



DIAMANTINA PROJECT

EPM 15791 ANNUAL REPORT
FOR THE YEAR ENDED 10TH OCTOBER 2009

BEDOURIE SG 54-01

QUEENSLAND

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SUMMARY

This annual report covers exploration activity within **EPM 15791** for the year ended 10th October 2009. This tenement is located in the central part of the Diamantina Project, 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. 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.

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 second annual report for EPM 15791 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

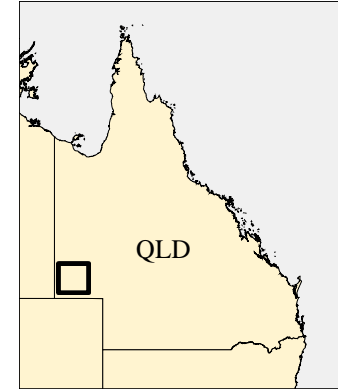
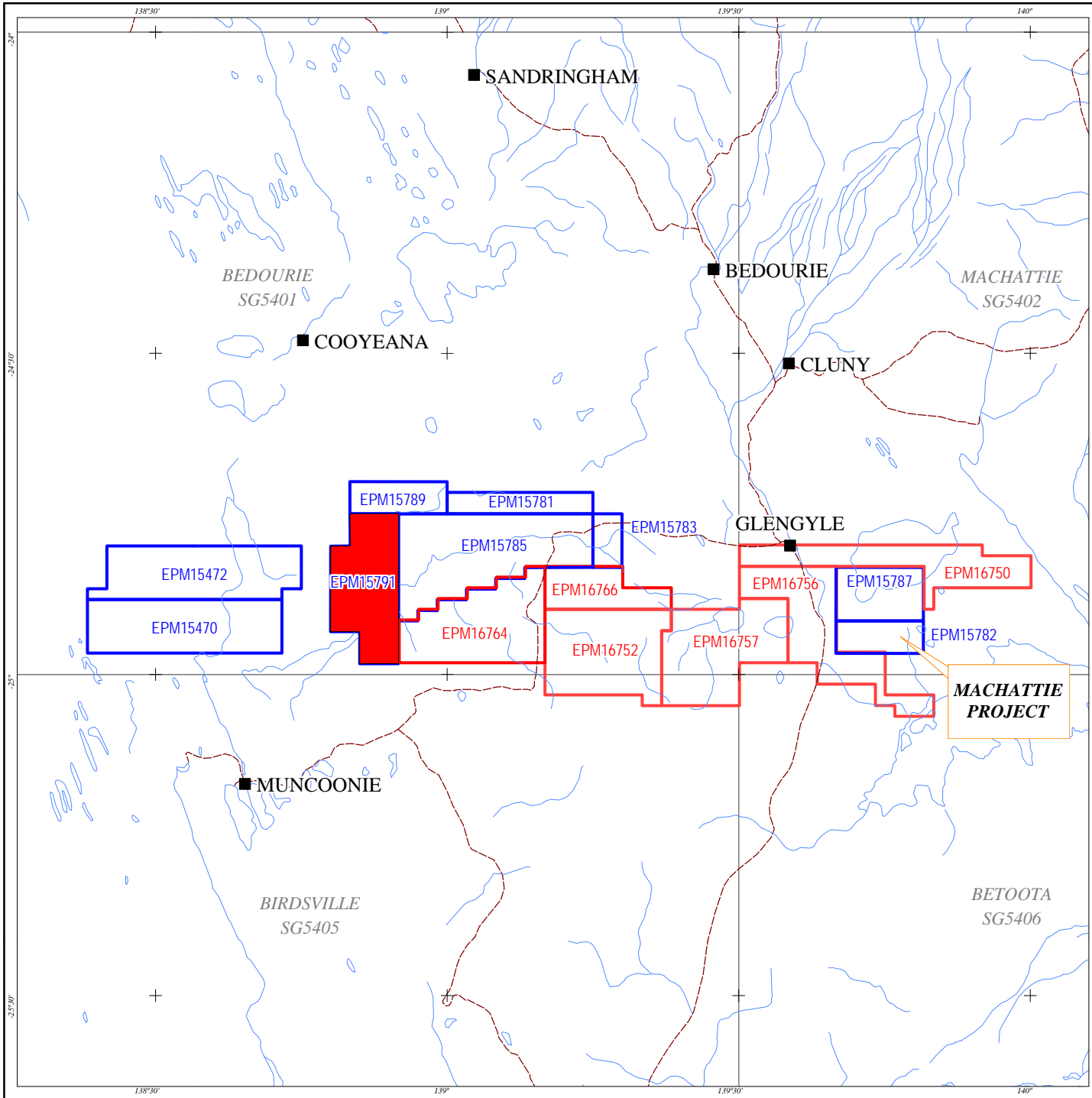
Tenement	Sub-blocks	Grant Date	Expiry Date	Rent \$	Commitment \$
EPM 15781	30	10/10/2007	9/10/2012	3,738.00	20,000
EPM 15782	27	10/10/2007	9/10/2012	3,364.20	20,000
EPM 15783	15	29/08/2007	28/08/2012	1,869.00	10,000
EPM 15785	136	10/10/2007	9/10/2012	16,945.60	40,000
EPM 15787	45	10/10/2007	9/10/2012	5,607.00	20,000
EPM 15789	30	10/10/2007	9/10/2012	3,738.00	20,000
EPM 15791	83	10/10/2007	9/10/2012	10,341.80	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	846			45,603.60	385,000

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).

