

ANNUAL REPORT

EXPLORATION PERMIT FOR MINERALS (EPM) 13995

“Wyandotte Creek”

For the period ending

5 June 2005

Australian Diatomaceous Earth Joint Venture

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AUSTRALIAN DIATOMACEOUS EARTH PTY LIMITED

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"WYANDOTTE CREEK"**

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SUMMARY

Australian Diatomaceous Earth Pty Limited ("ADE"), ADE Filter Aid Pty Limited ("ADEF"), and Diatomaceous Earth Investments Pty Limited ("ADEI") are holders of Exploration Permit for Minerals (EPM) 13995 "Wyandotte Creek". The three parties of this tenement are known as the Australian Diatomaceous Earth Joint Venture ("ADEJV"). EPM 13995 covers the potential western extension of the Greenvale diatomaceous earth deposit, located north of Greenvale in north Queensland. The Joint Venture holds a Mining Lease (ML 10279), two Mineral Development Licences (MDL's 325 and 326), EPM 13236 and EPS 6 which in combination cover the main body of the deposit.

During the 6 May 2004 to 5 May 2005 reporting period, ADEJV undertook a review of the potential of EPM 13995 to host potentially mineable resources of diatomaceous earth by directing activities towards:

- Review of existing exploration data and laboratory results;
- Review of sample analysis results and interpretation; and
- Acquisition and interpretation of all the available geophysical data and studies undertaken by previous exploration holders of the tenement area.

As a result of finalising the literature reviews and assessment of drilling data produced by previous exploration holders and completion of the sampling pilot plant, ADEJV recommends the following programme for the third year of tenure:

- Bulk sample analysis of pre-obtained samples to confirm viability of filter-aid resource in the beer and wine industries;
- Ground traversing and geological interpretation of basalt covers of target site locations and re-interpretation of the depth to source;
- Selection of targets and commencement of Reverse Circulation (RC) drilling by truck mounted rigs.

1.0 INTRODUCTION

1.1 Tenure Information

Exploration Permit for Minerals (EPM) 13995 was granted on 6 June 2003 to Australian Diatomaceous Earth Pty Limited ("ADE"), ADE Filter Aid Pty Limited ("ADEF") and Diatomaceous Earth Investments Pty Limited ("ADEI") for a term of two years over an area of 11 sub-blocks. The three joint venture partners of this tenement comprise the Australian Diatomaceous Earth Joint Venture ("ADEJV"), with ownership divided as follows:

HOLDER	PERCENTAGE (%)
Australian Diatomaceous Earth Pty Limited	29.4
Diatomaceous Earth Investments Pty Limited	40.0
ADE Filter Aid Pty Limited	30.6
TOTAL	100

ADE is the nominated principal holder of EPM 13995.

At present, the tenement is pending renewal for a further term of two years. ADE has applied to relinquish five, and renew six sub-blocks. This annual report incorporates all eleven sub-blocks of the tenement for the year ending 5 May 2005.

EPM 13995 forms a part of the Diatomaceous Earth Project group of tenements held by the ADEJV. The project is known as the 'Greenvale Diatomaceous Earth Project'. The EPM was initially applied for to identify further economic resources of diatomaceous earth in the areas adjacent to Mineral Development Licences (MDLs) 325 and 326. Mining Lease (ML) number 10279 has been granted to ADEJV within MDL 325. Accordingly, EPM 13995 will continue to remain an integral part of the Greenvale Diatomaceous Earth Project.

