



DIAMANTINA PROJECT

EPM 15785 ANNUAL REPORT
FOR THE YEAR ENDED 10TH OCTOBER 2008

BEDOURIE SG 54-01

QUEENSLAND

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SUMMARY

This annual report covers exploration activity within EPM 15785 for the year ended 10th October 2008. This tenement is located in the central part of the Diamantina Project, focusing on the Bulldust Dam and Stephenson Dam Prospects (referred to in the gravity surveys as Bedourie 3 & 4 respectively). The prospects encompass coincident magnetic and gravity targets that span tenements EPM 15785 and EPM 15781, and are surrounded by adjacent tenements EPM 15783, EPM 15789 and EPM 15791. This cluster of tenements forms the central part of the Diamantina Project.

The Diamantina Project is a greenfields exploration project located in far-western Queensland and is targeting Iron Oxide-Copper Gold (IOCG) mineralisation below the Eromanga Basin sediments.

The exploration model for the Diamantina Project is based on comparisons with the Olympic Dam (OD) deposit which is a world class IOCG deposit located in SA. The OD model requires the presence of a strong gravity response reflecting the presence of large quantities of hematite mineralisation (alteration), the probable presence of an underlying magnetic source (although the cause of the magnetic anomaly at OD is still unknown) and a nearby deep crustal-scale structural regime (Torrens Hinge Zone).

No previous mineral exploration work had been undertaken below the cover sequences within this part of the Diamantina Project, prior to AusQuest's involvement in the area.

Exploration to date by AusQuest at the Bulldust Dam and Stephenson Dam Prospects has included a detailed helicopter gravity survey over two targets outlined by the gravity data released by the Queensland Geological Survey, and desk-top studies and modelling of both the magnetic and gravity data. No field work has been conducted however the same roads have been used in access between the Machattie and Mulligan Prospects, providing an understanding of the logistical requirements in exploring the area.

Drilling further to the east intersected Eromanga Basin sediments at a depth consistent with magnetic interpretation. The drillhole intersected Eromanga Basin sediments to 959m then an intrusive magnetite-rich pyroxenite, variably gabbroic and pegmatitic to 1789m. The rocks were variably veined with calcite and pyrite from 959 to about 1500m. Results are awaited however early indications suggest this may be an iron-oxide enriched system. Similar results were reported from Mulligan Prospect in the west where hornblende-magnetite pyroxenite rocks were intersected, possibly from a deeper crustal level. Results are awaited however early indications suggest these may both be iron-oxide enriched systems. The implications of these results will impact the exploration feasibility at Bulldust Dam and Stephenson Dam.

Ground geophysical methods are being tested at Machattie to determine variations in conductivity and polarisation at such great depths. Methods being tested include induced polarisation and magneto-telluric techniques. As Machattie and Mulligan Prospects to date have been the focus of exploration, further results from these projects will be used to determine exploration priorities at Bulldust Dam and Stephenson Dam.

1.0 INTRODUCTION

This is the first annual report for EPM 15785 which was granted on 10th October 2007. This tenement is located in the central part of the Diamantina Project, 60 kms west of the Machattie Prospect, focusing on the Bulldust Dam and Stephenson Dam Prospects. The prospects encompass coincident magnetic and gravity targets that span tenements EPM 15785 and EPM 15781, and are surrounded by adjacent tenements EPM 15783, EPM 15789 and EPM 15791. Access to this prospect is via Dubbo Yard road which crosses the Stephenson Dam anomaly close to its centre point (see Figure 1).

The tenements were initially applied for to explore for diamonds near the margin of the North Australian Craton. New airborne magnetic data being flown by the Queensland Government did not reveal dipole targets however, together with regional ground gravity surveys coincident magnetic-gravity targets were identified, and considered prospective for Iron-Oxide Copper Gold. In response to this data, the exploration of these targets commenced.

The current tenement status is provided in Table 1.

