2004 ANNUAL REPORT FOR

MCC 213, MLC’s  3, 6-14, 19, 43-44, 125-126, 128, 156-157, 507, 509-510, 519, 664-667,

FOR THE PERIOD ENDING 31 DECEMBER 2004

PEKO TENEMENTS

TENNANT CREEK DISTRICT

NORTHERN TERRITORY

TENNANT CREEK 1: 250,000 SHEET SE 53-14

VOLUME 1 of 1

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DATE: MARCH, 2005
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<td>3</td>
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INTRODUCTION

This report details exploration undertaken by Sitzler Savage Pty Ltd, the holder of the tenements MCC 213, MLC’s 3, 6-14, 19, 43-44, 125-126, 128, 156-157, 507, 509-510, 519, and 664-667. These tenements constitute the Peko tenements for the 12 month period ending 31 December 2004 and form part of the Peko Tailings Project, managed by Peko Rehabilitation Project Pty Ltd. All other non-exploration activities undertaken on the Peko Tailings Project are detailed in the Mining Management Plan, which is submitted annually as a separate report by the operator, Peko Rehabilitation Project Pty Ltd, a subsidiary of Sitzler Savage Pty Ltd.

LOCATION, ACCESS AND CLIMATE

The Peko tenements lie approximately 8 kilometres southeast of Tennant Creek Township. Access is via the sealed Peko Road to the Peko mine site. A well-developed network of gravel tracks provides good vehicular access within and to most of the tenements.

The climate of the Tennant Creek district is mild and dry through most of the autumn, winter and spring months. The summer period is hot, with seasonal heavy monsoonal rainfall in January, February and March making vehicular access off sealed roads very difficult during these months.

TENURE

The Peko tenements contains the following mineral claims and leases: MCC 213, MLC’s 3, 6-14, 19, 43-44, 125-126, 128, 156-157, 507, 509-510, 519, and 664-667 totalling 264.15 hectares in area. On 13 October 2000 ownership of these tenements was transferred from Santexco Pty Ltd, a subsidiary of the Normandy Group of Companies, to Sitzler Savage Pty Ltd. These tenements are included in 89 tenements held by Sitzler Savage Pty Ltd, which form part of the Peko Tailings Project. The operator of this project is Peko Rehabilitation Project Pty Ltd (“Peko”), a subsidiary company of Sitzler Savage Pty Ltd.

The location of the Peko tenements are shown in Figure 1 below.
Figure 1. Peko tenements location plan

GEOLOGY
The Peko region geology is shown in figure 2.

Figure 2. Regional geology of the Peko mine area.
The Peko tenements are located along a contact between the Proterozoic Warramunga Formation, a sequence of fine grained sediments composed of greywackes, shales, siltstones and hematitic shales; and felsic volcanics.

MINERALISATION
Most of the gold and copper production within the Tennant Creek goldfield has come from ironstone pods and hydrothermally altered metasediments adjacent to and below the ironstones. Of the 700 recorded ironstone occurrences within the field, only 200 contain any significant mineralisation and of these, only 25 have produced more than 100kg of gold.

The following table lists 8 of the main producers that lie within the 89 tenements held by Sitzler Savage Pty Ltd.

<table>
<thead>
<tr>
<th>Mine</th>
<th>Ore (tonnes)</th>
<th>Ore Grades</th>
<th>Metals Produced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nobles Nob</td>
<td>2,140,000</td>
<td>17.0 g/t Au</td>
<td>34,580 Kg Au (1,112,000 ozs)</td>
</tr>
<tr>
<td>Juno</td>
<td>450,000</td>
<td>57.0 g/t Au</td>
<td>26,130 Kg Au (840,000 ozs)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>7.0 g/t Ag</td>
<td>2,752 Kg Ag</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.4% Cu</td>
<td>1,429 tonnes Cu</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.6% Bi</td>
<td>2,293 tonnes Bi</td>
</tr>
<tr>
<td>Peko</td>
<td>3,160,000</td>
<td>3.5 g/t Au</td>
<td>7,481 Kg Au (241,000 ozs)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>14.0 g/t Ag</td>
<td>44,163 Kg Ag</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.0 % Cu</td>
<td>118,884 tonnes Cu</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.2% Bi</td>
<td>7,350 tonnes Bi</td>
</tr>
<tr>
<td>Rising Sun</td>
<td>10,466</td>
<td>27 g/t Au</td>
<td>284.7 Kg Au (9,153 ozs)</td>
</tr>
<tr>
<td>Rising Sun West</td>
<td>7,000</td>
<td>19 g/t Au</td>
<td>122.5 Kg Au (4,035 ozs)</td>
</tr>
<tr>
<td>Two Blues</td>
<td>500</td>
<td>40 g/t Au</td>
<td>20.2 Kg Au (649 ozs)</td>
</tr>
<tr>
<td>Kimberley Kids</td>
<td>305</td>
<td>50 g/t Au</td>
<td>16.1 Kg Au (517 ozs)</td>
</tr>
<tr>
<td>Weabers Find</td>
<td>10</td>
<td>300 g/t Au</td>
<td>3.0 Kg Au (96 ozs)</td>
</tr>
</tbody>
</table>

