ANNUAL REPORT

Mineral Leases

MCS, 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11

Distribution

* N.T. Dept. of Mines & Energy
* Petrocarb Exploration N.L.

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1. Background

These leases form part of a series of leases known collectively as the "Molyhil Outer Areas". Scheelite-molybdenite mineralisation occurs within the Molyhil area.

The Molyhil Mine contains open cut ore reserves of 1.8 million tonnes of 0.6% scheelite and 0.3% molybdenite. The mine has been held on a care and maintenance basis since 1981 due to unfavourable metal prices. Petrocarb has spent significant amounts on investigations into an ore sorting technique which is designed to substantially increase the grade and reduce the amount of ore feed to the mill. With the present depressed state of the tungsten market, further expenditure on this sorting technique has been deferred.

2. Activities During The Reporting Period

Due to extremely low wolfram and molybdenum prices in 1986, activities on the Molyhil leases has been restricted to a continuing review of the available exploration data and to exploration in accordance with conditions of E.L's 3316, 4875 and 4876.

Any mineral deposit found would add to the known resources on the Molyhil mineral licences and if economically justified could lead to the re-opening of the Molyhil mine and production plant on an increased scale.
3. 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$ Prices</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>Molybdenum</td>
<td>1981</td>
<td>US$6.70/lb Mo</td>
<td>1.14</td>
<td>A$5.80-4.72</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$4.80-4.72</td>
</tr>
<tr>
<td></td>
<td>27.4.87</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."

4. Expenditure

Expenditure on the individual leases within the Molyhil area has not been itemised. Total costs incurred on the Molyhil area during the reporting period totals $65,274.