MT GRACE RESOURCES NL

ANNUAL REPORT

EXPLORATION LICENCE 10421

FENTON

Year Ended 29 August 2002

S H Robinson
September 2002

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EXECUTIVE SUMMARY

The area covered by EL 10421 was identified as being prospective for limestone flux to be used in the production of magnesium metal near Batchelor. The results of all relevant previous exploration were compiled and assessed. A programme of field sampling of outcropping limestone was carried out. Eight rock chip samples were taken for geochemical analysis. Equally importantly the extensive field reconnaissance established that significant areas of the EL do not have any outcropping limestone and the few floaters and sub-crops that are present appear to be of low quality and unsuitable for use as a flux to process magnesite to magnesium metal in the Batchelor Magnesium Project.

Some of the samples from areas of outcropping limestone do exhibit good quality characteristics and are likely to be suitable for use as a flux. More detailed evaluation of the limestone has been postponed pending the completion of metallurgical testwork relating to the Batchelor Project, grant of environmental approvals for the Project and further progress on the definitive Feasibility Study for the Project. For these reasons the expenditure commitment has not been met in full. However the tenement has been voluntarily halved in size relinquishing those areas considered to have low potential for limestone of the requisite quality.

INTRODUCTION

Fenton EL 10421 was applied for in mid 1999 because the process technology that Mt Grace was then intending to utilise required a feedstock of approximately equal quantities of magnesite and limestone. At that time Mt Grace had outlined a magnesite resource at Batchelor but had not yet located a limestone resource.

A review of the regional geology revealed that there were significant quantities of limestone known in the Daly River Basin. Three criteria were adopted in land selection:

- outcropping and/or near surface limestone/dolomite
- reasonably close to Batchelor i.e. northern part of Basin
- well serviced by existing roads

The Fenton area is part of one of two suitable areas identified. As the general area is partly freehold land and partly leasehold land it was decided to make two separate applications; one covering leasehold land, EL 10421 and one over the freehold land, EL 10422.

Mt Grace has since decided to utilise a separate, although similar process technology. This process technology requires much less limestone in the feedstock, less than 10%. Hence these limestone areas are of interest to Mt Grace but are not as crucial as they may have been for the earlier process approach.

TITLE PARTICULARS

Exploration Licence 10422 was granted over 49 graticular blocks on 30 August 2001 as shown in Figure 2. It covers 140.7 square kilometres. The expenditure commitment for the first year was set at $26,000. As a consequence of the change to the Australian Geodetic Datum it was subsequently determined that EL 10421 actually covered portions of 51 graticular blocks (Figure 3). The company has elected to relinquish 27 of these blocks prior to the end of the first year. The retained portion covers 24 blocks Figure 3 also shows the blocks retained and those relinquished.

GEOLOGICAL SETTING

The Daly River Basin is a sedimentary basin of Cambrian age which unconformably overlies the Proterozoic metamorphic basement. It stretches from southwest of Adelaide River to well south of Katherine. The main stratigraphic unit of interest is the Tindall Limestone It has been explored as a source of limestone for cement manufacture but areas in the northern part of the basin are generally a little too high in MgO content to be suitable for cement. This is not an issue for the process technology proposed to be used by Mt Grace. Generally the Daly River Basin is relatively undeformed and gently dipping.