The orebodies themselves are not very large, so looking for a buried deposit is similar to looking for a needle in a haystack. Sophisticated exploration techniques are needed in order to minimise the amount of expensive exploratory drilling that is required to discover any new orebodies. The following illustrates this point:

Peko (119,000 tonnes Cu, 241,000 ozs Au) was a pipelike structure, 450 metres long, 35 metres wide and 430 metres in depth. The surface expression of this orebody was an outcrop of massive magnetite just 30 metres across. An aeromagnetic survey in 1935 led to the recognition that a much larger body lay at depth.

Nobles Nob (1,112,000 ozs Au) was a tabular body, 190 metres long, 40 metres wide and 80 metres deep. It outcropped at surface but was barren of gold down to a depth of 16.5 metres. If not for the perseverance of prospectors, Nobles Nob would not have been discovered until the arrival of more sophisticated aeromagnetic and computing techniques many years later. These geophysical techniques showed that the hematite body gave a magnetic response which had been undetectable by earlier surveys.
Juno (840,000 ozs Au) was a tabular body, 200 metres long, 45 metres wide and 60 metres deep. It had no surface expression and its discovery was the result of drilling a small aeromagnetic anomaly that had been previously overlooked.

As can be seen, such small bodies of hematite-magnetite can be host to quite rich and valuable gold and copper orebodies. Because thousands of prospectors and geologists have explored every square centimetre of the Tennant Creek district over the last 40 years since the discovery of the first such body, there are no more such deposits likely to be found using traditional prospecting methods. Similarly, the most obvious magnetic targets have already been identified by numerous aeromagnetic surveys over the years and it is only the smaller, deeper or more hematite (hence less magnetic than magnetite) altered bodies that have yet to be found by this method. Hence the next Peko or Nobles Nob or Juno orebody must rely on other exploration techniques such as gravity or other geophysical methods.

**PREVIOUS WORK**

Previous exploration and mining history has been presented by Normandy in earlier annual reports.

In 1998 Normandy flew a detailed airborne magnetic and radiometric survey covering the southern Tennant Creek mineral field including the Nobles Nob leases. Survey specifications were 40m-sensor height, 50 m line spacings on a N-S line orientation with a 7m in line sample spacings. Elevation recordings were recorded every seventh sample for digital terrain modelling.

In 1999 Normandy flew airborne Time Domain Electro Magnetics (TDEM), a Normandy propriety system, over the Nobles Nob and Peko leases. The helicopter borne sensor was flown at 30m mean terrain clearance and 100m-line spacing. Analysis of the data was to have been reported to the NTDME in March 2001 but was never submitted.

Whilst Normandy carried out geophysical data interpretation and modelling in 1999 and 2000, Sitzler Savage Pty Ltd has only been provided with the raw data from these surveys.

An environmental rehabilitation programme was carried out over the old Peko mine area in which ripping, seeding, analysis of contaminated soils, tailings characterisation studies and monitoring were completed.

**WORK CARRIED OUT DURING THE 12 MONTH PERIOD ENDING 31/12/2003**

*Resource Estimation*

All the drilling data compiled from various Normandy digital databases was collated and compiled into a single dataset. This data was then used to create a digital block model and a resource estimate was made using this model. A description of the methodology used is contained in the report included in Appendix 1.
**Exploration**

During the calendar year 2004, a continuing study of company and mine records held at Peko’s Tennant Creek office as well as open file company and other technical reports held at the Northern Territory Mines Department offices in both Darwin and Alice Springs.

