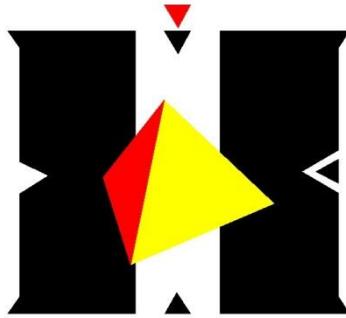


EXPLORATION LICENCE 19/2010

Lode Creek (Queensberry Mine), Tasmania

SECOND ANNUAL PROGRESS REPORT

for the period between 9 November 2011 and 8 November 2012



Australian Hualong Pty Ltd

Author: Joe Xie

Signed: 

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Distribution: Australian Hualong Pty Ltd
Mineral Resources Tasmania

Co-ordinate system used in maps and diagrams within this report is MGA55 (GDA94), unless otherwise specified.

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Abstract

Exploration targets in the area are for both Devonian Pb-Zn vein style mineralisation of the type in the region and Cambrian Rosebery or Hellyer type, Zn-Pb-Cu-Au-rich VHMS mineralisation hosted by the Mount Read Volcanics (MRV).

The area of EL19/2010 is centred at historical Queensberry Mine, with limited but high grade Pb-Ag ore produced between 1891 and 1924. Objective of Australian Hualong's exploration is to assess extent of known mineralisation and potential mineralisation within Mt Read Volcanics with the tenement area.

Four-hole diamond drilling programme was developed to follow up EH4 targets identified and test extensions to known mineralisation to Queensberry Mine. Conditional permission to drill was granted from MRT. No field work was carried out during the reporting period.

Expenditure for Year One of exploration is A\$4,400.

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1. Introduction

EL19/2010, Lode Creek, is located about 15km NW of Queenstown and also 15km SES of Zeehan, on the west coast of Tasmania (Figure 1). Historical Queensberry mine is located within this tenement. This tenement is found within Professor 1:25,000 map sheet, with an area of 28 sq. kms.

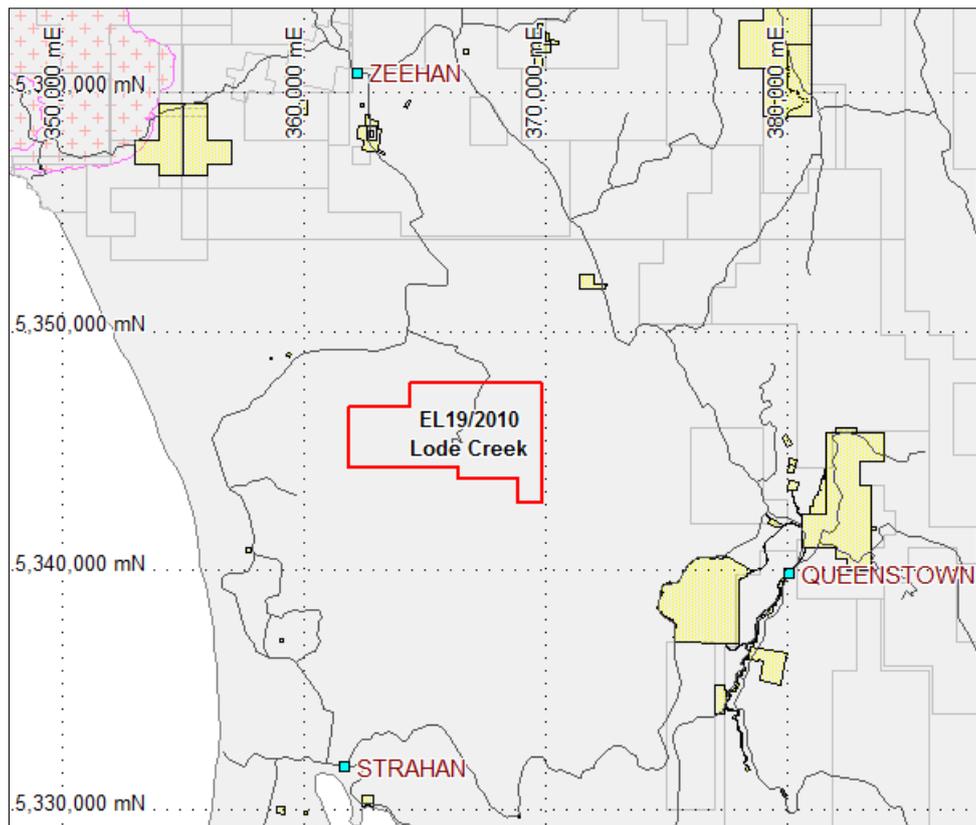


Fig 1: EL19/2010 Lode Creek, locality plan

Australian Hualong's main targets in EL19/2010 are Devonian Pb-Zn vein style mineralisation and Cambrian Rosebery or Hellyer type, Zn-Pb-Cu-Au-rich VHMS mineralisation hosted by the Mount Read Volcanics (MRV).