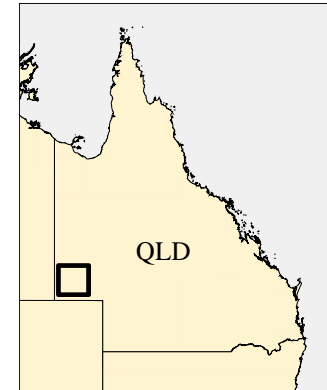
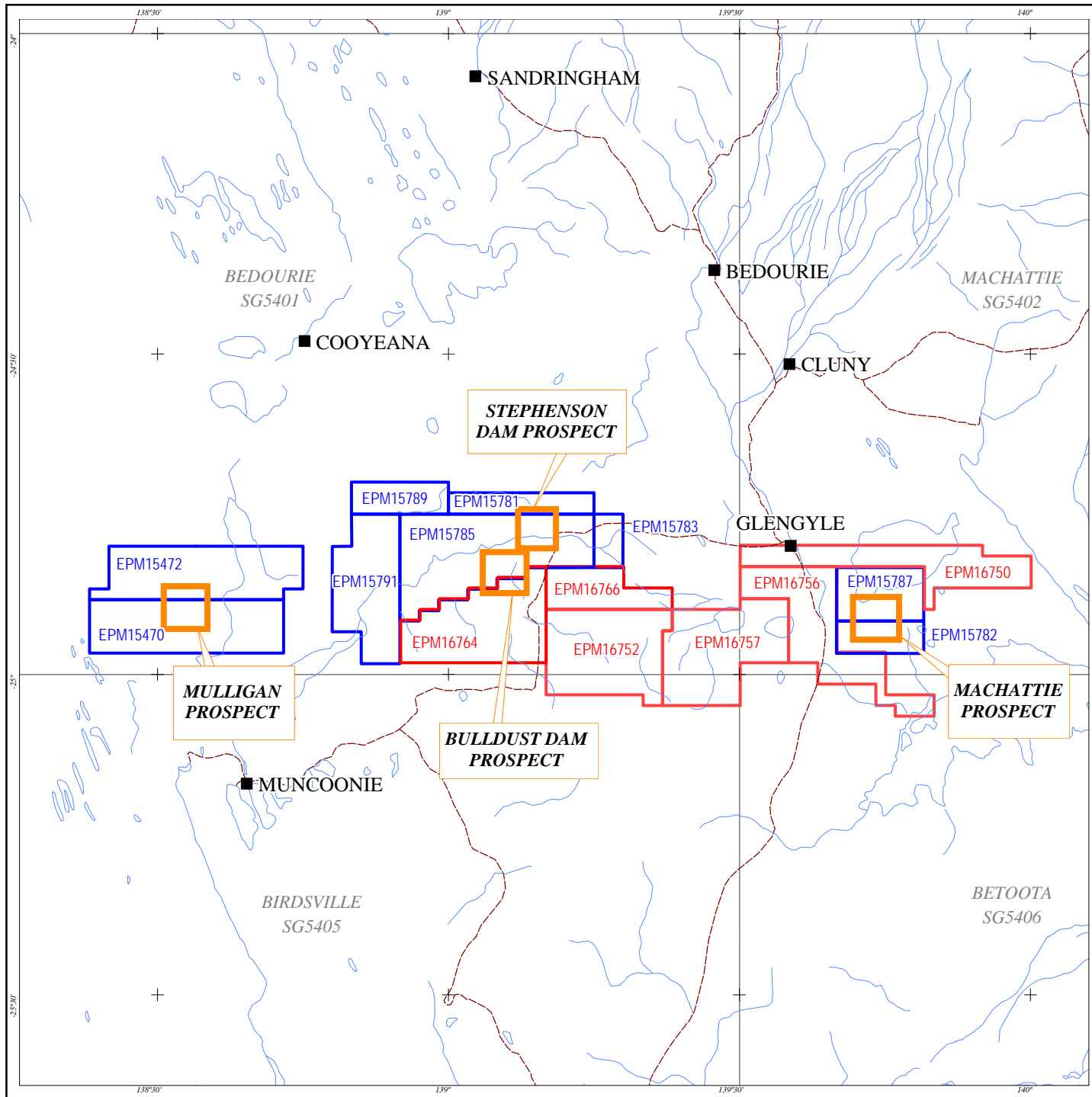
Table 1: Tenement Status

| Tenement | Sub-blocks | Grant Date | Expiry Date | Rent \$ | Commitment \$ |
|------------------|------------|-------------------|------------------|--------------|---------------|
| EPM15470 | 100 | 9/03/2007 | 8/03/2012 | 12,150 | 49000 |
| EPM15472 | 100 | 9/03/2007 | 8/03/2012 | 12,150 | 49000 |
| EPM 15781 | 30 | 10/10/2007 | 9/10/2012 | 3645 | 20,000 |
| EPM 15782 | 27 | 10/10/2007 | 9/10/2012 | 3278 | 20,000 |
| EPM 15783 | 15 | 29/08/2007 | 28/08/2012 | 1822 | 10,000 |
| EPM 15785 | 136 | 10/10/2007 | 9/10/2012 | 16524 | 40,000 |
| EPM 15787 | 45 | 10/10/2007 | 9/10/2012 | 5467 | 20,000 |
| EPM 15789 | 30 | 10/10/2007 | 9/10/2012 | 3645 | 20,000 |
| EPM 15791 | 83 | 10/10/2007 | 9/10/2012 | 10084 | 30,000 |
| EPM 16750 | 79 | Application | | | 40,000 |
| EPM 16752 | 100 | Application | | | 40,000 |
| EPM 16756 | 90 | Application | | | 40,000 |
| EPM 16757 | 100 | Application | | | 40,000 |
| EPM 16764 | 99 | Application | | | 40,000 |
| EPM 16766 | 42 | Application | | | 25,000 |
| Total | 1076 | | | 68,765 | 258,000 |

A detailed in-fill helicopter gravity survey was completed over the Bulldust Dam and Stephenson Dam Prospects to increase the level of detail from the original 4km data, which revealed the initial anomalies.

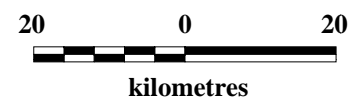
2.0 REGIONAL GEOLOGY

The Diamantina project is located near the southern edge of the Mt Isa Block where continental scale structures and/or plate boundaries have been inferred from interpretation of regional geophysical data sets (Figure 2).