Various digital reports of aeromagnetic, gravity and other geophysical surveys conducted in the Tennant Creek region were located. Southern Geoscience Consultants were commissioned to compile and process this data and identify and rank exploration targets within the Peko, Juno and Nobles Nob tenement blocks.

The data sets available for interpretation by Southern Geoscience Consultants were:

- Geoscience Australia and NTGS gravity databases for the Tennant Creek area.
- Austirex/Geopeko survey of Central Tennant Creek flown in the early 80's using 200m flight lines and 80m flying height.
- Shuttle Radar DEM available from NASA with a 90m pixel size.
- A detailed airborne magnetic, radiometric and hyperspectral survey flown by Fugro for a Peko Rehabilitation Project lead consortium in 2000. This covered Peko and Nobles Nob but did not extend far enough west to include Juno. It was flown at 80m flying height on 50m spaced lines which from the point of view of the aeromagnetics is flown too high for the line spacing or alternately flown using excessively close line spacing given the flying height. It would have been better flown at less than 40m flying height.
- Low level helicopter aeromagnetics and radiometrics over the Nob and Juno tenements as well as three small areas between the Nob and New Hope flown by Normandy Mining using their in-house helicopter system. The data provided consists only of point located magnetic and radiometric data without survey specifications, however based on similar surveys undertaken by Normandy, it is likely that the flying height of the towed bird sensor was around 30m. The line spacing was 50m.
- Helicopter Time domain EM over the Nob and Peko and from Nob West to Kiora Dam flown by Normandy Mining using their in-house “Hoistem” system. The system used for this survey was an early version of Hoistem and had the transmitter towed below the helicopter at a nominal elevation of 70m with the receiver towed 30m below this. The line spacing used was 100m, flying north south.
- Six lines of ground TEM straddling the Nobles Nob pit. These data were acquired by Normandy mining using their in-house “Posem” system in In-loop mode with a 100m loop and 50m moves.
- A partial drilling database for the area including some of Normandy's recent drilling and assays in binary Datamine format.

The area in the immediate vicinity of the mined deposits has been relatively heavily explored over the past 30 years however little modern geophysics has been applied to any of the deposits in this area. Geopeko undertook limited down hole magnetic surveying of Peko and Juno before selling them to Normandy. Australian Development Ltd. (ADL) acquired detailed gravity around Nobels Nob and Juno in '83-'84 prior to becoming part of the PosGold, later Normandy Mining group. As noted above, Normandy acquired limited ground TEM data around Nobles Nob and flew some low level magnetic and TEM surveys over selected areas.
shortly before they withdrew from the area in '99-2000. Very little systematic, detailed ground work has been done away from the deposits and Peko in particular, has had almost no modern geophysical exploration undertaken around it.

3D inversion of the gravity and magnetic data has been undertaken by Southern Geoscience Consultants along with a 3D compilation of the 1D conductivity images from the Hoistem data. These have been combined into a 3D geophysical model ready for target selection. The ground TEM data has similarly been imaged using a 1D algorithm and sections inserted into the 3D model. A routine was written to convert the binary Datamine drilling and assay files into a readable format with the intention of adding the available drilling information to the 3D model to help rank targets. Unfortunately the poor state of the survey information for some of these holes has caused some problems with this process and the holes have not yet been included in the model. Once this is done targets selected for follow up from the geophysics can be checked to ensure they have not yet been drilled.

The available drilling database only appears to include some of the Normandy/ADL drilling and none of the Geopeko drilling. As some of the Geopeko holes had 3D magnetic data acquired in them, they will also have been surveyed. As much of this data as possible should be captured and included in the current database to help advance target selection. By modern standards, the coverage of this drilling is limited and leaves large gaps untested. It remains to be determined whether the available data includes all the drilling carried out on the leases.

There is a dearth of geophysical information on the Peko line of lode and given the recent announcements regarding their Golden Kangaroo project by Giants' Reef Mining, this should be addressed.