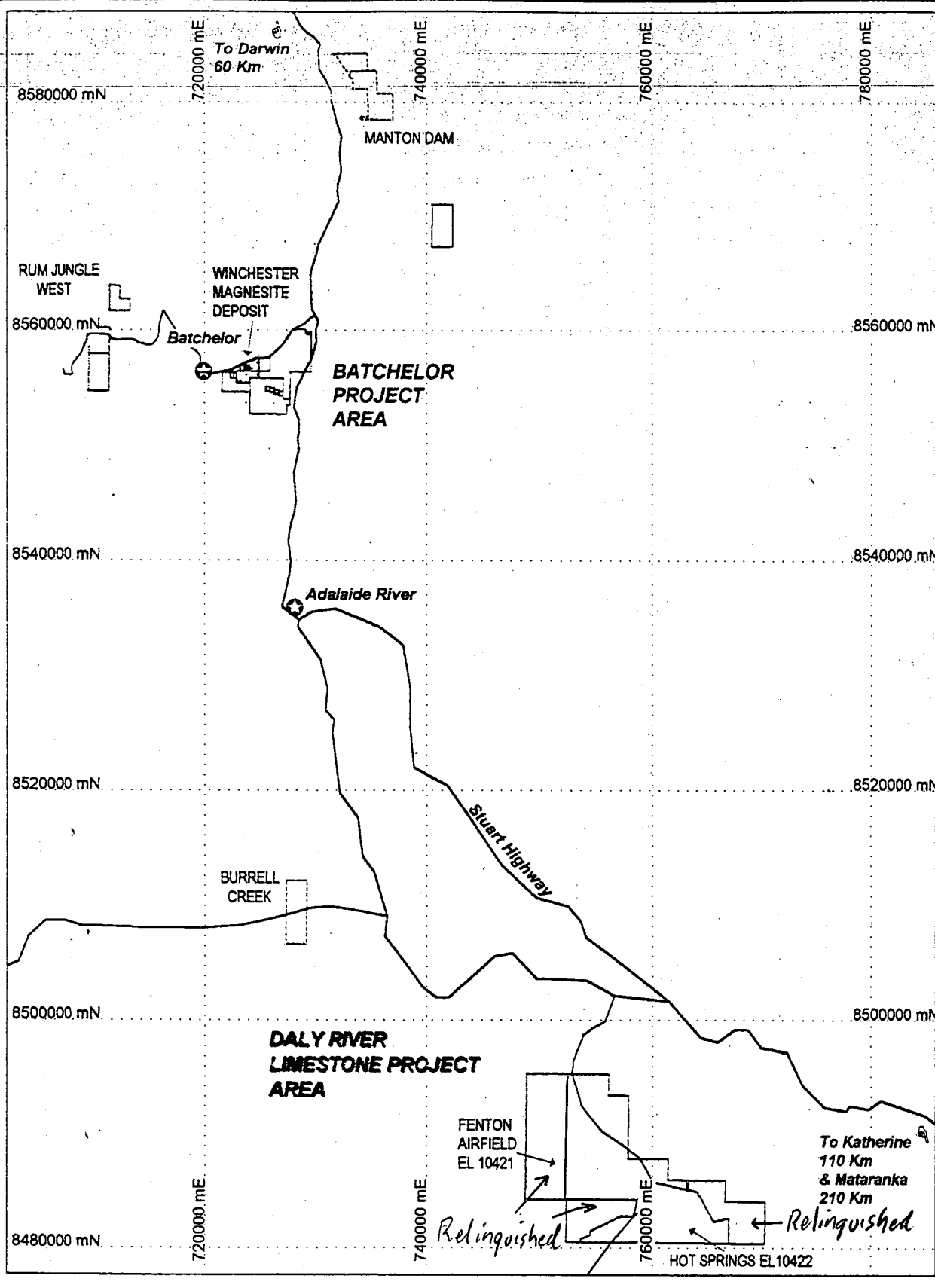


FIGURE 1

GRANTED TENEMENT

TENEMENT APPLIED FOR BUT NOT YET GRANTED

SEALED ROAD

10 0 10 20 30

kilometres

N

Mt Grace Resources N L

ACN 060 774 227