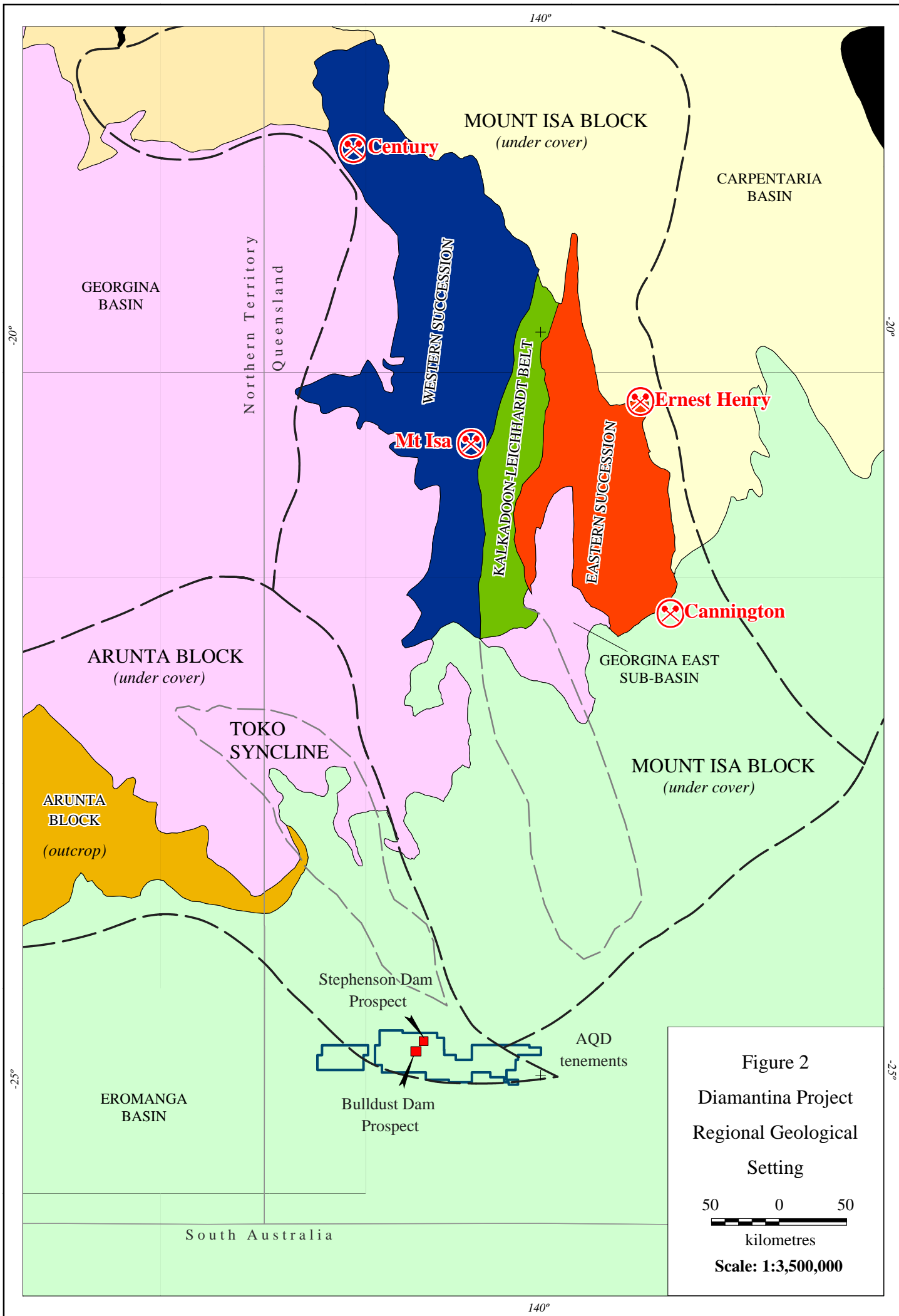


- Tenement Granted
- Tenement Application

Figure 1
 Location Plan
 Diamantina Project



Scale: 1:1,000,000



The Bulldust Dam and Stephenson Dam Prospects are targeting Iron Oxide-Copper Gold deposits similar in nature to those found at Olympic Dam in SA and Ernest Henry in Queensland.

Evidence from magnetic and gravity data released by the Queensland Geological Survey in 2007 highlighted several areas with coincident magnetic and gravity anomalies that suggest the presence of large scale iron oxide bodies at depths of up to 1000 metres, below the Eromanga Basin sediments. The anomalies could represent the alteration systems (hematitic breccias) associated with base and precious metal accumulations associated with large scale volcanic caldera structures. The regional TMI and gravity images are presented in figures 3 and 4 respectively.

The Proterozoic aged rocks which host the many base and precious metal deposits in the Mt Isa and Olympic Dam (OD) regions are believed to form the basement to the Cretaceous Eromanga Basin sediments which cover the entire project area and beyond.

Evidence from seismic data to the south show the Eromanga sediments gently shelving to the north with no obvious signs of major structural dislocations in the trace of the basal unconformity (Figure 5). This is in stark contrast to the regional gravity and magnetic data to the north which infer major north-east and west-north-west dislocations in the vicinity of the Diamantina targets suggesting these continental-scale structures are probably pre-Cretaceous, possibly Proterozoic in age. Major mineralising events in the Mt Isa and Olympic Dam regions are dated as mid-Proterozoic in age.