To date, within the Peko leases, three target areas have been identified: West Peko, Peko Underground Orebody #7 and East Peko as shown on Figure 2 and Table 2. These are additional to the Peko Oxide Gold Orebody and the Peko Tailings Dams that are not discussed here. The exploration potential for near surface gold resources of any significance is quite low although the potential for Peko-style copper mineralisation at depth is quite high. It should be pointed out that the dominant mineralisation within the Peko leases is copper. With the exception of the number 7 orebody and the supergene enriched gold zone within the Number 1 body (also known as the Peko Oxide Gold Orebody), gold mineralisation only occurs as an accessory to the copper mineralisation on the leases. A total of 12,000 metres of RAB and RC drilling at a total exploration cost of $477,500 will be required to test the three target areas.

(i) West Peko

This target area contains a drill tested aeromagnetic anomaly shown to have been created by two ironstone bodies. These bodies contain several hundred thousand tonnes of mineralisation, with drillhole intercepts of 1-10% copper and up to 10 g/t gold. The easternmost pod lies wholly within Peko’s leases and contains a drill tested resource of 180,000 tonnes @ 3.4% Cu and 2.1 g/t Au (41,688 ounces of Gold Equivalent). Because of the low gold grades and their depth (500-600 metres below surface), these bodies are of academic interest only at this point of time.
However, potential for similar mineralisation lying at a much shallower depth in the area between the West Peko and Peko deposits is quite high. A major deep-seated structure observed on Landsat imagery passes through this area. It is postulated that the mineralising fluids, which gave rise to the Peko and West Peko deposits flowed up and along this structure. The intersection of this structure with the favourable stratigraphy hosting the West Peko and Peko deposits is a highly prospective zone for structurally controlled copper-gold mineralisation. Enhancing the prospectivity of this area is anomalous copper geochemistry at surface in vacuum drilling. A budget of $212,500 has been proposed to test this area with 16 RC drillholes totalling 4,000 metres.

(ii) Peko Underground Orebody #7

The Number 7 orebody, lying between the 1130 and 1260 levels (360-400m below surface) was the last orebody mined at Peko and although the grade was high (+20 g/t Au), production only commenced in July 1974 and complete extraction was not possible by the time of closure in September 1975. A study of mine production records indicates that there remains a potential remnant resource of 26,400 tonnes grading 11.4 g/t Au and containing 9,702 ounces of gold and 132 tonnes of bismuth (average Bi grade of 0.5%) remains unexploited.

Whilst such a resource is clearly uneconomic at this depth (400 m) at this time, it should not be overlooked when considering development options for the higher grade sections of the Number 1 between Levels 120 and 170 and containing 10,000 tonnes @ 19 g/t Au (6,000 ounces) or for development of any new resource yet to be discovered by further exploration at East Peko and West Peko.

A 1966 report on the ore reserves discusses the similarity in geology, alteration and mineralisation of the Number 7 orebody to the Juno orebody. Consideration should be given to further geophysical surveying and modelling of the Peko area after the mine dumps have been removed to see if there is remaining exploration potential at depth for a Juno style and Juno size body adjacent to, or at a deeper level to the Number 7 body.

A budget of $ 5,000 has been proposed for scoping studies into the minimum tonnage and grade needed for economic viability of mining 400 metres below the surface and also to look into the viability of reopening the main shaft (possibly backfilled?) to exploit the Number 1 body between the 120 and 170 levels.

(iii) East Peko

The East Peko target area was first identified during the 1935 BMR aeromagnetic survey of the Tennant Creek area as a large magnetic anomaly one kilometre to the east of the Peko orebody. It figures prominently on the recent Fugro aeromagnetic survey. This anomaly was drill and estimated at the time to contain a resource of 59,000 tonnes at 3.41% Cu, 0.5 g/t Au and 0.05% Bi to a depth of 550 feet (175m). This anomaly lies outside Peko leases and is contained wholly within Giants Reef’s. However, good potential exists for the western down-plunge extension of the East Peko bodies mapped at surface and intersected by drilling to continue onto Peko’s leases. Continuity with the most eastern body (Number 11) mined underground at Peko is also a possibility.
The East Peko areas also hold the best exploration potential for the discovery of up-plunge and along strike extensions of similar sized orebodies to those worked at Peko underground. Because of the westerly plunges of the Peko orebodies, it is felt that any repetitions or up plunge extensions of these bodies will be at shallower depths of 100-250 metres and may possibly be amenable to open cut mining. Anomalous Cu-Bi-Au vacuum geochemistry at surface supports this hypothesis.