BATCHELOR MAGNESIUM PROJECT

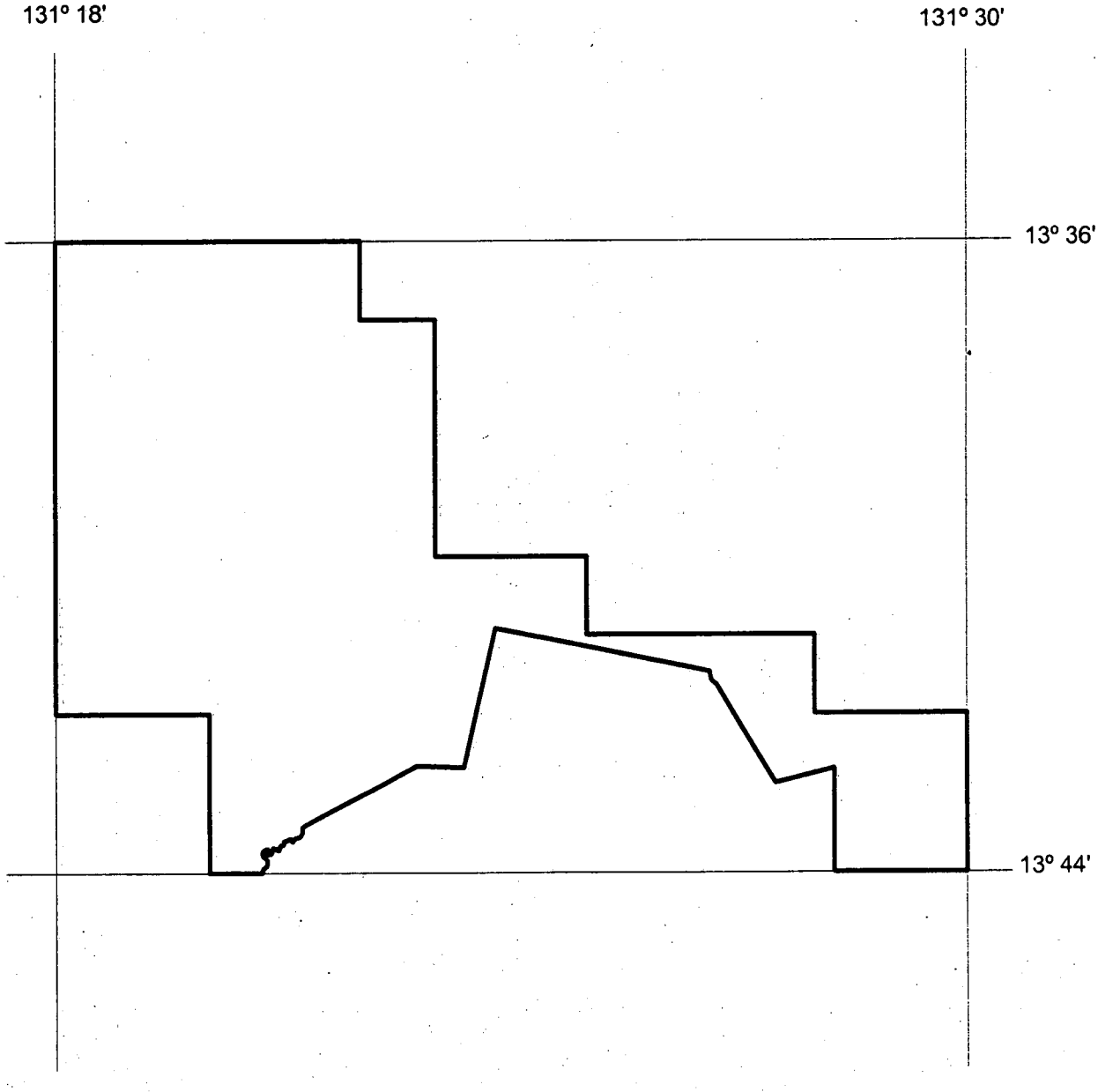
EL 10421

BATCHELOR & DALY RIVER AREAS

TENEMENT MAP

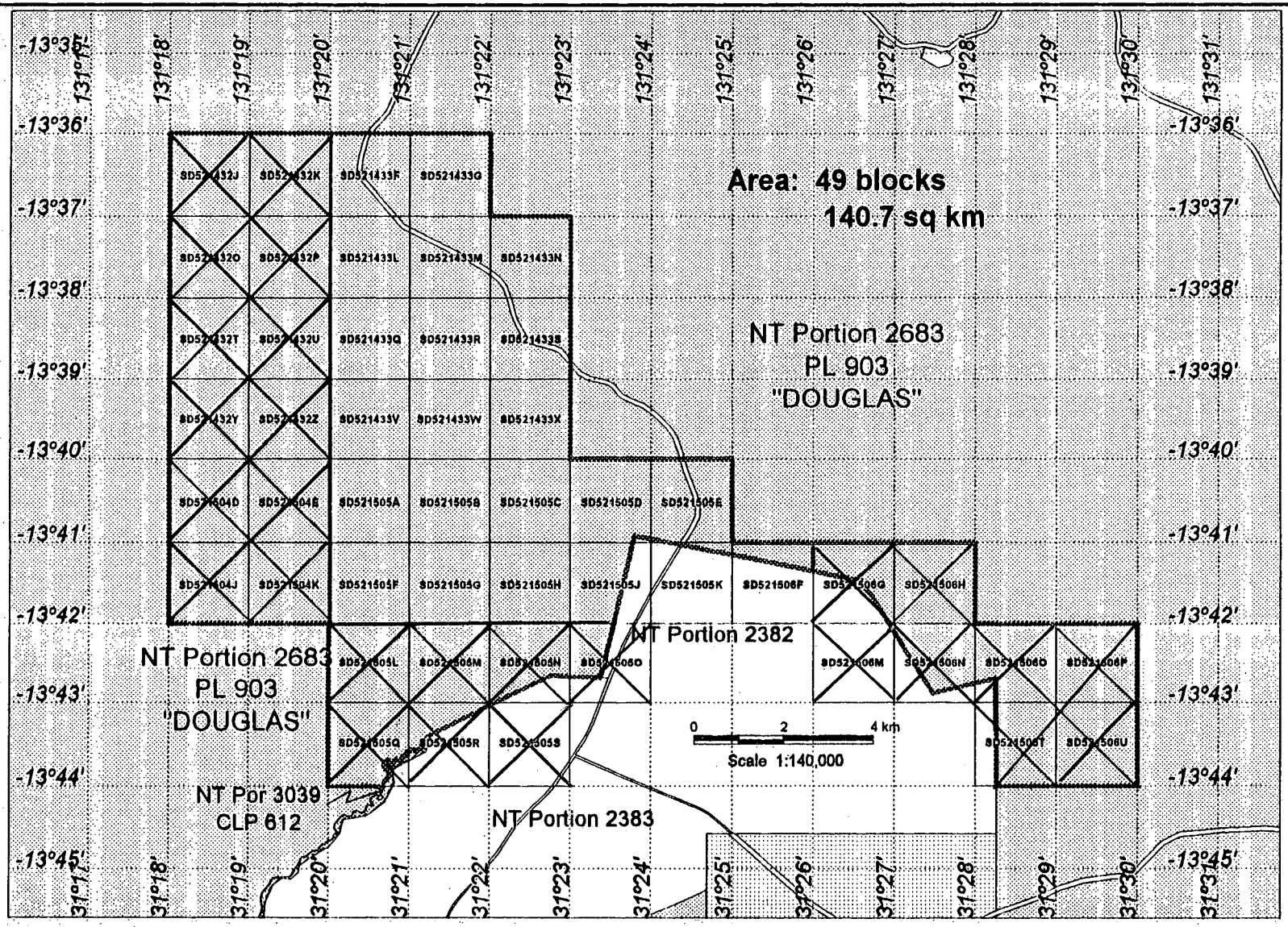
Author: S.R.	Scale: 1 : 500 000
Drawn: E.P.	Figure No.: 1
Date: 19 - 9 - 2001	MapInfo workspace: 0233Ba

THIRD SCHEDULE
(Plan of Area)



EL 10421
49 BLOCKS
140.7 sq kms

Figure 2



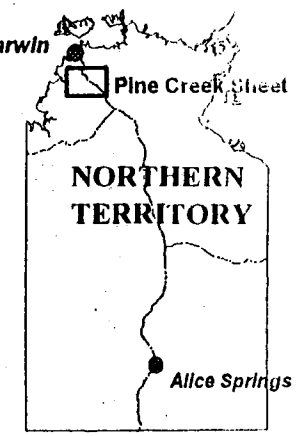


Figure 3

Pastoral Lease 903 "DOUGLAS"

