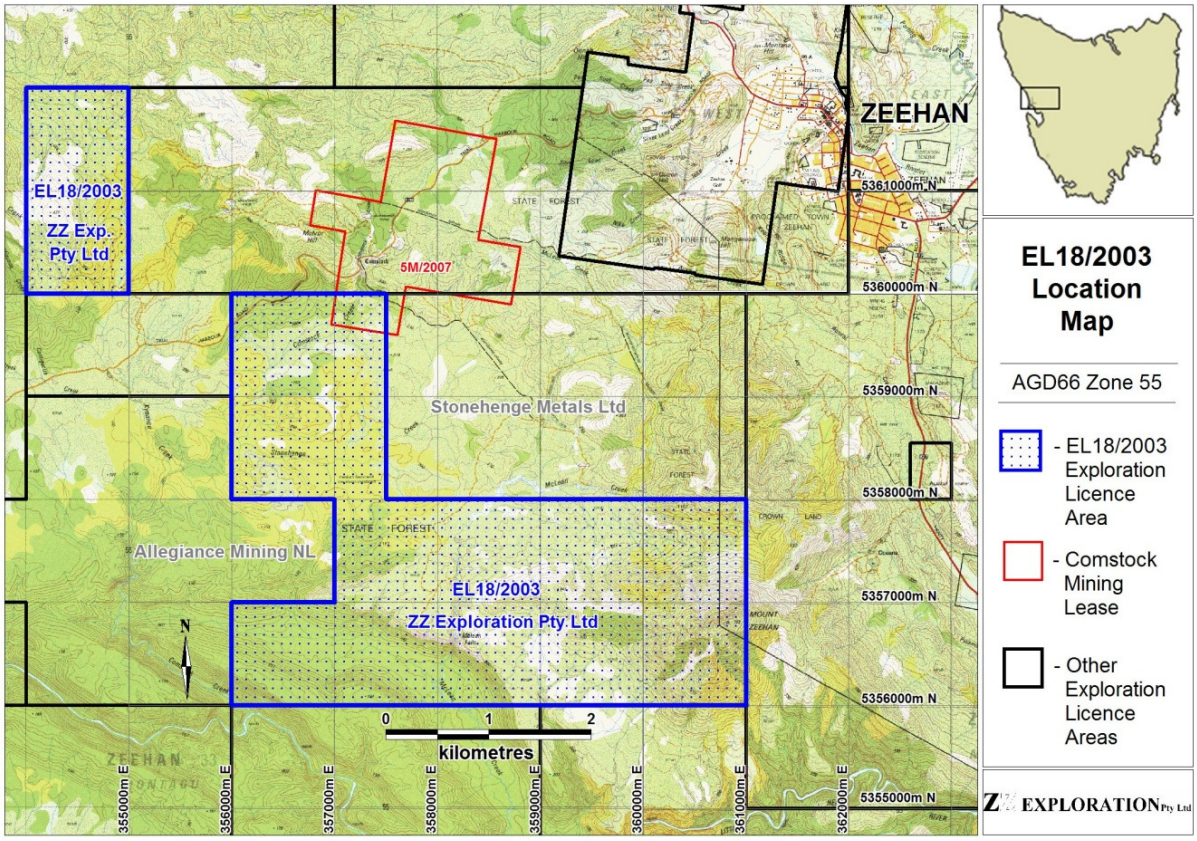

Figure 1 Location of EL 18/2003

1.3.2 Exploration Licence Tenure

EL 18/2003 was granted to ZZE on 3 February 2005 for a period of five years and applies to all Category 1, 3, 4 and 5(a) minerals. The licence covers 14 square kilometres and excluded areas include:

- Any land owned or leased by the Commonwealth of Australia;
- Mining Leases;
- Retention Licences; and
- Crown reservations.

The current land tenure in and around EL 18/2003 is provided in Figure 2.