There is also the potential for high grade structurally controlled copper-gold mineralisation to occur at the intersection of a possible NE trending shear zone (as shown on Landsat imagery and suggested by aeromagnetic data) passing between the Peko and East Peko magnetic anomalies and the along strike continuation of the favourable Peko stratigraphy to the east.

A budget of $260,000 to carry out geological mapping, 2,000 metres of RAB drilling (40 holes) and 4,000 metres of RC drilling (16 holes) has been proposed.

**Other**

The Peko leases form an integral part of the Peko Tailings Project, managed by Peko Rehabilitation Project Pty Ltd. All non-exploration activities carried out on the Peko leases are reported in the Mining Management Plan submitted on an annual basis. Peko Rehabilitation Project Pty Ltd submitted the most recent Mining Management Plan in October 2004.

**EXPENDITURE FOR THE 12 MONTH PERIOD ENDING 31/12/2003**

During the past year approximately $780,000 has been spent on data review, travel and fieldwork as well as research and development on the 27 Peko tenements. This equates to approximately $28,900 per tenement. These costs include $504,00 costs associated with the Peko Tailings Project, of which the Peko tenements form an integral part of the tenement package. The work associated with this expenditure is reported separately within the Annual Reports for the Peko Tailings Project as prepared and submitted by Peko Rehabilitation Project Pty Ltd for the year 2004. Tenement rental for the 27 Peko tenements for the year ended 31 December 2004 was $2,915. Table 1 lists in detail the expenditure on the Peko tenement block during the reporting period.
<table>
<thead>
<tr>
<th>Exploration</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geological staff</td>
<td>12,000</td>
</tr>
<tr>
<td>Geological consultants</td>
<td>11,000</td>
</tr>
<tr>
<td>Geophysics consultants</td>
<td>12,000</td>
</tr>
<tr>
<td>Mining consultants</td>
<td>10,000</td>
</tr>
<tr>
<td>Metallurgical consultants</td>
<td>102,500</td>
</tr>
<tr>
<td>Drilling</td>
<td></td>
</tr>
<tr>
<td>Assays</td>
<td>3,000</td>
</tr>
<tr>
<td>Travel and accommodation</td>
<td>30,000</td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td><strong>General</strong></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>95,925</td>
</tr>
<tr>
<td>Research &amp; Development</td>
<td>504,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>780,425</strong></td>
</tr>
</tbody>
</table>

Table 1. Exploration expenditure 1/1/2004 – 31/12/2004 on Peko leases

**RECOMMENDED WORK PROGRAMME & EXPENDITURE**

Proposed exploration activities for the 12-month period ending 31 December 2004 includes the following:

- Continuing geophysical reprocessing and modelling of the 1999 Normandy aeromagnetic and radiometric survey.
- Continuing geophysical reprocessing and 3D modelling of gravity data acquired by Poseidon and Normandy
- RC drilling of at least 5-10 holes totalling up to 2,000 metres on the most prospective target areas identified on the lease. Table 3 summarises the total drilling meterage and budget required to test all 3 target areas, although it is not proposed to carry out all of this drilling in 2005. Table 4 is a risk/reward table showing which target areas offer the greatest reward for the lowest exploration risk. It is anticipated that these will be the targets first drilled in 2004.

The following table summarises the estimated proposed expenditure on the leases for the 12 month period ending 31 December 2005.
<table>
<thead>
<tr>
<th>EXPENSE</th>
<th>COST</th>
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<tbody>
<tr>
<td>Geological</td>
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</tr>
<tr>
<td>Geophysical</td>
<td>$10,000</td>
</tr>
<tr>
<td>Drilling</td>
<td>$50,000</td>
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<td>Assay</td>
<td>$20,000</td>
</tr>
<tr>
<td>Tenement Costs</td>
<td>$3,600</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$98,600</strong></td>
</tr>
</tbody>
</table>

Table 2. Proposed exploration expenditure 1/1/2005 – 31/12/2005 on Peko leases

Exploration program outcomes are unpredictable and most of the planned expenditure is contingent of outcomes from earlier work in the program. Actual expenditures may vary from the budget outlined above as a result of unexpected outcomes from the early work.
APPENDIX 1