Accordingly, the Greenvale Diatomaceous Project is comprised of the following tenements tabulated below:

Table 1: Greenvale Project Tenements

Tenement Type	Numbers
Exploration Permit for Minerals	EPMs 13995, 13236 EPS 6
Mining Leases	ML 10279
Mineral Development Licences	MDLs 325, 326

The blocks and sub-blocks that comprise EPM 13995 are tabulated below:

Table 2: Block and Sub-block description of EPM 13995

*BIM	BLOCK No.	SUB-BLOCK No.
**TOWN	2241	u, y, z
TOWN	2242	q, v
TOWN	2313	e

Total sub-blocks = 6

*BIM = Block Identification Map

**TOWN is an abbreviation of Townsville

1.2 Location

EPM 13995 is located approximately 30 kilometres north of Greenvale, North Queensland (Figure 1). The EPM is within non-exclusive tenure (Pastoral Holding) in Lot 4594 on Plan PH 1586 "Conjuboy Station", Parish of Conjuboy, County of Ringwood. The Greenvale project area is located between Eight Mile Creek and Wyandotte Creek, immediately north and partially covering the Conjuboy Homestead on Conjuboy Station. The tenement is situated on the immediate western side of Wyandotte Creek. The main sealed road leading from the townships of Greenvale to The Lynd (The Kennedy Development Road) intersects the centre of the EPM from Conjuboy Homestead, heading northwards.

1.3 Exploration Rationale and History

Since the previous reporting period, ADEJV has continued to assess the potential to produce a high quality filter-aid product from potential resources within EPM 13995 and associated Greenvale project tenements.

Throughout the first term of tenure ADEJV's main thrust of work within EPM 13995 involved the establishment of a viable route for extraction and processing of the resource material. Initial resource evaluation by ADEJV was based on the results of a drilling programme conducted by Spectrum Resources NL ("Spectrum") in 1998, which identified three main classes of diatomite based on visual classification of the extracted material. The logs and visual results of Spectrum's drilling programme concluded that diatomite-bearing material was present throughout EPM 13995 and the Greenvale project area and is capped by Tertiary to Quaternary basalt on the project area's northern and eastern boundaries.

During 2003 – 2004, ADEJV established a pilot plant to produce samples from various location points for downstream testing. These samples underwent various testing by the numerous laboratories and institutes of learning such as the CSIRO and the University of Queensland. Results found that the main processing requirement for the Conjuboy resource material would involve the separation and removal of clay adhering to the diatom frustules. Testwork has continued throughout the life of the tenement to

establish the optimum method of removing the clay and carbonate gangue from the target diatoms. As a result of testwork to date, ADE has established a viable processing route to produce a high quality non-calcined product. This requires bulk testing to confirm its viability as a filter-aid in the beer and wine industries, which is envisaged for completion in the third year of tenure.

The exploration efforts of ADEJV in the second term of EPM 13995 has been to further identify the tenement's potential to host economically viable diatomaceous earth resources and select target sites for RC drilling and eventual extraction of the resource:

- Literature reviews of previous regional exploration to assess base-metal potential of the EPM;
- Acquisition of geophysical data to assist in the definition of targets for potential base-metal mineralisation within the EPM and ADEJV's adjacent tenements;
- Assessment of the general area's potential to host diatomaceous earth resources; and
- Ground traversing and geological observation.

Mr Don Condon, occupier of the Conjuboy Station, has reported that a water bore drilled towards the centre of the EPM within the last three years intersected several metres of high quality diatomaceous earth above a zone of significant water flow. To date, this site has not been accurately located.

Based on the reports of Mr Don Condon, ADEJV believe that the area has the potential to host resources of diatomaceous earth suitable to produce a high quality filter grade end product. The surface geology of the tenement is predominantly Tertiary to Quaternary basalt of unknown and presumably varied thickness. Accordingly, the depth of the overlying basalt of the water bore is presently unknown. ADEJV believe further exploration is warranted to determine the likely presence of the resource and hence, the economic viability of extraction.

Accordingly, ADEJV recommends the following programme of exploration for the third year of tenure:

- Bulk sample analysis of pre-obtained samples to confirm viability of filter-aid resource in the beer and wine industries;
- Ground traversing and geological interpretation of basalt covers of target site locations (including abandoned water bore as identified by Mr Don Condon) and re-interpretation of the depth to source;
- Selection of targets and commencement of Reverse Circulation (RC) drilling by truck mounted rigs.

1.4 Results of Literature Searches

Literature reviews of previous regional exploration were conducted throughout the term of the EPM to assess the base-metal potential of the tenement.