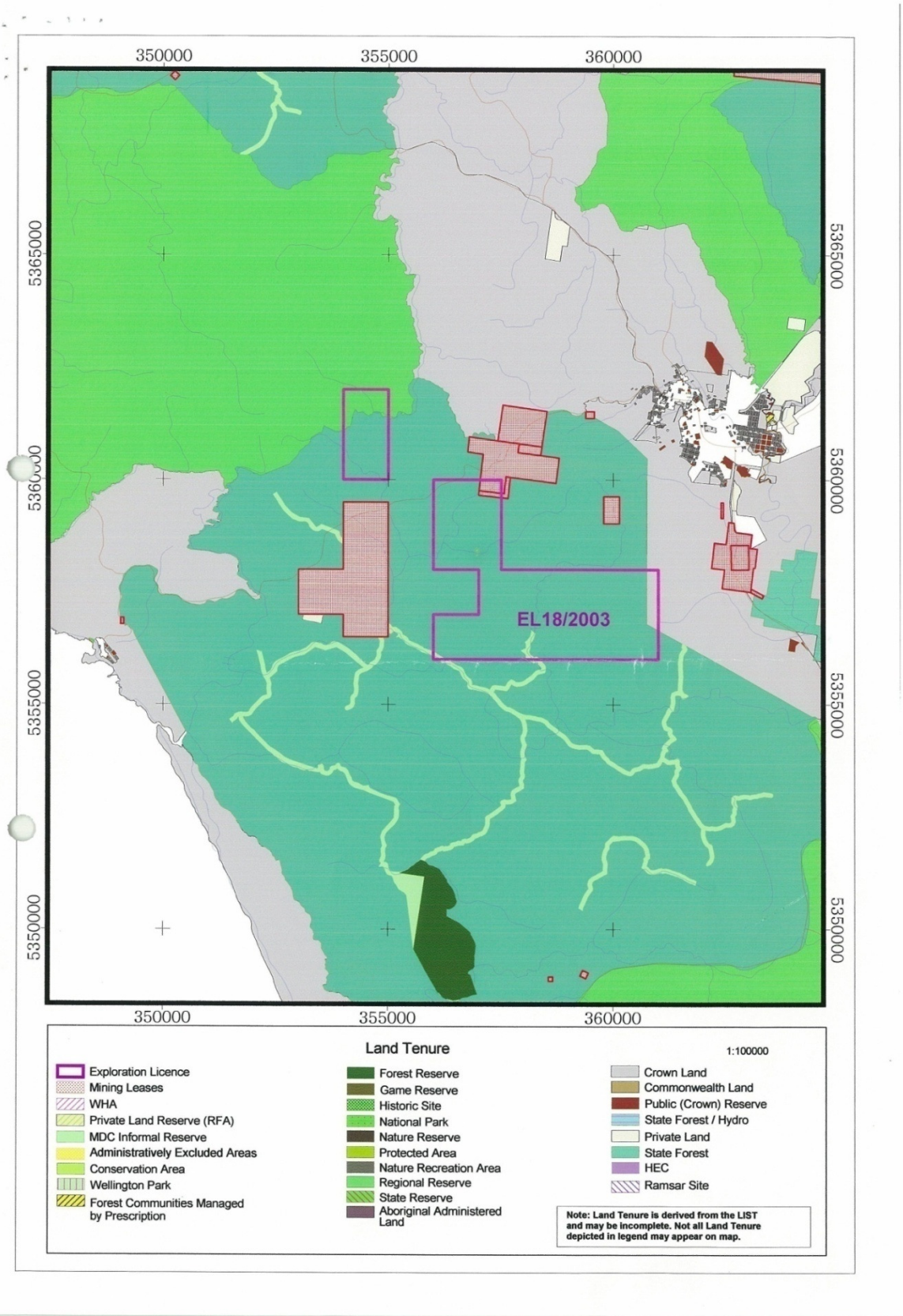

Figure 2 Land tenure for EL18/2003

2 SUMMARY OF PREVIOUS WORK

2.1 Previous Mining and Exploration within EL 18/2003

The known mineral deposits within EL 18/2003 have been subjected to various phases of mineral exploration which date back to the 19th century as outlined in Blissett, 1962. For recent exploration activity in the region see section 3.2.1 below.

3 EXPLORATION UNDERTAKEN DURING 2008

3.1 Summary

A summary of exploration activities undertaken is presented below.

- Development and implementation of Oracle RDBMS and web application for managing Zeehan Zinc's geoscientific data
- Literature review of nickel potential

A regional literature review of nickel prospectivity in EL18/2003 has been performed by internal geologists, and by consultant geologist Simon Tear (See Appendix A in EL20/2002 2008 Annual Report).

3.2 Nickel Literature Review

The following section outlines the key features that Zeehan Zinc geologists have used to base their nickel exploration approach during the year, and likewise for 2009.

3.2.1 Avebury Mining and Exploration History

The Avebury deposit was first discovered/acknowledged by CRA Exploration (a subdivision of Rio Tinto) in 1998 through soil geochemistry and geophysics (magnetic) surveys, leading to the drilling of 3 holes ZA1, ZA2 and ZA3 in the North Avebury area, with ZA1 returning intercepts of 2.4m @ 1.44% Ni, ZA2 returning 3.85m @ 1.67% Ni and no significant assays in ZA3 (Tear, 2007). Since that time Allegiance Mining NL and now OZ Minerals have been able to define a significant resource that has gone into full production during mid-2008 (see Figure3.)

Resource Category	Tonnes	Grade %Ni	Contained Nickel Tonnes at		
			31/12/07	Previous Report 31/03/07	% increase in Tonnage
Inferred	9,760,000	0.88			
Indicated	6,050,000	1.01			
Measured	2,370,000	1.03			
Total	18,180,000	0.95	172,000	158,000	9%

Figure 3 Avebury Resource Summary - 0.4% Ni Cut-off Grade: Mineral Resources as at 18/02/2008 (inclusive of Ore Reserves) (Source: Allegiance Mining NL restated resource statement to the Australian Stock Exchange dated 18/02/2008)

The Avebury mineralisation is spread over several resource bodies and prospects including – North Avebury, South Avebury, East Avebury, Viking, Bismarck, Bison, Saxon and the Pontiac, Foundation Stone and Trial Harbour prospects (see Figure 4). Of particular interest in relation to exploration within Zeehan Zinc's tenements are the East Avebury, Saxon, Bismarck, Foundation Stone and Pontiac prospects, due to their proximity to the boundaries of EL18 and EL30 and their location on the magnetic anomalies seen in Figure 9 that extend into these licences.

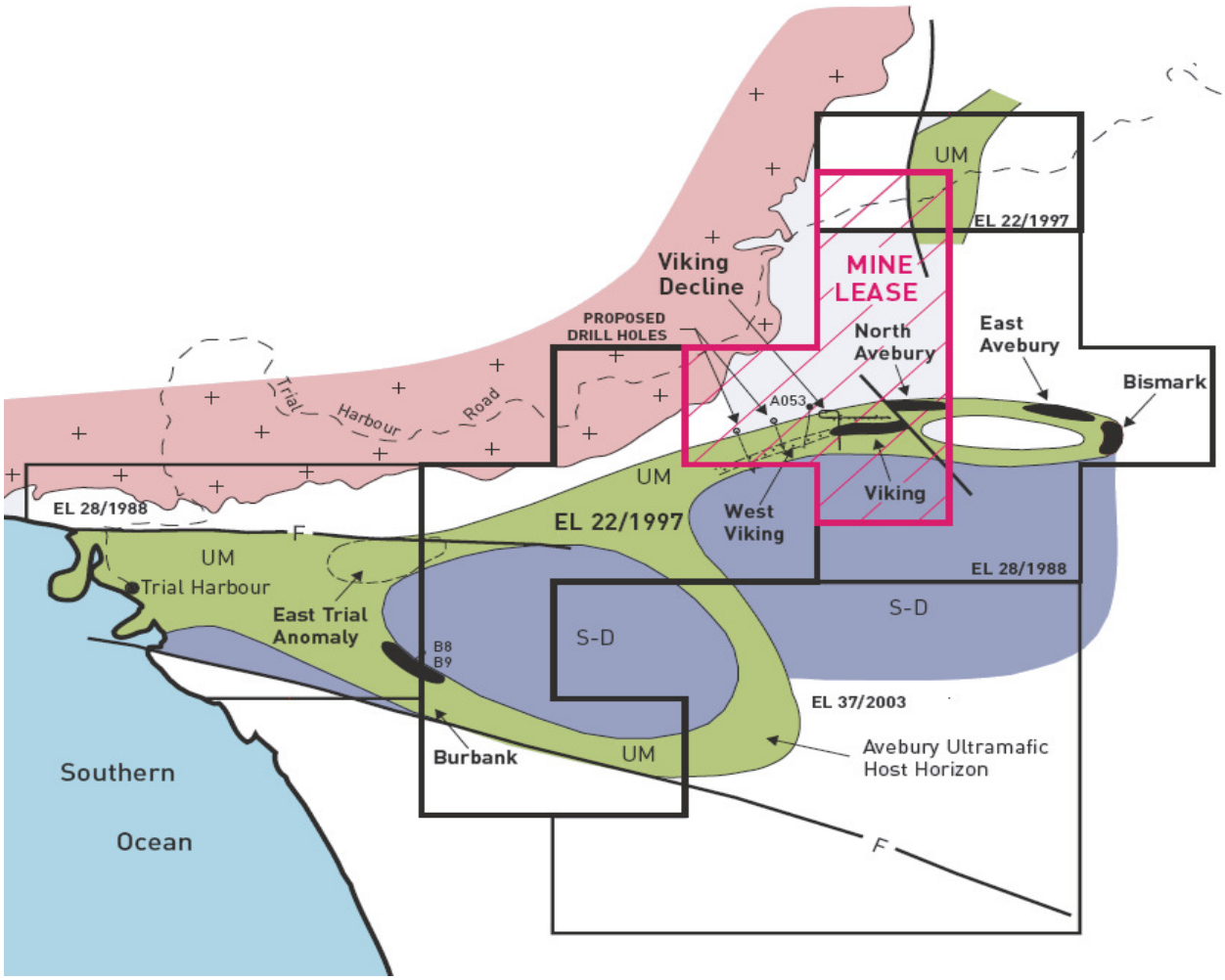

Figure 4 Simplified Geology map of Allegiance's Avebury District

Recent Drilling around East Avebury to date has identified:

- Eastern extensions of the North Avebury resource.
- A substantial deposit at East Avebury which is interpreted as lying along strike of North Avebury.
- A new deposit south of East Avebury named Saxon which is tentatively interpreted as an eastern extension of Viking.