CROWN LAND PERPETUAL 'CONCORP'

NT FREEHOLD

ABORIGINAL FREEHOLD LAND

EXPLORATION LICENCE BOUNDARY

GRATICULAR SUB-BLOCKS

Blocks surrendered

SAVANNA MINERAL RESOURCES PTY LTD

EL 10421

"FENTON AIRFIELD"

Date: June 2002 | Reference: Pine Creek SD52-0[illegible]

PREVIOUS EXPLORATION

A comprehensive search of the NTDME records of previous exploration was made to identify those containing references to exploration for limestone in the northern part of the Daly River Basin, particularly within the Tindall Limestone. Those reports that appeared to be relevant were checked. As was expected some of these did not contain useful data and some contained potentially useful data but the location of samples taken was unclear.

The following reports contain relevant data

CR 1982 – 0332	Report on Cambrian Limestones, Daly River Basin NT – B. Daily, University of Adelaide.
CR 1981 – 0189	Amended Report for year ending 11-06-1981 EL 2067, 1373, 1747, 1748 – L.G.B. Nixon.
CR 1981 – 0009	Final Report on Exploration EL 2052 – Adelaide Brighton Cement.
CR 1980 – 0187	Annual Report EL 1748 – W.J. Fisher.
CR 1979 – 0158	Final Report EL 1748 – Northern Cement Ltd.
CR 1977 – 0145	NT Fenton Geological Report EL 1322 – International Mining Corporation.
CR 1979 – 0154	Final Report Sandy Creek EL 1754 – W.J. Fisher.
CR 1979 – 0015	Final Report EL 1373 – W.J. Fisher Northern Cement Ltd.
CR 1973 – 0261	Annual Report EL 477 – Northern Cement Pty Ltd.
CR 1972 – 0020	Final Report PA 2829 – Northern Cement Pty Ltd.
CR 1986 – 0269	Relinquishment Report EL 2118 – Pancontinental Mining Ltd.
CR 1978 – 0131	Final Report EL 1426 – W.J. Fisher for Northern Cement Pty Ltd.

All of the above exploration programmes, to the extent that limestone was targeted, were abandoned after only preliminary work. Conclusions were that the limestone either carried too high a silica content or that the MgO levels were too high for the material to be suitable for cement manufacture. Mt Grace also requires a low silica content but will be happy to accept material with an MgO content of up to 10 to 12%.

Unfortunately none of the samples taken and assayed, as reported in the above listed reports were located within the boundaries of EL 10421.

WORK COMPLETED

A further review of the previous work was undertaken primarily for familiarisation purposes. A search of the register of aboriginal sites was undertaken to ensure that any recorded sites were not accidentally damaged or intruded upon. There are no recorded sites within the boundaries of EL 10422.

Several days were spent traversing the area using a vehicle on existing tracks and traverses on foot across other areas not well served by tracks. Eight samples (32651 – 32656, 32665 and 32666) were collected and sent to Analabs in Perth for analysis using XRF. The Appendix to this report contains a listing of sample locations by AMG co-ordinates and a copy of the analytical report. The location of each sample is plotted on Figure 4.

Samples 32651 and 32666 appear to be suitable for use as a flux with silica content of less than 3%. However nearby to 32666 ,sample 32665 has a high silica content and this may be an indication that the silica levels in this area are variable. Silica levels are too high in all other samples.

Both samples have the advantage of being close to the existing bitumen road. There is no discernible evidence at surface of possible caving in the limestone in these areas. However given that the annual tonnage of limestone required is less than 15,000 for Stage 1 of the Batchelor Project and only about 55,000 tonnes per year for Stage 3 of the Project it is thought reasonably likely that sufficient resources essentially free of caves can probably be identified.

EXPENDITURE

Expenditure on EL 10421 during the year ended 29 August, 2002 is stated below.