In SA the Torrens Hinge Line which is a continental-scale structure, is thought to be fundamental to the location of the Olympic Dam deposit. Exploration activity for new OD targets in SA has focused close to this major structure since OD's discovery in the late 1970s, highlighting its importance in the ore forming process.

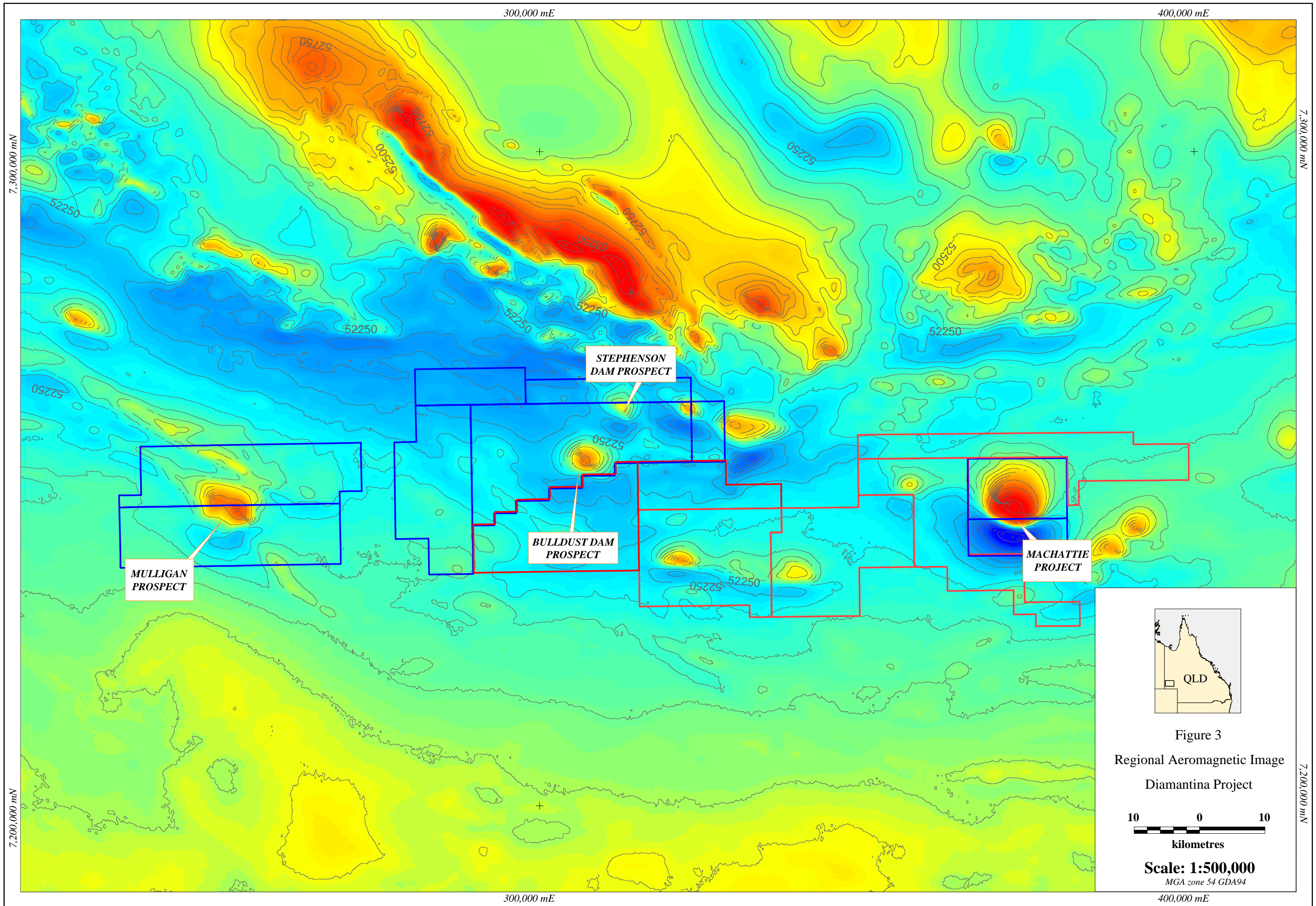
A similar exploration rationale may be applicable in the Diamantina area where coincident gravity/magnetic targets thought to reflect major accumulations of iron oxide below the Eromanga Basin sediments, have recently been defined close to bounding structures of the Mt Isa and Arunta Blocks to the north.

3.0 PROJECT GEOLOGY

The tenements are covered by sediments of the Eromanga Basin which are thought to overly older Proterozoic aged basement rocks of the Mt Isa Block and /or the Arunta Block which are the target of the proposed exploration programme.

The Bulldust Dam and Stephenson Dam Prospects reflect complex magnetic/gravity targets in the central area of the Diamantina project area, interpreted to reflect possible IOCG mineralisation below the Eromanga Basin sediments.

Aeromagnetic data acquired from the Queensland Geological Survey (400m line spacing) were reprocessed to provide basic maps for the area. Interpretation of this data included regional depth to basement estimates and regional modelling of selected traverses. The depth to basement in the Bulldust Dam and Stephenson Dam targets area was interpreted as approximately 700-1000m and 900-1300m respectively.