As stated in Allegiance Mining's December 2007 Quarterly report: "During 2007, Allegiance Mining discovered its first ore-grade intercept (in DDHP008) of 8 metres averaging 1.0% Ni outside the main Avebury horizon at the Foundation Stone prospect, located some 1,500 metres north of the mine". This location just south of the Zeehan Zinc exploration licence EL18/2003 and part of the same magnetic anomaly that extends into EL18/2003 seen in Figure 9, further adds weight to the possibility of nickel deposits within Zeehan Zinc's exploration licences.

3.2.2 Avebury Geology, Structure and Alteration

The Mineralisation in the Avebury area is hosted within extensively altered Ultramafic intrusives, interpreted to be late Cambrian in age, and are hosted by the early- to mid-Cambrian aged Crimson Creek formation, consisting of volcanic and volcaniclastic sediments as well as turbidite sequences derived from a sub-tidal environment (Tear, 2007). These units are in close proximity to the Devonian aged Heemskirk Granite that has been interoperated for the ore fluids responsible for the deposition of the other mineralization styles, such as lead-zinc and tin-tungsten, within the Zeehan mineral field.

Allegiance Mining NL interpreted a syn-formal structure running east-west through the middle of the Avebury deposits, with minor north-south and northwest-southeast cross-faulting that "offsets the ultramafic sequence" allowing the concentration of the ore sulphides in the "fold noses" of the ultramafics, proximal to the offsets (see Figure 5 and 6).

The alteration associated with the deposition of the nickel mineralisation has involved extensive serpentinisation of the host ultramafics, with the alteration zones associated with the disseminated nickel sulphide orebodies experiencing strong rodingite, or "blackwall" alteration. This type of alteration is characterized by the calcification (calcium enrichment) of the ultramafics, resulting in the presence of calcium rich silicates, such as grossular garnet replacing the original, dark, iron-rich (or mafic) mineral assemblages, giving the rocks a white-"mottled" appearance. The endpoints of the intrusive ultramafic host rocks are also characterised by the presence of many high boron alteration derived minerals, such as tourmaline, dravite, brucite and szailbelyite, suggesting that the Devonian Heemskirk Granite has caused pervasive alteration/metasomatism during its intrusion (Tear, 2007).

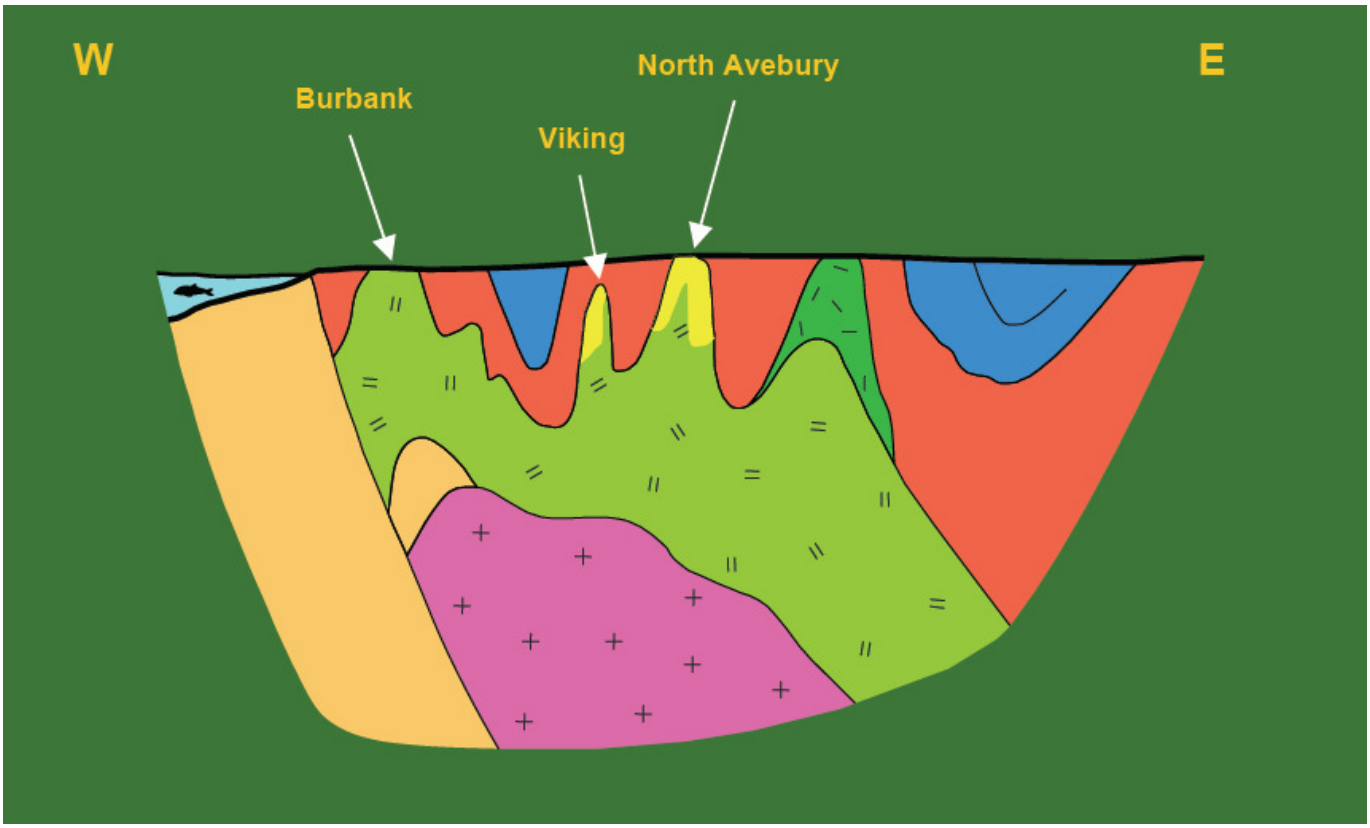

Figure 5 Simplified geological cross section showing location of known mineralisation (in yellow) and its relationship to the ultramafic intrusive (light green).