1.1 Access

The only access to the tenement is approximate 9km Queensberry Track from Zeehan-Strahan Rd turn-off to Queensberry Mine site. The track was in fair condition which provided 4WD access for 2011 field work season. But fallen trees blocked a section of the track close to Queensberry Mine site in early 2012.

1.2 Land Use

The land in EL 19/2010 area is within the Mt Dundas Regional Reserve and is available for mineral exploration under the Mineral Resources Development Act 1995.

1.3 Tenement Details

Exploration Release Area 798 was offered for tender by the Tasmanian Department of Mines, following relinquishment of EL04/2007 held by McDermott Mining. Australian Hualong Pty Ltd was successful in the subsequent tender process. The title was granted as EL19/2010 on 9th November 2010 for a period of five years.

2. Geology

Regions geology for EL19/2010 Lode Creek has been covered by the MRT's Strahan 1:50k Geological Sheet and explanatory notes (Baillie et al 1977 and 1985). Brown et al. (1995) and Selley et al. (1997) described and discussed regional correlations.

The geology of EL19/2010 Lode Creek is dominated by a major regional fault system, the Firewood Siding Fault (FSF). The FSF extends some 35 km from Queenstown to near Trial Harbour on the west coast. It has a general E-W to NNW trend and is offset by several NW to NNE faults, including the South Henty Fault. Stratigraphic and structural relationships indicate the FSF has had a prolonged history, with evidence of movements (McNeil 2002):

- Later than Jurassic, juxtaposing Permian sediments and Jurassic dolerite against Ordovician to Devonian sediments to the west of EL 11/2001 (Blissett and Guilline, 1962).
- In the Devonian, as indicated by the development of F3 structures adjacent to the FSF. Devonian movement on the FSF appears to be sinistral (Baillie and Williams, 1975; Selley and Meffre, 1997)
- In the Late Cambrian based thickness variations in Denison Group correlates to the north of the fault (Baillie, et al., 1985) and the effect of the fault on interpreted Cambrian folds (Selley and Meffre, 1997). Selley and Meffre (ibid) conclude that there is no structural or stratigraphic evidence that the FSF was active in the Middle Cambrian i.e., time of VHMS formation. However, the localisation, near Pearl Creek to the east of EL 11/2001, of "Middle Cambrian mafic volcanic units along the present trace of the FSF may provide evidence of an ancient syn-magmatic fracture system" (Selley and Meffre, 1997).