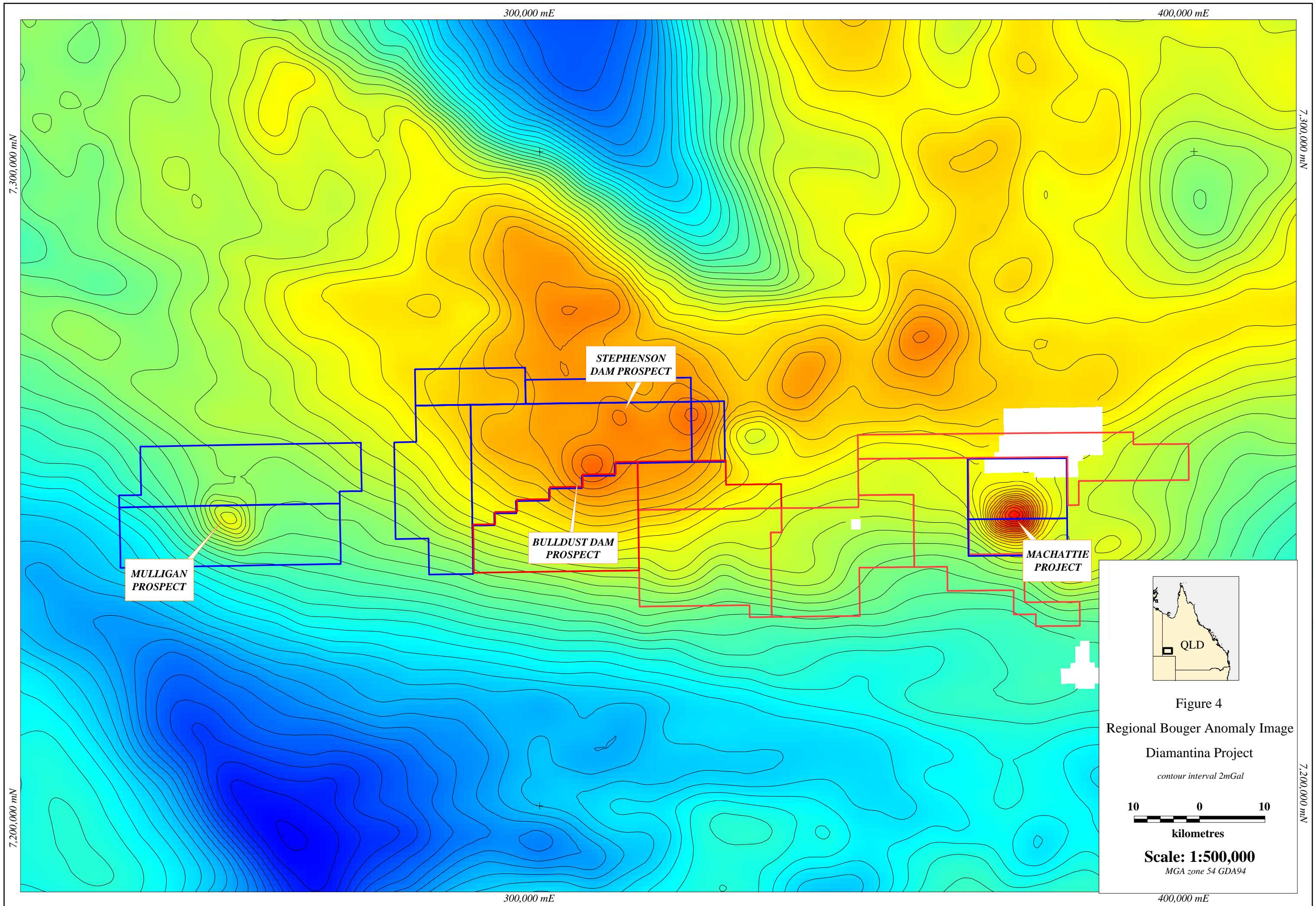


Figure 4
 Regional Bouguer Anomaly Image
 Diamantina Project
contour interval 2mGal
 10 0 10
 kilometres
Scale: 1:500,000
 MGA zone 54 GDA94