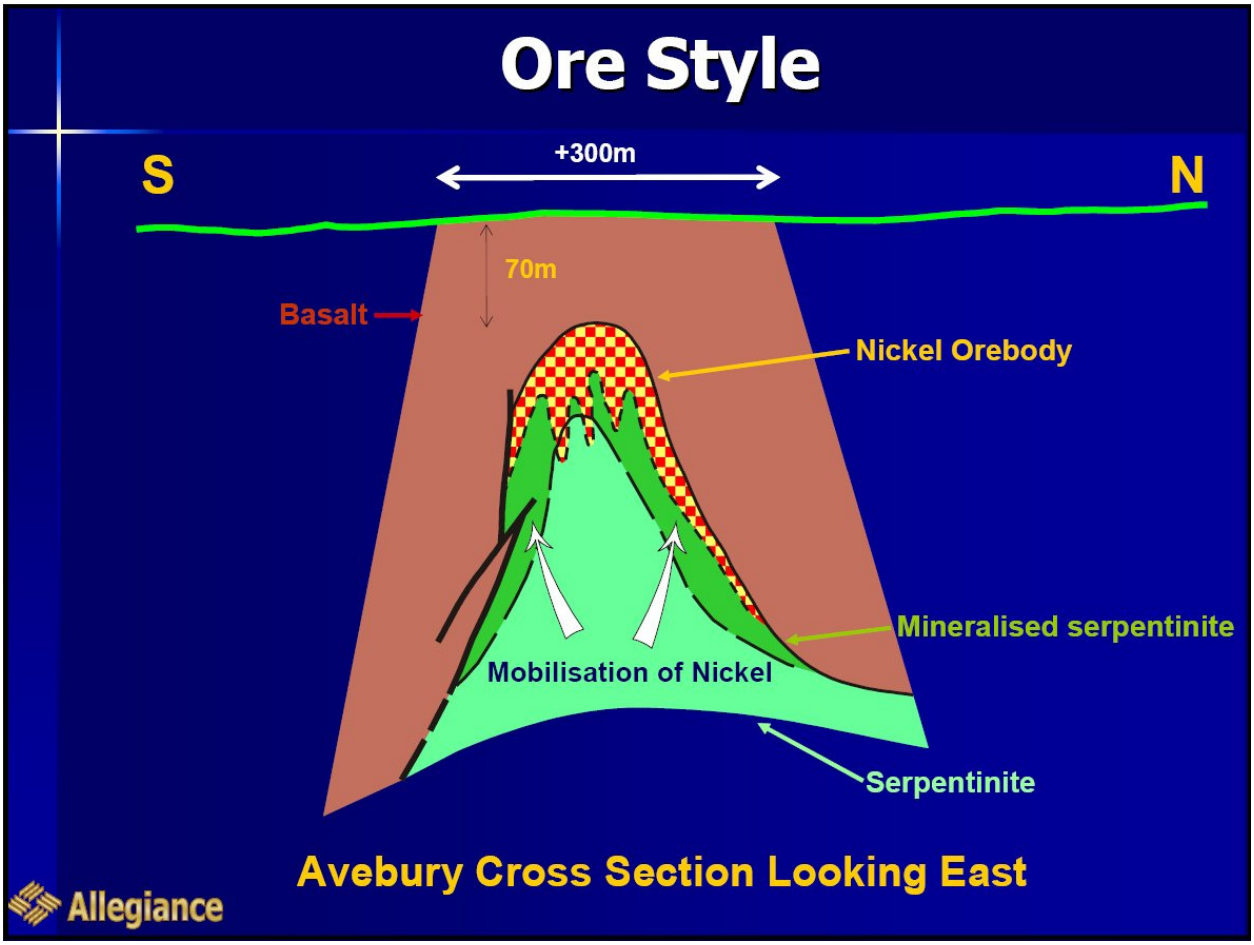

Figure 6 Simplified cross section of Avebury-style mineralisation (sourced from Allegiance "Diggers n Dealers" 08 August 2005 presentation).

3.2.3 Mineralisation at Avebury

The Avebury Nickel deposits occur as a Ni-skarn type mineralisation, with disseminated pentlandite hosted within late Cambrian ultramafic intrusive. Due to its simple metallurgy, the Avebury deposit produces one of the world's highest grade Ni-sulphide concentrates, grading at above 20% Ni, and is expected to produce more than 172,000 tonnes of Nickel over the lifespan of the mine (OZ Minerals website).

The nickel is likely to have been sourced from the olivines within the ultramafic intrusive host package, which in turn was likely to have been sourced from a magma generated deep within the Earth's lithosphere. The mineral concentrations of the pentlandite are essentially remobilized Ni-sulphide replacement mineralisation, related to high heat flow as a result of the post ultramafic emplacement intrusion and metasomatism associated with the Devonian Heemskirk Granite (Tear, 2007). The spatial distribution of the disseminated mineralisation appears to be structurally controlled into "fold noses" in

the ultramafic packages, adjacent to offsets, caused by faulting, within the ultramafics. This has allowed the faults to act as conduits for the ore bearing fluids and the fold noses of the ultramafics to act as structural traps for the remobilised nickel.

So far the main mineralised system at Avebury has been drill tested to extend more than 1000m along strike, with the recent discovery of "ore-grade intercepts" directly to the north of the Avebury mine at OZ minerals Foundation Stone prospect, within very close proximity to the Daverns prospect situated on the border of OZ minerals and Zeehan Zinc's exploration licences (See Fig 4)

3.2.4 Geophysics

OZ minerals main existing resources at Avebury are shown to sit around distinct magnetic anomalies that extend well into Zeehan Zinc's tenements. The anomaly appears in a large D-shape with Avebury sitting in the far southwest corner, extending eastward in Zeehan Zinc's EL18, then curves to the north, and under the Comstock Mine then back to the west and the Tenth Legion area of Zeehan Zinc's EL30 (See Figure 9). This anomaly can be attributed to large magnetite deposits in the northern area around Tenth Legion, but its relationship to the Avebury deposit, and vast areas of the magnetic anomaly with the exploration licences held by Zeehan Zinc make this area a highly prospective target.

3.2.5 Relationship and Relevance to Zeehan Zinc's Exploration

The potential for an Avebury-style nickel deposit is considerable, with similar geological and geophysical conditions observed to extend into Zeehan Zincs exploration licences from the nearby Avebury deposit owned by OZ minerals. This area of Zeehan Zinc's tenements also displays a similar spatial relationship to the Heemskirk Granite, believed to be the cause of the remobilisation and deposition of the Avebury Ni-skarn deposit.