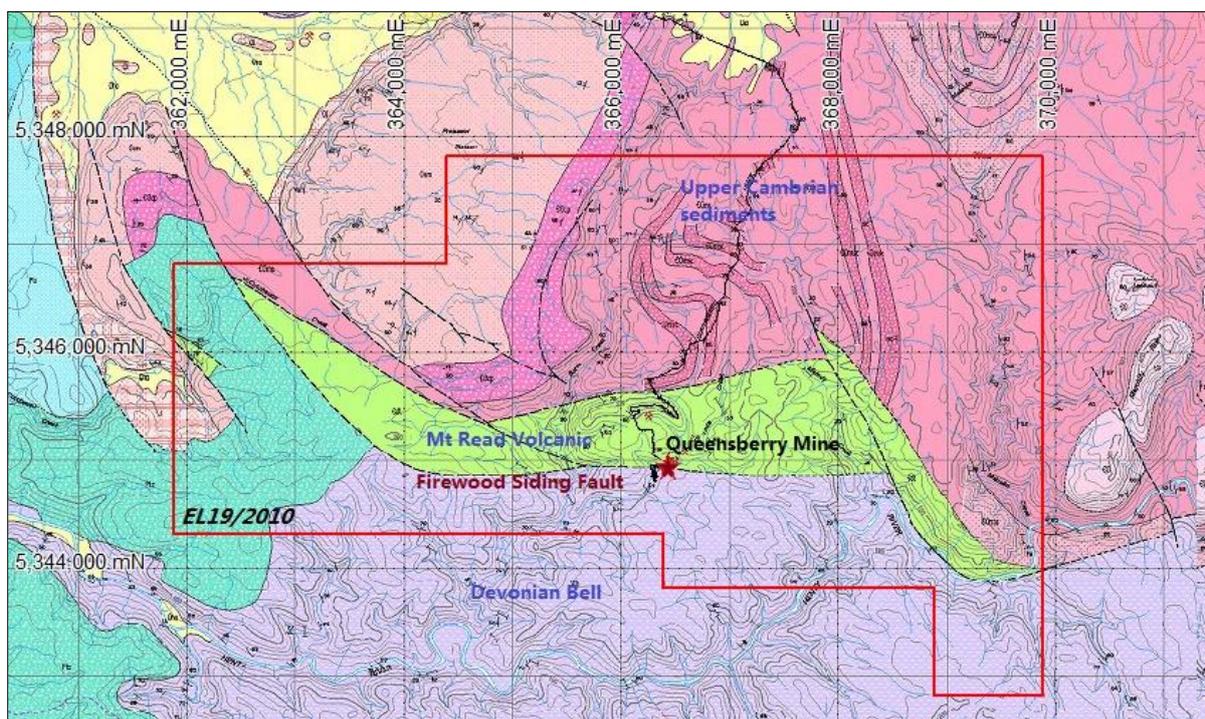


Fig. 2: Geology of Lode Creek area (1:25k MRT base geology)

The geology of EL 11/2001 can be subdivided into 3 lithological domains (McNeil 2002):

1. Correlates of the Devonian Bell, interbedded quartz sandstone and mudstones south of the Firewood Siding Fault.
2. A ~2.7 sq km fault bounded block of Mount Read Volcanic (Tyndall Group) correlates in the Firewood Siding Fault system.
3. A marine sedimentary sequence north of the Firewood Siding Fault, with fossils of Upper Cambrian age, which is correlated with the Denison Group.

Of these three, domain 2 is considered VHMS prospective. Lithologies from domain 2 have been described in some detail by Baillie et al (1985) and include siltstone, slate, lithicwacke (with a minor volcanogenic component) and volcanoclastics. The volcanoclastics are feldspar-quartz-phyric crystal-rich sandstones, shard-rich ashy siltstones and lesser coarse sandstones, with a volcanolithic component. Poor outcrop and complex structure have prevented the location or tracing of any marker horizons (Baillie et al., 1985).

3. Mineralization

McNeill & Skirka (2006) summarised the mineralisation in the area as below:

Known economic mineralisation on the tenement area is restricted to the Queensberry Mine, discovered in 1891 and worked prior to 1924, producing approximately 767t of Pb-Ag ore. More recently drilling (8 shallow holes) and surface sampling (Lennox, 1970) allowed the calculation of an 'inferred resource' of 28,300t @ 0.32% Cu, 11.53% Pb, 8.76% Zn and 52 g/t Ag (Green in Baillie et al., 1985). Only two Au assays of the ore are available and are in the range 0.2-0.3 g/t Au (Mathison, 1988). The geology of the Queensberry mine has been described in detail by Reid (1927), Forsythe (1968a), Lennox (1970) and Green (in Baillie et al., 1985). The deposit comprises 4 lodes (a fifth was known during initial mining but, has not been relocated in recent times) most of which have a northerly strike and west dip. Mineralogically the lodes comprise pyrite, arsenopyrite, sphalerite, chalcopyrite, galena, tetrahedrite and bournonite in a quartz-siderite gangue. Green (in Baillie et al., 1985) considered the mineralogy, coarse grain size, textures and paragenetic sequence of minerals was very similar to that of the Zeehan mineral field and concluded that the Queensberry Mine was a Devonian fissure fill deposit.