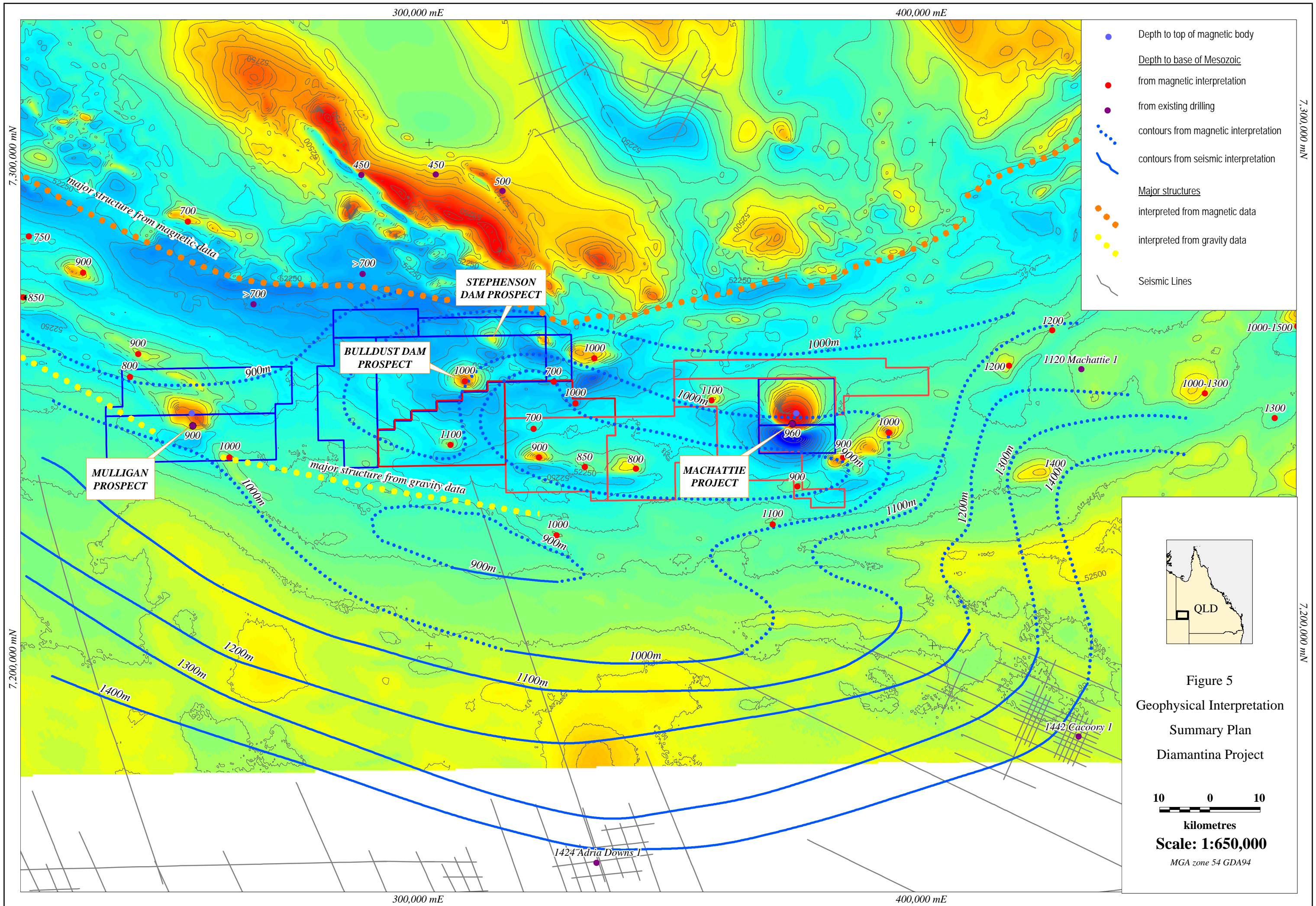


Figure 5
 Geophysical Interpretation
 Summary Plan
 Diamantina Project

4.0 REVIEW OF PREVIOUS WORK

No previous mineral exploration has tested below the Eromanga Basin sediments in the area. Seismic data collected in the search for oil and gas in the Cooper Basin to the south, has been used to collaborate the inferred depth to basement rocks (thickness of Eromanga Basin Sediments) in the vicinity of the project areas.

Available water bore and stratigraphic drill-hole information have been collated to assist with the interpretation of basement depths.

5.0 EXPLORATION ACTIVITY

5.1 Aeromagnetic Interpretation

Aeromagnetic data acquired from the Queensland Geological Survey (400m line spacing) were reprocessed to provide basic maps for the area. The aeromagnetic data were acquired on east-west flight lines and north-south tie-lines. Interpretation of this data included depth to basement estimates and regional modelling of selected traverses.

Depths to magnetic basement generally varied from 700 to 1100 metres over the project area, deepening to the south where the Eromanga sediments are known to thicken (Figure 5).

The Bulldust Dam aeromagnetic anomaly has an amplitude ('high' to 'low') of 600nT. The areal extent of source rocks, based on anomaly gradients is ~12 km². An intrusive body is modelled at depth 700 – 1000m with a north- south extent of ~2kms, an assumed strike length of 3kms and a modelled magnetic susceptibility of 0.11 SI units. The latter indicated a volume magnetite content of ~3%.

The Stephenson Dam aeromagnetic anomaly has an amplitude ('high' to 'low') of 360nT. The areal extent of source rocks, based on anomaly gradients is ~12 km². An intrusive body is modelled at depth 900 – 1300m with a northeast- southwest extent of ~3kms, an assumed strike length of 4kms and a modelled magnetic susceptibility of 0.15 SI units. The latter indicated a volume magnetite content of ~4%.

Figure 6 shows the prospect area's magnetic image with overlying gravity contours.

5.2 Gravity Survey

A detailed helicopter gravity survey was completed over the Bulldust Dam and Stephenson Dam Prospects which were originally identified from Government gravity data, in November 2007. This was used to provide greater control for computer modelling and to help prioritise the area for further exploration. A total of 56 readings made up of 28 new readings over each of the Bulldust Dam and Stephenson Dam Prospects were recorded. Readings were taken at one to four kilometre spacing and are presented as bouguer gravity images and contours in Figure 7. The gravity logistics report is presented as Appendix 1, within which the Bulldust Dam and Stephenson Dam Prospects are referred to as Bedourie 3 and 4 respectively. The Gravity Station Final data is presented as Appendix 2.