The serpentinised, altered ultramafics that host the Avebury deposit, are also witnessed within Zeehan Zinc's tenements in 2 key locations, directly to the north of the Avebury deposit and the Pontiac and Foundation Stone Prospects, and directly to the east of the East Avebury/Saxon deposits (see Figures 4 and 9). An example of the serpentinised ultramafics found in Zeehan Zinc's tenements can be seen below in Figure 7.

Figure 7 Ultramafics & Massive Sulphides Drill hole SY009 (Comstock)

However none of the large sections of these ultramafics observed in Zeehan Zinc's tenements have ever been seriously targeted for nickel, as much of the exploration work done in the area has focused on lead-zinc mineralisation and was completed prior to the discovery of the Avebury deposit.

These known ultramafic also occur within the same magnetic anomaly as the Avebury deposit, and with the same spatial relationship to the Heemskirk Granite. And whilst these regions appear highly susceptible to the occurrence of an Avebury style deposit, very little work has yet been completed, due to historical work concentrating on lead-zinc, tin-tungsten and magnetite mineralisation. However the ultramafics reported in EL18 directly east of the Avebury deposit (and along strike) have experienced even less exploration, with Mineral Resources Tasmania having no drill holes or geochemical surveys reported in the area.

3.2.6 McLean Creek Area

This region of EL18 is of significance due to the locations proximity to other known nickel deposits, as well as possessing similar geological and geophysical properties, that appear to continue on from the nearby deposits. The area in question is positioned directly east of the East Avebury resource, and south of the exploration licence held by Stonehenge Metals in the middle of the Zeehan Zinc tenements, and in the McLean Creek Valley at the base of Mt Zeehan. This area also sits within the large magnetic anomaly associated with the Avebury deposits and lies along strike to OZ Minerals' East Avebury resource. The area has also been mapped to contain ultramafic units that correlate to the hosts of the mineralisation at the nearby deposits. There is also a report of a "Nickel Bearing Pyroxenite" (Reid, A.M., 1922) in the area between the old Swansea and Silver Duke workings; however no further work was undertaken on the area at the time due to the prospect being deemed "uneconomic" despite the visible

presence of the millerite, pentlandite and pyrite sulphides. These factors help make the area quite prospective with regards to nickel mineralisation.

Exploration work in the area should include:

- First gaining access to the remote area, in attempt to locate and mark the location of the "Nickel bearing Pyroxenite".
- Detailed mapping and further ground exploration of the surrounding terrain.
- Grid cutting to allow access and mapping of the region.
- A soil geochemistry survey, based on the mapping and grid cutting - this could be completed with minimal economic outlay due to the possession of the hand held XRF analyser.
- A detailed ground magnetic survey over the same area as the geochemical survey, with the company's ground magnetometer.
- Trench sampling/costeaning if allowed, and further exploration leading to a targeted drilling program.

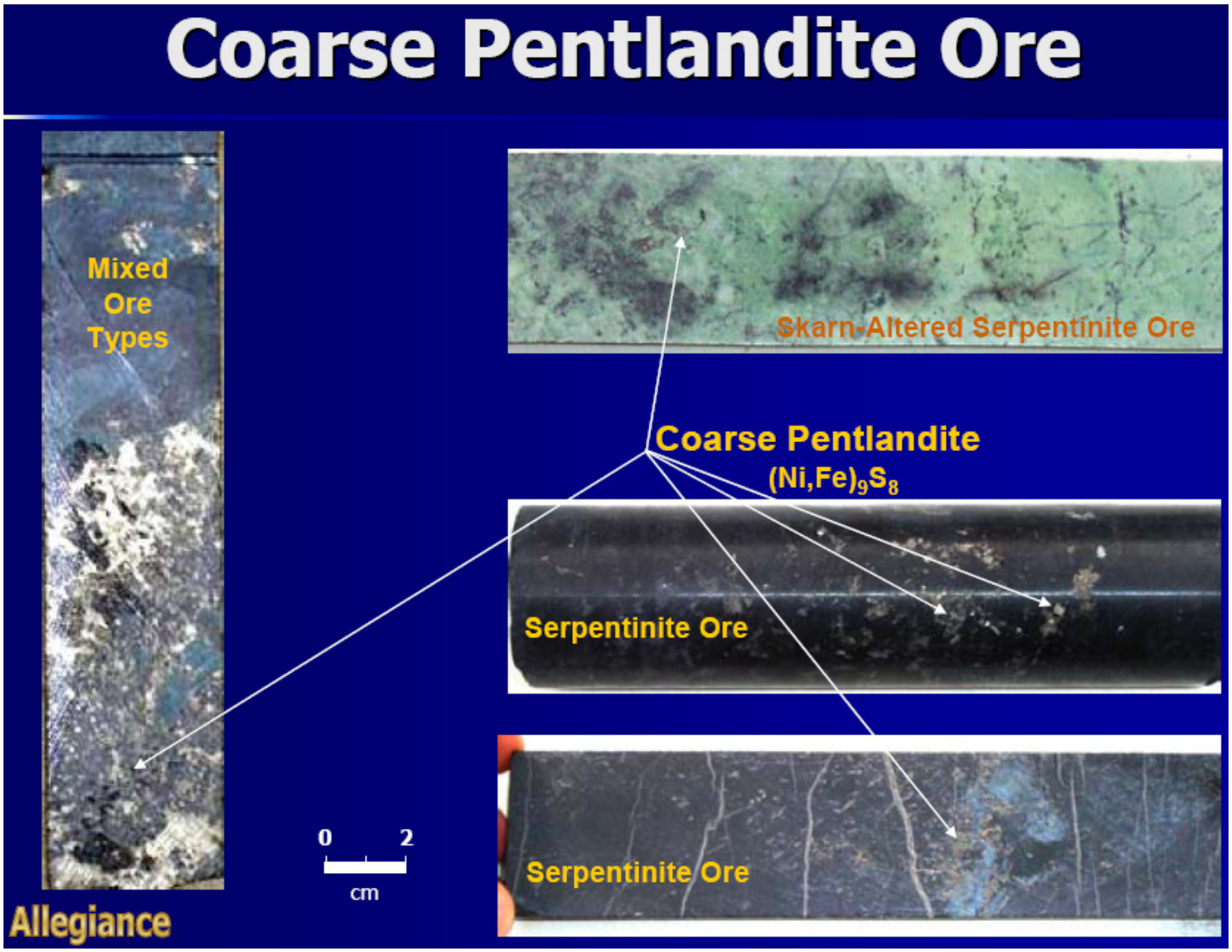

Figure 8 Coarse, high grade nickel mineralisation from drill core at Avebury (sourced from Allegiance "Diggers n Dealers" 08 August 2005 presentation).