4. Review on Previous Exploration

The area of EL19/2010 has a prolonged mining history for base metals with the area of the Queensberry Mine held under a series of ML's from 1896 until 1994 (ML 27M/83) with the mining leases enclosed by a series of Special Prospectors Licences (McNeill 2002). Modern exploration commenced in the 1960's and is summarised in Table 1

Table 1: Previous Exploration in the area of EL19/2010 Lode Creek (after McNeill 2002)

Reporting Period /Tenement	Work Completed
1968 ML 11/12M66 SPL 25 (Forsythe, 1968a,b)	Queensberry Mine: 7 km of line cutting, mapping, rock-chip, soil and stream sediment sampling was completed. An intense Pb-Zn anomaly west of lodes creek was the main target worthy of follow-up. Regional: establishment of access tracks, reconnaissance mapping, rock-chip and stream sediment sampling. Further work recommended.
1970 ML 11/12M66 SPL 62 (Lennox, 1970)	Detailed investigations of the Queensberry Mine area: Approximately 3300m of trenching and side-cutting over areas of interest, detailed mapping and soil geochemistry and 8 DDH (640.1m total). Initial metallurgical test work was also completed.
1981-1982 ML 11/12M66 (Bendall, 1982)	Mapping and relocating old workings and drill holes; estimation of a resource.
1983-1984 EL 4/78 (Jones, 1984)	Regional stream sediment sampling located a significant anomaly on Malcolm Creek. Airborne magnetic anomalies were followed-up.
1985-1986 EL 10/85 (Bendall, 1986)	Regional scale mapping and track cutting for access; no further outcrops of Cambrian volcanoclastics located.
1987 EL 10/85 (Leaman, 1987)	Reviewed available regional geophysical datasets (magnetics and gravity) and concluded that the mineralisation has a subtle geophysical signature much larger than the known mineralisation. Concluded that prospective corridor within 1500m of FSF. Indicated magnetic anomalies A and B (Amoco's anomalies I and F/G) warranted some ground checking.
1987-1988 EL 4/78 (Mathison, 1988)	Review previous data and field visit to collect samples for Au analysis – best result 0.058 g/t from a dump sample near the main shaft. No further work recommended.
1989-1990 EL 34/88 (Anon, 1990)	An orientation gradient array IP survey was completed over a 300x200m area at Queensberry; results not reported in any detail.
1990-1998 EL 34/88 Kratochvil (1991)	No Field work. Kratochvil (1991) recommended stream sediment and other geochemical sampling at Queensberry to locate 'leakage' on major faults, but, this was not done as exploration rapidly focussed on the Gordon Limestone.
2001-2005 EL11/01 (McNeill & Skirka, 2006)	Pb-isotope analysis indicates that the Pb in the known mineralisation at Queensberry Mine has the target Cambrian (Rosebery) signature. Work included gridding (15.5 line km), surveying the grid with GPS, geological mapping, partial leach soil sampling (653 samples) and rock chip sampling (22 samples analysed). No significant results were produced.
2007-2009 EL4/07 (McDermott, 2009)	Rock chip sampling and an aeromagnetic survey were reported, however, no survey data were provided. Images of airborne geophysical surveys were included in the report. Two areas of interest were identified: along strike of the mineralisation and the other located outside western boundary of EL4/07.

5. Work Completed During Second Year of Exploration

Based on EH4 results from Year One, a four-hole diamond programme is developed to test EH4 anomalies, as well as extensions to know Queensberry mineralisation.

Permisson to drill was granted during the year, but no field work was carried out due to weather and blocked access to the site.

Earthmoving and drilling services are being organised to conducted the planned drilling programme.

6. Work Planning for Year 3

Work in Year 3 of the tenure will focus on completion of planned drilling programme. Other works planned include surface geological mapping and geochemistry.

Table 2: Planned Exploration for Year Two

Item	Details	Expenditure (\$)
Geological mapping and geochemistry	Niton soil and rock survey around Queensberry Mine and western part of the tenement area	10,000
Diamond drilling	Four diamond holes are planned for approximate a total of 1000m of drilling (incl. access cost).	300,000
Total		A\$310,000

7. Environment

Australian Hualong Pty Ltd has environmental policies in place to always ensure minimisation of the impact that exploration activities have on the environment. All vehicular travel within the tenement has been on the existing tracks.

8. Expenditure Statement

Expenditure for the period 9/11/2011 to 8/11/2012:

Expenditure	\$
Geology	3,000
Geochemistry	
Geophysics	
Remote Sensing	
Gridding	
Drilling	
Land Access Costs	1,000
Rehabilitation Costs	
Feasibility Study Cost	
Other Cost	
Administration Cost	400
TOTAL	\$4,400

Table 3: EL19/2010 Expenditure for the second year of tenure

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