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ANNUAL REPORT ON EXPLORATION LICENCE 3316

1. INTRODUCTION

Exploration Licence 3316 was granted to Peko-Wallsend Operations Ltd. on the 18th June, 1982. On the 18th June 1984 the area of the tenement was reduced by 50% and a further reduction was made in June 1985. An application for a further reduction was made in May 1986.

Upon grant the tenement was incorporated into a joint venture with Petrocarb Exploration N.L. Operative management of the joint venture was in the hands of Peko until they withdrew from the joint venture and transferred title to the tenement to Petrocarb. This transfer was completed on 2nd November, 1984.

This report reviews the fourth year of tenure.

2. EXPLORATION PHILOSOPHY

The exploration philosophy adopted by Petrocarb is similar to that previously held by the joint venture with the proviso that smaller richer ore deposits would be considered for development. The target minerals remain as tungsten and silver-lead.

3. EXPLORATION ACTIVITY

During the period under review, Petrocarb has invested heavily in projects in the Northern Territory - most notably the Woodcutters silver-lead-zinc project located near the town of Batchelor. The heavy commitment of human and financial resources to this project, combined with a precipitous decline in metal
prices which has severely restricted cash flow from the project, has forced Petrocarb to adjust its expenditure on other activities. In these circumstances, field work was limited to reconnaissance of the area.

4. EXPENDITURE

Expenditure during the reporting period has been assessed as $4,000, based on an allocation of wages, salaries, administrative costs and consultants fees

<table>
<thead>
<tr>
<th>Wages and Salaries</th>
<th>$1,800.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>$1,200.00</td>
</tr>
<tr>
<td>Consultant Fees</td>
<td>$1,000.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$4,000.00</strong></td>
</tr>
</tbody>
</table>

5. CONCLUSION

The prospective nature of the area of Exploration Licence EL 3316 is still recognised. With other commitments now diminished Petrocarb are able to focus their resources on this exploration area, and will mount a more acceptable exploration effort in 1986-87.

6. PROGRAMME FOR 1986-87

Our programme for 1986-87 involves -

1. Semi-detailed mapping at 1:5,000 and 1:25,000 scales (some of the data already collected has yet to be plotted)

2. Dozer trenching to expose mineralized sections; and

3. Air track drilling to its capacity (of about 30m) to understand the near surface geometry of the mineralisation
The budgets for this programme are:

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Costs (Airfares, Transport, Assay etc.)</td>
<td>$3,600</td>
</tr>
<tr>
<td>Field Costs (Geologist, Drill Operator Consumables)</td>
<td>$7,000</td>
</tr>
<tr>
<td>Report Preparation</td>
<td>$500</td>
</tr>
<tr>
<td>Wages and Salaries</td>
<td>$1,800</td>
</tr>
<tr>
<td>Consultants Fees</td>
<td>$1,000</td>
</tr>
<tr>
<td>Administration and Overheads</td>
<td>$1,200</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$15,100</strong></td>
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</tbody>
</table>

Rocks Prospecting and Associates have been retained to carry out the field work. Work was scheduled to commence during the final week in August. However rains in the proposed exploration area in late July has caused the field programme to be re-scheduled to commence Friday September 12, 1986.
SCHEDULE

EL 3316 - 5th year of Tenure

Blocks to be retained shown on Alice Springs 1:250,000 sheet, Map 76
1:100,000 map portions 76/3 and 76/6

Map 76/3 blocks (4)

22 70
23 70
24 70
25 70

Map 76/6 blocks (12)

22 41 - 25 41
22 42 - 25 42
22 43 - 25 43