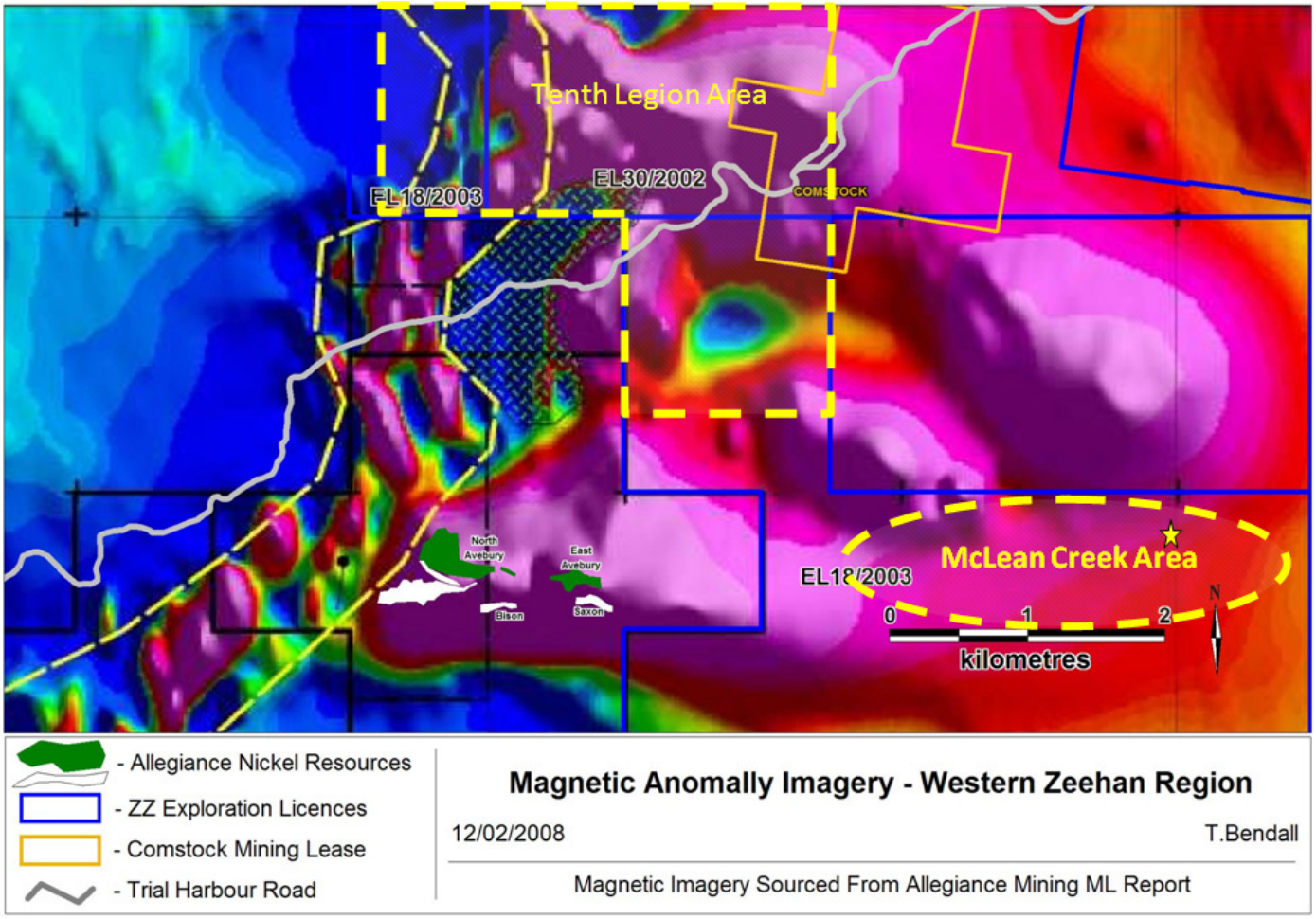

Figure 9 shows the large D-shaped magnetic anomaly associated with the Avebury Deposit and exploration target areas in yellow and the reported location of the mineralised pyroxenite unit indicated by the star.

4 DATABASE AND APPLICATION DEVELOPMENT

4.1 Introduction

Zeehan Zinc has a custom, internally developed database web application to manage its geoscientific information known as CoreStore (http://code.google.com/p/corestore).

Zeehan Zinc previously stored its geo-scientific data in a combination of MS Excel spreadsheets and MS Access file-based databases. There were separate MS Access databases for each major prospect e.g. Oceana, Comstock and Mariposa. There is other related spatial data such as GIS layers (MapInfo tab files, ESRI Shape files) stored on the server file system.

The scope of the work undertaken covered the storage, management and access to non-GIS data held by Zeehan Zinc and its subsidiaries, and also the management of third-party historic geo-scientific data including drilling and other.

4.2 Discussion

A recent Zeehan Zinc internal report, the AMC Consultants *Zeehan Zinc Resource Review 2007* (herewith to be known as the ***AMC Report***) recommended merging all data held in separate MS Access databases relating to the company's prospects into one central repository.

The AMC Report also recommended that data validation be incorporated into any solution, and that an approval or QA ability be built into the system.

Considering that Zeehan Zinc has personnel located in various locations in Tasmania, Australia (and the world) it would be logical that any solution include the ability for a worker or authorised third-party to access the company's corporate data directly and concurrently.

AMC recommend that the following outstanding information be included in the central repository:

- Detailed logging, lithology, weathering, textures and mineralogy
- QA/QC information
- Geotechnical logging
- Bulk density
- Geochemical soil sample data
- Magnetometer data
- Storage location of samples and drill core

For Zeehan Zinc to securely manage its geo-scientific data in a multi-user environment, a relational database management system (RDBMS) was chosen. This solution included the development of a custom web-based application (CoreStore) using Oracle Application Express

4.2.1 Software Rationale

Another potential software product, Microsoft SQL Server 2005 Express Edition, is a free, easy-to-use, lightweight, and embeddable version of SQL Server 2005. This product does not have a web-based management tool, or an integrated web-application development capability.

Oracle Database 10g Express Edition is Oracle Corporations equivalent solution to SQL Server Express Edition. This software is free to download and use, the key differences with Oracle's commercial database software is:

- Oracle Database XE is free for runtime usage with the following limitations:
- Supports up to 4GB of user data (in addition to Oracle system data)
- Single instance only of Oracle Database XE on any server
- May be installed on a multiple CPU server, but only executes on one processor in any server
- May be installed on a server with any amount of memory, but will only use up to 1GB RAM of available memory

Zeehan Zinc is unlikely to ever come anywhere near to the maximum user-data limit of 4GB. If this was ever a concern in the future, there is a straight-forward path for scaling up to one of Oracle's other database products. The Oracle XE product is particularly attractive because it is simple to install and administer, support is available from a number of free discussion forums, and it is a powerful and reliable software product.

The database may be administered using a web-based tool, so the company's personnel may browse, edit, import and export data from the RDBMS wherever they are in the world as long as they have browser access to the internet, and have been granted the appropriate database permissions.