In 1998, a drilling programme was conducted by *Spectrum Resources NL* ("Spectrum") which identified three main classes of diatomite based on visual classification of the extracted material. ADEJV have further investigated samples from these drilling sites which are proposed for bulk sample testing in the third term of tenure. *Sedgman and Associates*, an earlier explorer of the tenement, made reference to collar locations on a regional map. However, no supportive results were found from this drilling. Although the logs of Spectrum have proved helpful, there is limited drilling evidence produced from the exploration efforts of all previous holders. Based on the findings of rock chip and soil sampling, ADEJV propose selection of site targets for commencement of RC drilling.

2.0 GEOLOGICAL DATA

2.1 Regional Geology

The surface geology of the Greenvale Project Area is dominated by Tertiary to Quaternary basalt cover that is dissected by the drainage channels of the Wyandotte and Forester Creeks, exposing a Tertiary-Quaternary lacustrine sedimentary sequence. This sequence is dominated by a thick layer of diatomaceous earth which is the unit of economic interest. Where exposed in creek cuttings, the diatomaceous earth horizon is around 10-15 metres in thickness and is covered by 0-5 metres of sandy clay, diatomaceous earth rubble, basalt rubble and soil. Locally, the diatomaceous earth horizon reaches a thickness of up to 20 metres. The basalt cover of EPM 13995 is yet to be penetrated and is presumed to be of variable thickness.

3.0 WORK PERFORMED

3.1 Desktop Assessment

During the reporting year, ADEJV continued to review and interpret the findings of the laboratory results to establish the optimum method of removing the clay and carbonate gangue from the target diatoms. As a result of testwork to date, ADE has established a viable processing route to produce a high quality non-calcined product. This requires bulk testing to confirm its viability as a filter-aid in the beer and wine industries, which is envisaged for completion in the third year of tenure.

3.2 Field Assessment

As a consequence of continued literature reviews, extensive field assessment has not occurred in this reporting year. However, based on the recommendations of Mr Don Condon, limited geological observation has occurred in the approximated vicinity of the abandoned water bore, towards the centre of the tenement.

ADEJV anticipates identification and reconnaissance examination of targets in the field to be finalised in 2005. These targets will be assessed through geological observation, rock chip and soil sampling, bulk analysis and interpretation of results.

4.0 GEOPHYSICAL DATA

4.1 Geophysics Interpretation

No geophysics interpretation has extended from the review of the Sedgman and Associates report. Although ADE has continued to review the findings to establish appropriate target selection for drilling, no defining targets have been established.

4.2 Airborne Geophysical Digital Data

No new airborne geophysical surveys have been flown for the Wyandotte Creek tenement during the reporting period.

5.0 GEOCHEMICAL DATA

No geochemical sampling or data collection was undertaken for EPM 13995 during the reporting period.

6.0 DRILLING DATA

No drilling or data collection was undertaken within EPM 13995 during the reporting period.

7.0 REMOTE SENSING DATA

No remote sensing data was collected from EPM 13995 during the reporting period.

8.0 RESOURCE STATEMENTS

No resource estimates have been calculated during the reporting period.

9.0 CONCLUSIONS

Literature reviews conducted throughout the reporting period indicate that very limited drilling was undertaken in the eastern portion of the EPM by previous explorers. Although references were made by previous explorers (Sedgman and Associates) to drill hole collar locations within the tenement, no results were found from this drilling.

From the reports of Mr Don Condon of Conjuboy Station and the sample findings of laboratory testing, ADEJV believe the area of EPM 13995 clearly has the potential to host resources of diatomaceous earth, but the depth of the overlying basalt is presently unknown. ADEJV continue to explore the tenement to determine whether these resources could provide economically viable diatomaceous earth for future development.

10.0 REFERENCES

Sedgman & Associates Pty Ltd, *“Progress Report on Operations for the six months ending 29th March 1990, ATP4436M Conjuboy”*, June 1990

Sedgman & Associates Pty Ltd, *“Conjuboy Diatomite Preliminary Feasibility Study”*, March 1991