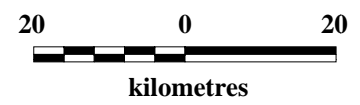
The Bulldust Dam and Stephenson Dam Prospects are targeting Iron Oxide-Copper Gold deposits similar in nature to those found at Olympic Dam in SA and Ernest Henry in Queensland.

Evidence from magnetic and gravity data released by the Queensland Geological Survey in 2007 highlighted several areas with coincident magnetic and gravity

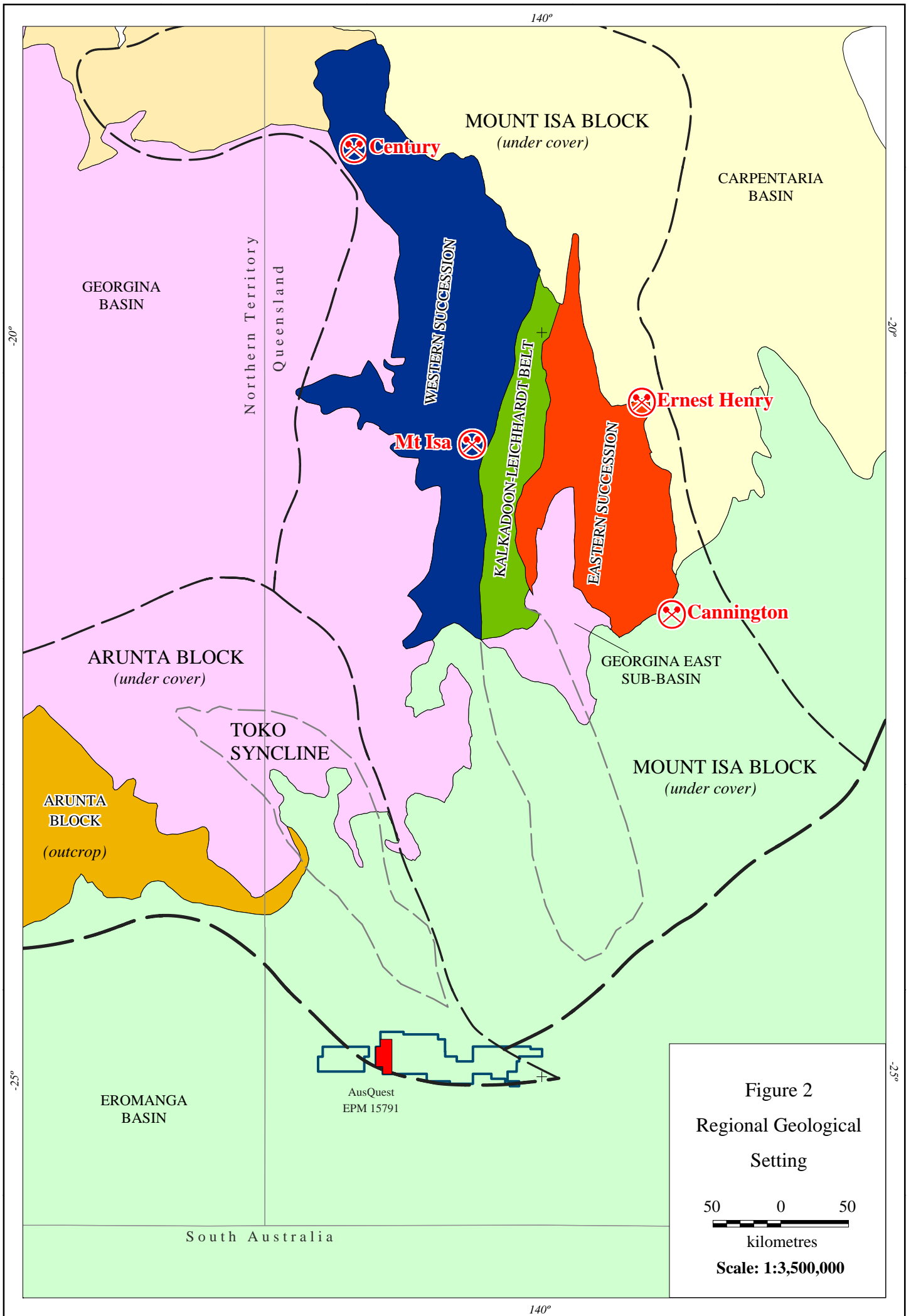


- Tenement Granted
- Tenement Application

Figure 1
 Location Plan
 Diamantina Project



Scale: 1:1,000,000



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 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. 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.

4.0 REVIEW OF PREVIOUS WORK

Exploration to date by AusQuest at the Bulldust Dam and Stephenson Dam Prospects has included a detailed helicopter gravity survey over a target outlined by the gravity data released by the Queensland Geological Survey, field reconnaissance survey to determine access and logistical parameters for ground based field exploration and desk-top studies and modelling of both the magnetic and gravity data.

5.0 EXPLORATION ACTIVITY

The central portion of the Machattie project area was inundated due to extensive flooding in the channel country over the January 2008 wet season. Access to the area was completely cut off for a period of 3-4 months and after that period ground conditions limited vehicle access and no field work was done. No field work was completed on the project during the reporting period.

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 represents an iron-oxide alteration system. Ground geophysical test work completed at the Machattie prospect, including induced polarization and magneto-telluric techniques has been trailed and has provided a potential method of testing the basement contact for similar IOCG alteration systems as that located in the drilling programmes to the east and west of the central project area.

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

G Drew, M Sherington, J Thornett, J Ashley, 2008. Collaborative Drilling Initiative Proposal, Diamantina IOCG Project, Machattie Prospect, Queensland. AusQuest unpublished internal report (AQD Report No: 2008/11).

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