The Oracle XE solution also allows various third-party applications to connect to the database via ODBC. Surpac, MS Access, MS Word, MapInfo and even MS Excel can directly connect to the database. Any software that can connect to an ODBC source should be able to connect to and interrogate the XE database.

4.2.2 Relational Model

A relational model was developed to encompass Zeehan Zinc's drilling information, historic drilling by other companies, plus other sample data such as rock-chip, soils etc. A data model diagram is included. This data-model diagram was created using the free Blueprint CASE Modelling Tool from Geometry P/L, Hobart. (See Appendix H and I in EL20/2002 2008 Annual Report)

4.2.3 Data Migration

All data currently stored in MS Access databases and MS Excel spreadsheets was migrated into the new data structure. Any missing data, or data not stored in a digital form was located and loaded into the new tables. Data migration was done by importing the existing MS Access tables via .csv text files into Oracle XE using the inbuilt web-based tools, and by using Oracle SQL Developer inbuilt migration tools. SQL scripts and PL/SQL procedures performed any translation required of the data between old and new data-models.

4.2.4 Application Development

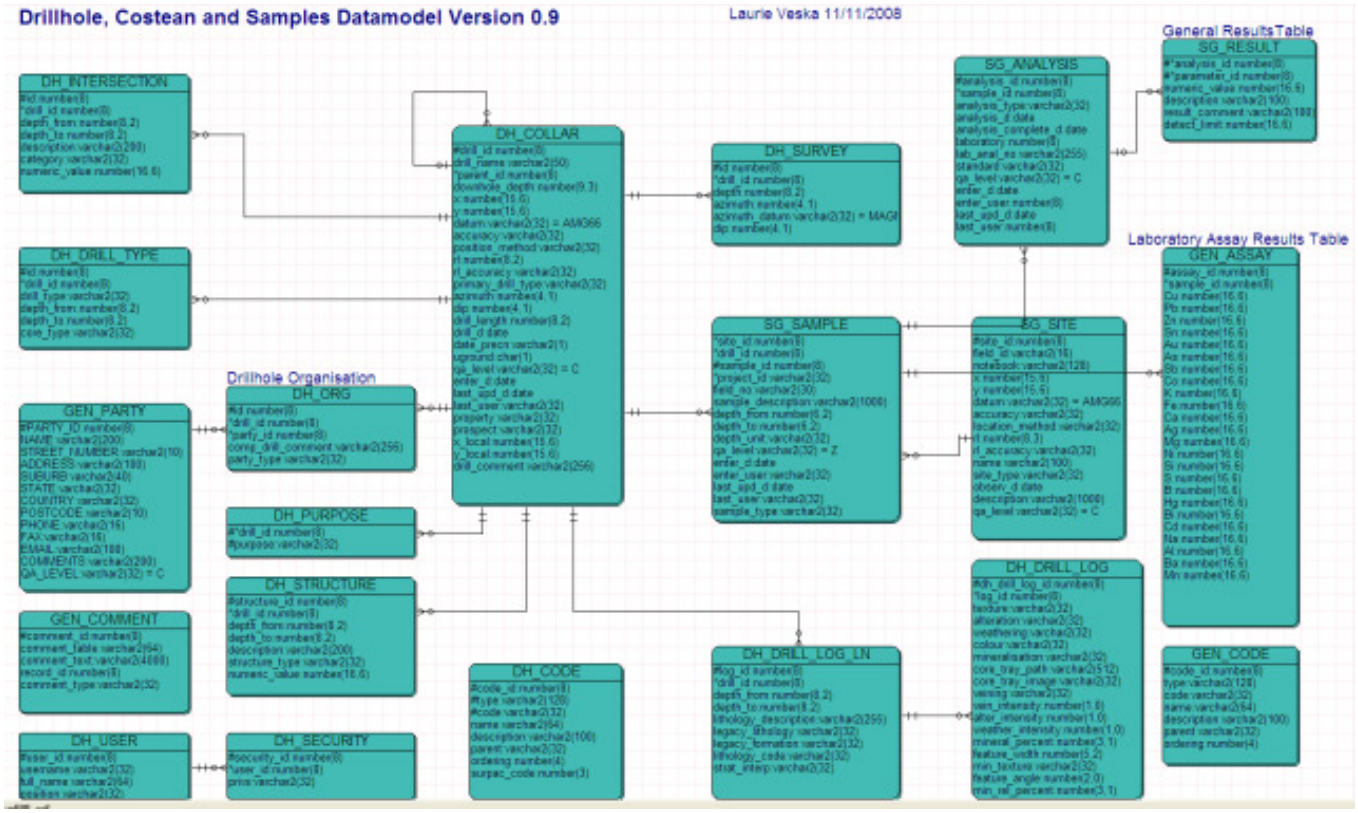

Figure 10 CoreStore Blueprint data model

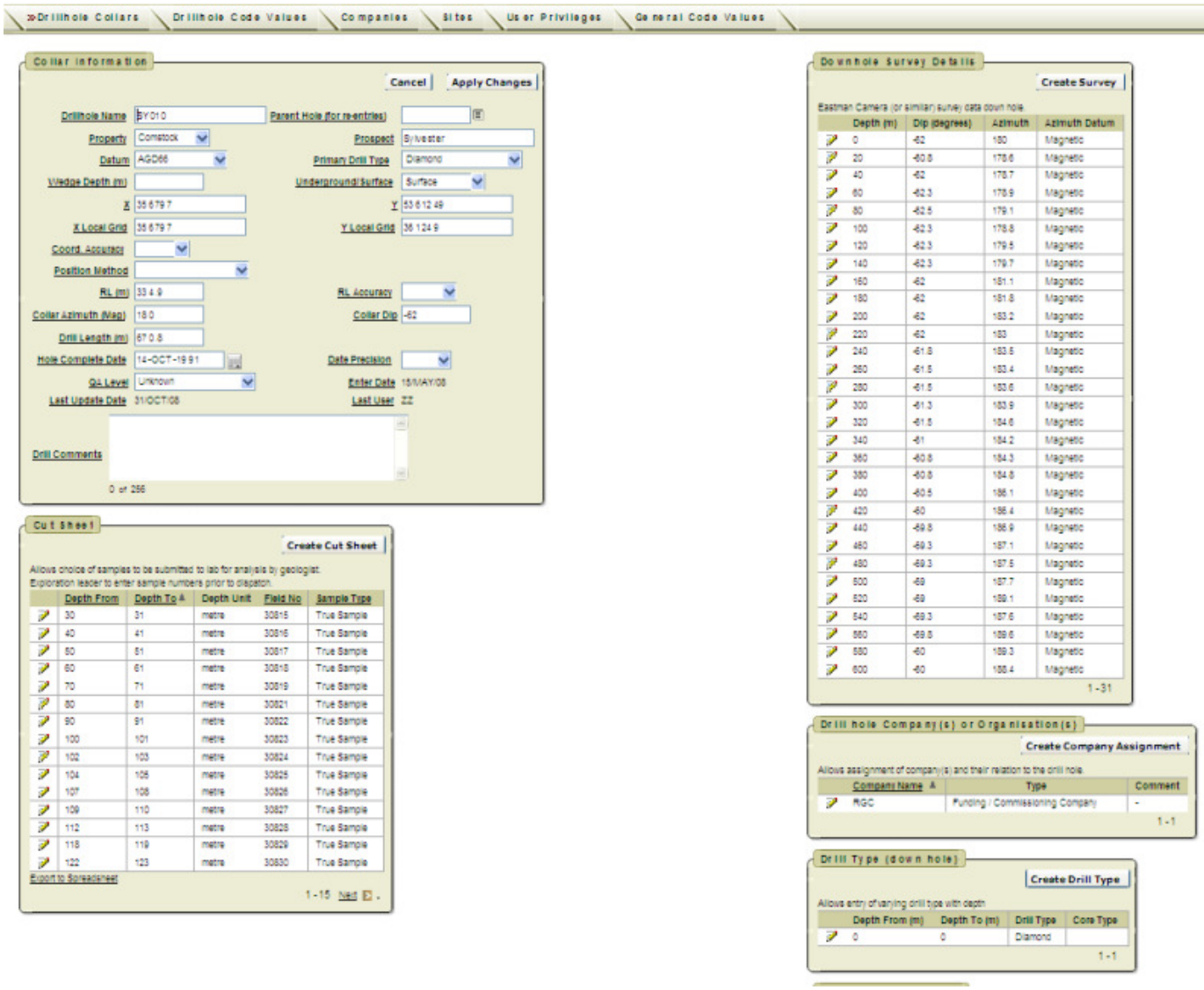

Figure 11 Screen capture of CoreStore Drill-hole application

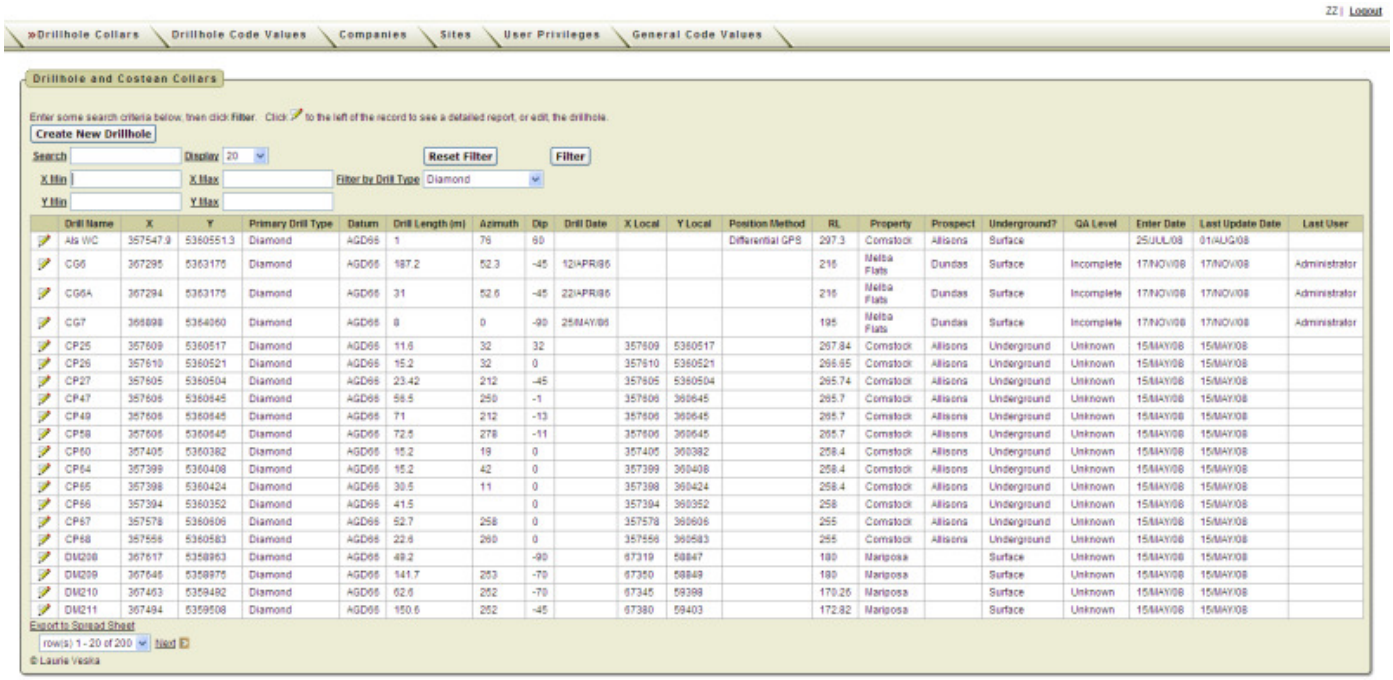

Figure 12 Screen capture of CoreStore Drill-hole application

5 CONCLUSIONS

Exploration work for nickel in EL18 during 2009 should include:

