Annual Report EL 23726
“801” Project
Barkly Highway, NT

For the Period ending 31 July 2006

Tenement Holder: Conarco Minerals Pty Ltd

Date: September 2006

Author: Z A Sas

# TABLE OF CONTENTS

1. SUMMARY.................................................................................................................. 2

2. TENURE .................................................................................................................. 3

3. GEOLOGICAL SETTING.............................................................................................. 3

4. PREVIOUS EXPLORATION.......................................................................................... 5
   4.1 IMC .................................................................................................................. 5
   4.2 CRAE .................................................................................................................. 5

5. WORK COMPLETED BY CONARCO/INDO: (2002– 2006)................................. 6
   5.1 Regional Sampling Program – Conarco (2002)....................................................... 6
   5.2 Magnetic Modelling – Conarco (2003) .................................................................... 6
   5.4 Review of Magnetic Modelling – INDO (2005) ....................................................... 7
   5.5 Preparation for Drilling Program – INDO (2005/2006) ......................................... 7

6. EXPENDITURE STATEMENT......................................................................................... 8

7. PROPOSED EXPLORATION PROGRAMME 2006-2007 ........................................... 9

8. CONCLUSIONS AND RECOMMENDATIONS.......................................................... 10

**ATTACHMENTS:**
1) Tenement Location Map of EL 23726 showing reduced area
2) Tenement Location Map showing magnetic target locations
1. SUMMARY

EL 23726, which is registered in the name of Conarco Minerals Pty Ltd, now comprises 298 blocks and is located near the Barkly Highway 260km east of Tennant Creek in the Northern Territory, Australia. The Conarco tenement abuts Indo’s Wonarah phosphate project which was drilled by former JV partner Rio Tinto in 2001 to contain an inferred resource of $72\text{Mt} @ 23\% \text{P}_2\text{O}_5$.

In late 2002, Conarco discovered strongly anomalous geochemical lead (750ppm Pb) and arsenic (150ppm As) in weathered Cambrian sediments at a location named “801” while carrying out a reconnaissance survey for petroleum in the Georgina and McArthur Basins. Research by Conarco also revealed old drill holes in the area containing anomalous lead values up to 370ppm Pb.

Follow-up work by Conarco defined a broad area within EL 23726 containing anomalous lead geochemistry which has a magnetic response defined from interpretation of the NTGS Barkly airborne geophysical survey. Additional magnetic modelling also revealed several magnetic targets for kimberlite.

In March 2004, INDO Mines Ltd (formerly AKD Ltd) entered into a joint venture with Conarco over EL 23726. Approximately 2 years later, INDO withdrew from the JV on 12th May 2006. Work carried out to date by INDO included a review of the Conarco database and re-interpretation of the magnetic modeling undertaken by Conarco using consultant geophysicists, Southern Geoscience.

The work undertaken by Southern Geoscience indicated similar depths to that of the Conarco modelling for just over half of the models. Some of the magnetic anomalies were significantly deeper, while some were significantly shallower, however in general, the targets range in depths from 100m to 200m.

Work completed during 2005/2006 involved a review of the geophysical data and the preparation for a drilling program to test a number of the magnetic anomalies. Work involved native title/site clearance programs for the proposed drilling program. Ground truthing of specific targets will take place following clearance.
2. TENURE

Conarco Minerals Pty Ltd is the registered owner of 100% interest in EL 23726.

The underlying land tenure for the Conarco “801” project is Pastoral Lease, mainly on Dalmore Downs (held by Stanbroke Pastoral Company Pty Ltd) and part on West Ranken (held by The North Australian Pastoral Company Pty Ltd). Native Title and heritage clearance issues are dealt with by the Northern Land Council.

Exploration licence 23726, which totalled 500 blocks (1600km$^2$) in area, was granted on the 1 August 2003 for a period of 6 years, expiring 31 July 2009. A portion of EL 23726 has been relinquished and now totals 936km$^2$ (298 blocks) following a compulsory reduction of the area in June 2005 (Attachment 1). From 1 August 2006, the area was reduced to 149 blocks. Total exploration commitment for 2005/2006 as designated by the NT Government was AUD$70,000.

The tenement schedule for “801” is as follows:-

**“801” TENEMENT SCHEDULE AS AT JULY 2006**

<table>
<thead>
<tr>
<th>TENEMENT NUMBER</th>
<th>REGISTERED HOLDER</th>
<th>GRANT DATE</th>
<th>EXPIRY DATE</th>
<th>CURRENT AREA</th>
<th>RENTAL AMOUNT</th>
<th>EXPENDITURE COMMITMENT</th>
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</thead>
<tbody>
<tr>
<td>EL 23726</td>
<td>Conarco Minerals Pty Ltd</td>
<td>01-Aug-03</td>
<td>31-July -09</td>
<td>298 blocks</td>
<td>$6,556</td>
<td>$70,000</td>
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</table>

3. GEOLOGICAL SETTING

The “801” tenement is located in the central western Georgina Basin, a large late Proterozoic to early Palaeozoic basin extending across much of eastern Northern Territory and northwest Queensland. The tenement straddles the northeast-southwest trending Alexandria-Wonarah Basement High, an early Cambrian structural ridge separating the Brunette and Undilla Sub-basins. Basement in this area are Mesoproterozoic sediments and volcanics overlain by Early Cambrian Peaker Piker volcanics. The volcanics are tholeiitic in composition, and comprise amygdaloidal and porphyritic basalts and dolerite. The volcanics cover an east northeast trending basement high throughout the central and western part of the tenement area, and occur beneath thin transported cover in the western tenement area.