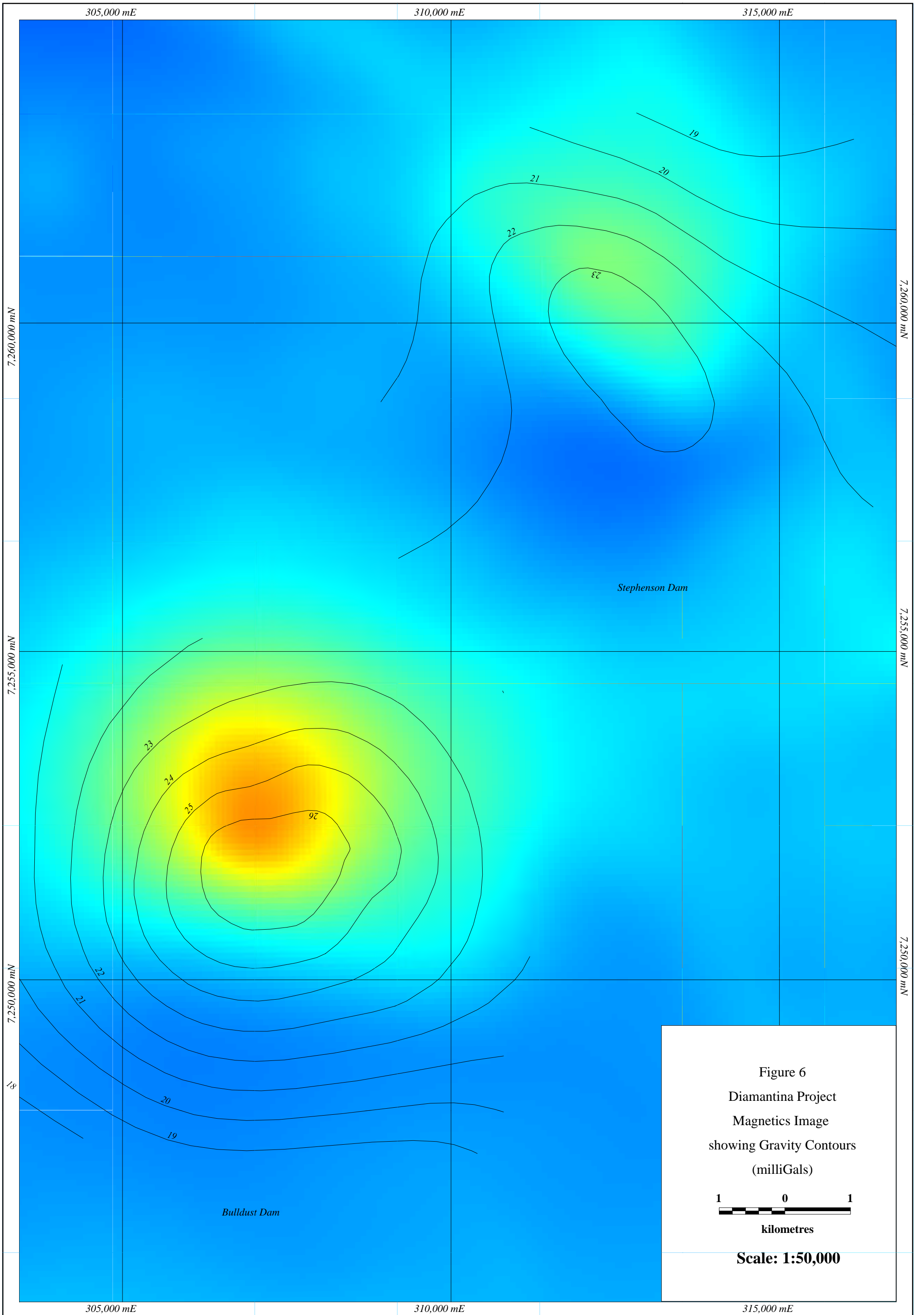
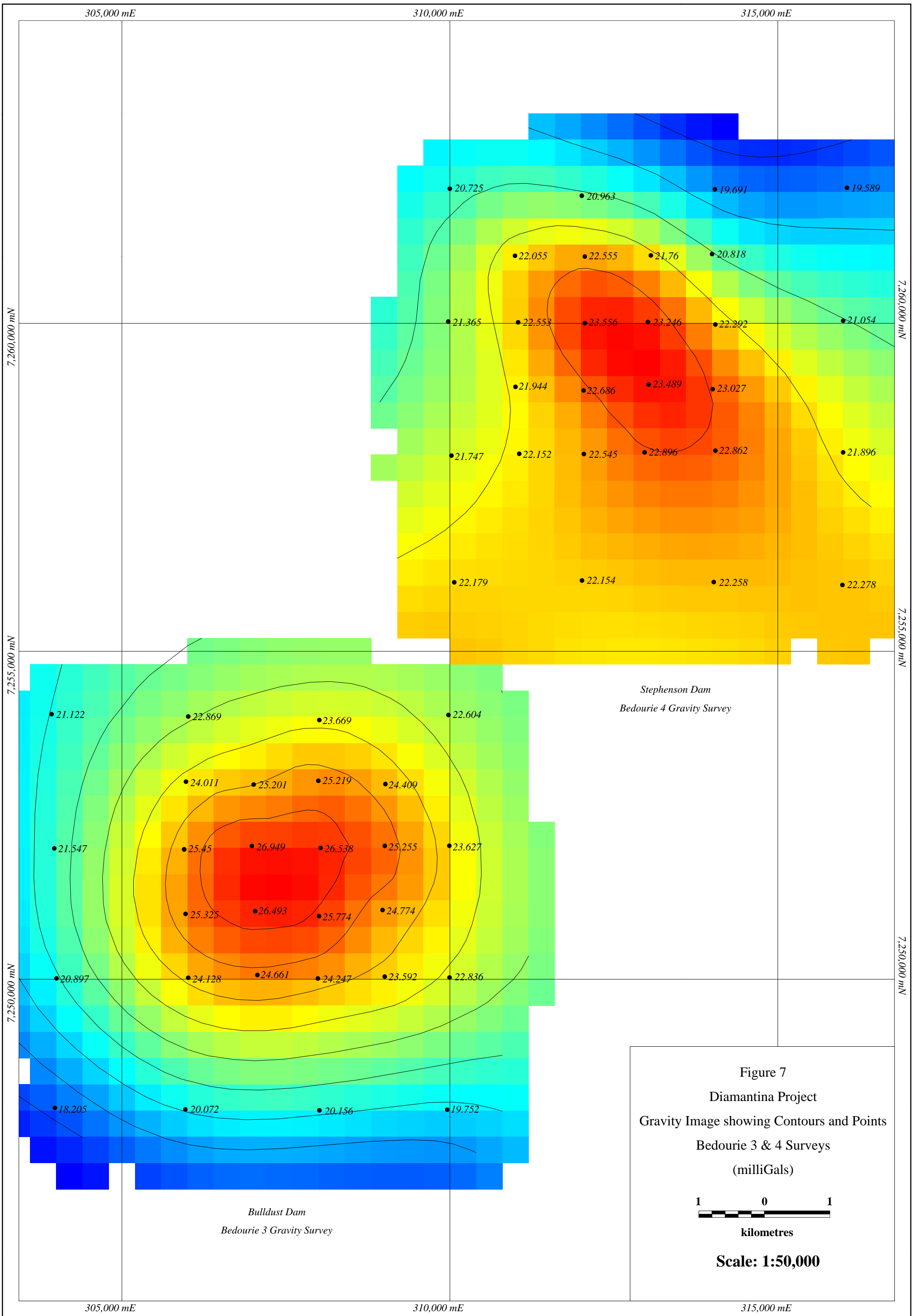


