EXPLORATION LICENCE 4875

ANNUAL REPORT

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CONTENTS

1. INTRODUCTION

2. GEOLOGY

3. EXPLORATION PHILOSOPHY & WORK PROGRAMME - YEAR 1

4. METAL PRICES

5. PROPOSED EXPLORATION PROGRAMME - YEAR 2

6. EXPENDITURE

PLANS

EL 4875 Location Diagram
1. INTRODUCTION

Exploration Licence 4875 was granted to Petrocarb Exploration N.L., on 7 February, 1986. The Company previously held a number of EL's in the Molyhil area in Joint Venture with Peko-Wallsend Operations Limited including EL's 2774, 3056, 3256, 3257, 3259 and 3319 on which significant exploration work was undertaken up to mid 1985. These EL's were relinquished in 1985 and subsequently two reduced exploration areas EL 4876 and 4875 were applied for and granted over a zone adjacent to the Molyhil Mine and prospective for skarn hosted scheelite - molybdenite mineralisation. The two licences cover a zone of interest along the lateral extent of the Delny-Sainthil Fault Zone.

2. GEOLOGY

Exploration Licence 4875 is situated to the south-east of the Molyhil scheelite-molybdenite deposit. This deposit is composed of coarse scheelite and molybdenite clots within a magnetite chlorite skarn in calc-silicate rocks and high grade thermally metamorphosed sediments. The deposit occurs as an inlier in the Jinka Granite within a major linear structure called the Delny-Sainthil Fault Zone.

3. EXPLORATION PHILOSOPHY & WORK PROGRAMME - YEAR 1

The work programme planned for Exploration Licence 4875 and adjoining Exploration Licence 4876 included detailed ground magnetics to accurately locate aeromagnetic anomalies, indicative of scheelite skarn deposits, not previously outlined in exploration work carried out by Geoypeko for Peko Wallsend Operations Ltd.

The highly magnetic magnetite rich skarns which occur in the region can be located by low level aeromagnetic surveys followed by detailed ground magnetic surveys and drilling. Aeromagnetic surveys were previously undertaken over the region.

Any mineral deposits found would add to the known resources on the Molyhil mineral licences and if economically justified could lead to the reopening of the Molyhil mine and production plant but on an increased scale.

Due to extremely low wolfram and molybdenum prices in 1986, Petrocarb could not justify a large scale exploration programme during the first year of the licence. It is considered that the Licence is mostly prospective for scheelite and molybdenite. Costs were incurred in maintaining the equipment including wages paid to a caretaker at the Molyhil mine site which has been a regional base for exploration work since the mine was placed on care and maintenance in 1981.

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4. METAL PRICES

A comparison of the prices for Molyhil mineral output when the mine was in production and 1986/1987 prices (as published in Metal Bulletin) is as follows:

<table>
<thead>
<tr>
<th>Mineral</th>
<th>Year</th>
<th>US$ Price</th>
<th>Rate</th>
<th>A$Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheelite</td>
<td>1981</td>
<td>US$125/m.t. unit</td>
<td>1.14</td>
<td>A$110</td>
</tr>
<tr>
<td></td>
<td>20/6/86</td>
<td>US$50-58/m.t. unit</td>
<td>0.668</td>
<td>A$75-87</td>
</tr>
<tr>
<td></td>
<td>27/3/87</td>
<td>US$50-59/m.t. unit</td>
<td>0.697</td>
<td>A$72-85</td>
</tr>
<tr>
<td></td>
<td></td>
<td>WO3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Molybdenum</td>
<td>1981</td>
<td>US$6.70/lb Mo</td>
<td>1.14</td>
<td>A$5.90</td>
</tr>
<tr>
<td></td>
<td>20/6/86</td>
<td>US$3.08-3.15/lb Mo</td>
<td>0.668</td>
<td>A$4.60-4.72</td>
</tr>
<tr>
<td></td>
<td>27/3/87</td>
<td>US$3.35-3.40/lb Mo</td>
<td>0.697</td>
<td>A$4.81-4.88</td>
</tr>
</tbody>
</table>

A significant reduction in prices combined with a significant increase in operating costs have prevented the Molyhil mine from re-opening.

There are some prospects for an improvement in these mineral prices in the near term. As reported in the Metal Bulletin of 17 March 1987:

"Sentiment in the tungsten market is continuing strong, and the Chinese initiative on pricing discipline appears now to be impacting on ferro-tungsten prices too.

Merchants reported relatively good volumes of wolfram business in recent days in both Europe and the USA. Prices were firmer and the MB range rose $2 per mtu to $46-50 from $45-48.

Scheelite remained unchanged but seemingly holds forth greater promise than wolfram for the very near term, according to most traders. The current range of $48-58 per mtu is seen coming under upward pressure in sales negotiations currently underway.

Such negotiations were reported by almost all merchants, representing the first period for some time when the bulk of the market could actually claim to be actively engaged in the business of selling scheelite. It is of course a feature of the post-boom tungsten market that deals take much longer to put together, but all indications were that several scheelite sales would be concluded shortly providing fresh evidence of price direction."

5. PROPOSED EXPLORATION PROGRAMME - YEAR 2

Petrocarb has renewed optimism that a near term improvement in molybdenum and scheelite prices may occur.
In order to determine if the licences El 4875 and El 4876 do hold additional scheelite resources, an exploration programme initially planned to commence in 1986 will now be undertaken.

This is to include a detailed ground magnetic survey to determine drilling targets for tungsten-copper anomalies. Drilling of located targets would then be commenced.

Expenditure of $15,000 is planned to be incurred on exploration and associated activities within the licence.

6. EXPENDITURE

A proportion of the holding costs incurred on the Molyhil mine base has been applied to EL 4875 together with a proportion of costs of head office technical staff. The Molyhil mine facilities have been used as a regional exploration base.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of Molyhil costs incurred</td>
<td>$11,879</td>
</tr>
<tr>
<td>(Total $65,274 excluding lease rental)</td>
<td></td>
</tr>
<tr>
<td>Proportion of Head Office Technical &amp; Administration</td>
<td>$1,425</td>
</tr>
<tr>
<td></td>
<td>$13,304</td>
</tr>
</tbody>
</table>