The basement high is flanked by onlapping dolomitic rocks equivalent to the Thorntonia Limestone, and overlain by dolostone, mudstone, and phosphorite of the lower Middle Cambrian Upper Gum Ridge Formation, and mudstone, siltstone, and dolostone of the Middle Cambrian Wonarah Beds (Figures 1 & 2). The geological setting for “801” was provided in the 2004 Annual report.
Hangingwall dolostone HDO
Gray and brown dolomite siltstone. Interglutates with mudstone away from flanks of the basement high.

Hangingwall mudstone HMU
White to light grey micaceous mudstone with trace siltstone and nodular chert. Rare marine fossils; <10% crandallite beds and trace dolostone; illite- and kaolinite-rich; locally ferruginised.

Convolute mudstone CMU
White, light grey, and yellow clay-rich convolute mudstone. Trace chert, minor siltstone and fine sandstone interbeds. 0-45% crandallite; >18% illite; high TiO2 and Zr; locally ferruginised.

Mudstone phosphorite MPH
Yellow and pink mudstone phosphorite with trace dark-grey chert. Dominated by carbonate-fluorapatite, trace crandallite; <5% illite; low TiO2 and K2O; low quartz; locally ferruginised; some intersects partially weathered. Anomalous trace element geochemistry.

Chert breccia phosphorite CBX
Yellow, grey, and rarely pink mudstone phosphorite with abundant dark-grey chert. Laterally continuous horizon; carbonate-fluorapatite-rich, weakly dolomitic organic mudstone precursor. Trace crandallite; weakly ferruginous; <10% illite, low TiO2; quartz average 60%.

Transitional sediments (undifferentiated) TUN
Clay-rich mudstone and siltstone; occasional dolomite, sandstone, and epiclastic on basement; >10% illite and generally >10% kaolinite.

Transitional phosphorite TUP
Porcellinous phosphorite; high P2O5; variable clay.

Dolomitic siltstone DOL
Thortonia Limestone equivalent.

Mafic volcanics BAS
Peaker Piker Volcanics. Intensely weathered amygdaloidal and porphyritic tholeitic basalt and dolerite.

Figure 1: Wonarah Stratigraphy

Figure 2: Diagrammatic Regional Cross Section
4. PREVIOUS EXPLORATION

4.1 IMC

The Wonarah phosphate deposit to the south-east of the “801” tenement was identified in 1967 by the US industrial minerals and chemicals group, IMC Development Corporation (“IMC”). Between 1967 and 1970 IMC undertook regional mapping, geophysical, drilling and testwork activities in the Wonarah region, including the area containing EL 23726.

In the period to March 1970, IMC drilled 294 non core holes totalling 11,660m in the region, and delineated a phosphate resource at Wonarah of 669 million short tons of 15.73% P$_2$O$_5$ (using a 10% P$_2$O$_5$ cut-off) including 532 million short tons at 16.74% P$_2$O$_5$ (using a 14% P$_2$O$_5$ cut-off) and 307 million short tons at 18.98% P$_2$O$_5$ (using a 18% P$_2$O$_5$ cut-off). The global resource at Wonarah identified by IMC totalled 1,955 Mt @ 14.4% P$_2$O$_5$.

A few holes drilled by IMC within EL 23726 returned anomalous Pb values some up to 370ppm (IMC drill hole W019). Locations of these IMC drill holes were provided in the 2004 Annual Report.

4.2 CRAE

During 1983-1984, CRA Exploration Pty Ltd (“CRAE”) carried out an exploration program for phosphate in an area immediately to the south of the Wonarah deposit. CRAE completed a low level (80m) aeromagnetic survey at 1km line spacings which suggested potential for phosphorite at 20-30m depth. Although tracks and drilling grids were prepared, CRAE withdrew from the project due to low prevailing world phosphate prices and the lack of infrastructure at the time in central Australia.

In 1992, CRAE (and later Rio Tinto) explored the area for diamonds south of the Barkly Highway on the Joildung and Barry Caves 1:100,000 map sheets. A total of 21 loam samples were collected over weak magnetic anomalies and one 0.175ct microdiamond and one non-kimberlitic chromite were recovered.

The distribution of microdiamonds and kimberlites occurring in the Northern Territory and the location of gravel and loam samples collected in the Barkly region by various explorers for diamond were provided in the 2004 Annual Report.

5.1 **Regional Sampling Program – Conarco (2002)**

In late 2002, Conarco discovered strongly anomalous geochemical lead (750ppm Pb) and arsenic (150ppm As) in weathered Cambrian sediments at a location named “801” while carrying out a reconnaissance survey for petroleum in the Georgina and McArthur Basins. This area was subsequently applied for by Conarco under the application ELA 23726.