- Detailed mapping of the ultramafic units in the area, their alteration zones due to the relationships of the alteration to the mineralisation seen at Avebury, and their relationship to their host rocks.
- Soil geochemistry surveys over the most prospective areas mapped in the region, to help further target possible mineralised horizons, and can be completed with the company's hand-held XRF analyser.
- A detailed ground magnetic geophysical survey over the prospective areas determined from the mapping should also be completed as no detailed survey has been carried out to date.

Any targets produced from the above work can also then be further targeted through shallow trenching/costeaning if allowed and then Reverse Circulation drilling.

5.1 Proposed Work Program

ZZ Exploration has prepared a detailed proposed work program and budget for exploration during 2009. For complete details see Appendix B in EL20/2002 2008 Annual Report.

6 ENVIRONMENT

No environmental disturbance occurred during the reporting period.

7 EXPENDITURE

Expenditure for the four quarters for 2008 is presented below.

2008	Q1	$	31,197.00
	Q2	$	6,325.00
	Q3	$	2,750.00
	Q4	$	*

*The figures for EL18/2003 Q4 are currently being collated and will be presented in the next report.

8 REFERENCES

Allegiance “Diggers n Dealers” 08 August 2005 PowerPoint presentation).

Blisset, A.H. (1962). Geology of the Zeehan Sheet.

Tear , 2007 Zeehan Zinc Nickel Project, Western Tasmania. Internal Zeehan Zinc Report (included in EL20/2002 2008 Annual Report Appendix A)

Williams, K.L. (1958) Nickel Mineralisation in Western Tasmania. Proc. Aust. Inst. Min. Met., Stillwell Anniversary Volume.