Figure 6
 Diamantina Project
 Magnetics Image
 showing Gravity Contours
 (milliGals)

1 0 1
 kilometres

Scale: 1:50,000



Results confirmed the amplitude and shape of the gravity anomalies to be about 7 milligals (Bulldust Dam) and 3 milligals (Stephenson Dam), outlining targets in excess of 12 km² each in size and providing sufficient detail for more effective computer modelling of the gravity data. Seismic data to the south, plus available water bore and magnetic data were used to help constrain the gravity interpretation.

The Bulldust Dam gravity anomaly indicates that density of the intrusive body (model) needed to match the observed data to be ~2.76 gcm⁻³. This may represent a mafic to ultramafic intrusive rock.

The Stephenson Dam gravity anomaly indicates that density of the intrusive body (model) needed to match the observed data to be ~2.72 gcm⁻³. This may also represent a mafic to ultramafic intrusive rock.

5.3 Geophysical Discussion

Although the Bulldust Dam and Stephenson Dam Prospects reflect complex magnetic/gravity targets in the central area of the Diamantina project area, the intensity of the anomalies are not as unique as Machattie and Mulligan Prospects to the east and west respectively. The prospects are interpreted to reflect possible Olympic Dam style IOCG systems below the Eromanga Basin sediments, however their prospectivity will be evaluated based on results from Machattie and Mulligan Prospects.

At Olympic Dam hematitic breccias containing the copper and gold mineralisation are reported to have high densities of ~4.0 gcm⁻³, suggesting the modelled target at nearby Machattie may have reflected similar hematite mineralisation +/- base and precious metals.

Modelling the depth of the base of the Eromanga sedimentary rocks from geophysical interpretation proved quite accurate when drilling the nearby Machattie Prospect.

6.0 CONCLUSIONS AND RECOMMENDATIONS

Regional magnetic and gravity surveys followed by detailed gravity surveying, geophysical interpretation and modelling show the Bulldust Dam and Stephenson Dam Prospects to be coincident magnetic and gravity anomalies that may reflect IOCG mineralized systems.

Deep drilling at the nearby Machattie prospect has intersected magnetite-pyroxenite rocks over the entire interval beneath the Eromanga Basin sediments. This may represent an iron-oxide alteration system however results from analytical work are still awaited. Ground geophysical test work is being used at Machattie prospect, including induced polarization and magneto-telluric techniques in order to establish what level of information (conductivity and polarization) can be retrieved from the intrusive body at such great depths.

As the Bulldust Dam and Stephenson Dam Prospect targets are deep and will require a serious commitment from Ausquest to pursue, further work programs will be determined after evaluating the results from the nearby Machattie and Mulligan Prospect's exploration.

7.0 REFERENCES

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Appendix 1

Gravity Logistics Report

(pdf only)

Appendix 2

Gravity Station Data

(pdf only)