Conarco also demonstrated that the Pb anomalism, especially at the 750ppm site, was related to subcropping siliceous breccia. The breccia was interpreted to be a weathered silicified “crackle breccia” typical of MVT, Pb-Zn mineralisation.

5.2 **Magnetic Modelling – Conarco (2003)**

Following the encouraging sample results, Conarco undertook a review of the NTGS 2001 Barkly Airborne Geophysical Survey which was flown on 400m line spacings.

Magnetic modelling of the geophysical data was undertaken by Conarco using a software package called Quickmag. Conarco’s modelling revealed a large (20km$^2$) magnetic anomaly coincident with the location of the 750ppm Pb sample anomaly at “801” (Attachment 2). Several magnetic dipole anomalies reflecting possible kimberlite type intrusions were also interpreted within EL 23726 (refer to Annual Report year ending July 2005).

5.3 **Magnetic Modelling – INDO (2004)**

Following the formation of a joint venture between INDO and Conarco, INDO undertook a review of the Conarco data base and commissioned consultant geophysicists, Southern Geoscience, to review the data relating to the NTGS 2001 Barkly Airborne Geophysical Survey.

Southern Geoscience also compared Conarco’s modelling of the magnetic data over EL 23726 using a software package called Potent. The Potent modelling used by Southern Geoscience produced similar depths to that of the Quickmag modelling for just over half of the models (refer to Annual Report year ending July 2005). Magnetic anomalies C2, C4 and E4 are significantly deeper, while E2 and E3 are significantly shallower.

The automated modelling shows no responses within 100m of the surface, but a reasonable scatter of model solutions is in the range of 100m to 200m. The results should be taken as general guide to depths across the area.
5.4 **Review of Magnetic Modelling – INDO (2005)**

In 2005, INDO undertook a review of the magnetic modelling completed in 2004 (refer to Annual Report year ending July 2005). The work undertaken by Southern Geoscience indicated similar depths to that of the Conarco modelling for just over half of the models. Some of the magnetic anomalies were significantly deeper, while some were significantly shallower, however in general, the targets range in depths from 100m to 200m. Work also completed during 2005 involved the plotting of the magnetic targets in suitable format and the compilation of additional maps comparing the magnetic targets against regional gravity and digital elevation (refer to Annual Report year ending July 2005).

5.5 **Preparation for Drilling Program – INDO (2005/2006)**

Indo commenced preparations in late 2005 and the first half of 2006 for a drilling program to test a number of the magnetic anomalies. The preparations involved native title/site clearance programs by INDO for the proposed drilling program. Ground truthing of specific targets by Conarco will take place following clearance.
6. EXPENDITURE STATEMENT

Annual expenditure for EL 23726 to 31 July, 2006 was $14,327.

A breakdown is provided below:

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<td>TOTALS $</td>
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7. PROPOSED EXPLORATION PROGRAMME 2006-2007

Magnetic Anomaly “A” Coincident With Anomalous Lead And Arsenic
- Carry out detailed surface geochemical sampling on a grid
- Carry out several ground magnetometer traverses
- Model the magnetic profiles
- Drill a scout reverse circulation hole with a diamond coring as appropriate to approximately 300m depth to investigate potential base metal mineralisation assumed to be present in the Lower Cambrian sediments and to penetrate the basalt flows of the Peaker Piker Volcanics and investigate the underlying Proterozoic

Magnetic Anomalies “C” And “E”
- Carry out surface geochemical sampling traverses
- Carry out several ground magnetometer traverses
- Model the magnetic profiles
- If time permits carry out scout reverse circulation drilling to investigate the cause of the anomalies which is presently speculated to be ultramafic intrusives, perhaps kimberlitic or lamproitic, or iron oxide hosted copper-gold mineralisation in Mount Isa Block equivalent basement rocks at shallow depth

PROPOSED EXPLORATION EXPENDITURE 2006-2007

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<th>Item</th>
<th>Estimate</th>
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8. CONCLUSIONS AND RECOMMENDATIONS

The “801” project area includes lower Middle Cambrian sediments of the Georgina Basin that contain anomalous Pb values (of up to 370ppm Pb) recognized at depth in drill holes and at the surface in subcrops of siliceous breccia of up to 750ppm Pb. The breccia is interpreted to be a weathered silicified “crackle breccia” typical of MVT, Pb-Zn mineralisation.

Magnetic modelling of the available airborne geophysical data revealed a large (20km²) magnetic anomaly co-incident with the location of the 750ppm Pb sample anomaly at “801”. Several magnetic dipole anomalies reflecting possible kimberlite type intrusions were also interpreted within EL 23726. The estimated depths for the magnetic targets derived from the initial work by consultant geophysicists, Southern Geoscience, suggest depths in the range of 100m to 200m.

The tenement holders are currently preparing for a drilling program to test a number of the magnetic anomalies following the completion of native title/site clearance programs.

It is recommended that more detailed magnetic interpretation work on selected targets be carried out to establish better confidence limits for the depths and dips of the potential sources prior to the start of the drilling program. Ground truthing of specific targets will need to take place following clearance.