	$
Geologist – Data assessment, field reconnaissance 14 days	8,400
Geochemical analysis	573
Vehicles, fuel and freight	884
Travel and accommodation	626
Tenement costs	~~1,469~~
Overhead and administration	1285
TOTAL	**$13,237** 1,469 $11,768

This expenditure is less than the commitment set down for this tenement. The main reason for the under-run is that the purpose for holding this tenement is to possibly provide a source of flux for the Batchelor Magnesium Project if it should proceed. The

work to date has established that there is limestone on the tenement that is likely to be suitable for the purpose. However the holder has the view that a limestone resource of sufficient size can be very quickly proved up and that there is no need to expend funds on this until it is reasonably certain that the Batchelor Project will proceed. It is not expected that significant additional work would be justified on the limestone resource until the Batchelor Project has received environmental approvals, the metallurgical tests in South Africa are complete, there is a commitment to develop a new natural gas source in Darwin and the definitive feasibility study is further advanced.

PLANNED EXPLORATION PROGRAMME

Once it appears that most of the impediments to the development of the Batchelor Magnesium Project have been resolved the most likely sites for limestone suitable as flux in the process at Batchelor will be drilled on a reconnaissance basis. Then areas for infill drilling will be selected. The criteria to be applied for selection of areas for infill will be:

- Good quality, low silica limestone
- Little or no development of caverns
- Thin or no overburden
- Absence of problem trace elements such as As, Pb, Hg

It is expected that RC drilling techniques will be necessary for the drilling programme. The cost of the planned programme is likely to be in the vicinity of $30,000.

APPENDIX

SAMPLING DATA AND RESULTS

Daly River Basin Sampling April 2002

EL #	Sample #	Easting	Northing
EL10421	32651	754 560	8491 675
EL10421	32652	755 550	8491 515
EL10421	32653	755 460	8491 850
EL10421	32654	755 460	8491 870
EL10421	32655	759 225	8488 850
EL10421	32656	752 980	8493 930
EL10422	32657	763 520	8481 240
EL10422	32658	759 570	8482 300
EL10422	32659	758 700	8481 800
EL10422	32660	758 700	8481 760
EL10422	32661	758 070	8481 575
EL10422	32662	758 000	8481 500
EL10422	32663	756 090	8479 970
EL10422	32664	756 350	8480 050
EL10421/10422	32665	761 570	8485 480
EL10421/10422	32666	761 440	8485 500
EL10420	32667	728 035	8509 070
EL10420	32668	728 015	8509 075
EL10420	32669	728 020	8509 155
EL10420	32670	728 020	8509 175
EL10420	32671	728 020	8509 050
EL10420	32672	728 015	8509 055

A N A L A B S

Analabs Pty. Ltd.
ACN 004 591 664
50 Murray Road, Welshpool
Western Australia 6106
Telephone : +61 8 9458-7999
Facsimile : +61 8 9458-2922

Our reference : WM063431
Your reference : 115358
Project code :
Date received : 15/05/02
Date reported : 24/05/02
Cost code : MINERALS

S. Robinson

Mt Grace Resources
Level 4
170 Burswood Road
Burswood
WA 6979
Australia

Number of pages of results : 3
Number of Samples : 22
First Sample : 32651
Last Sample : 32672

Invoice to:
S. Robinson

Mt Grace Resources
Level 4
170 Burswood Road
Burswood
WA 6979
Australia

Electronic Data Transmission :
Modem Y / /
Facsimile / /
Disk Report / /

Results to:

Results to:

Remarks :

Authorised by .....
On behalf of:

Mr Richard Bowen
Laboratory Manager

The results in the following analytical report pertain to the samples provided to this laboratory for preparation and/or analysis as requested by the client.

A N A L A B S

Our reference : WM063431
Your reference : 115358
Project code :
Report date : 24/05/02
Report Number : 00063433
Report status : Final
Page : 1 of 3

Analabs Pty. Ltd.
ACN 004 591 664
50 Murray Road, Welshpool
Western Australia 6106
Telephone : (61 8) 9458 7999
Facsimile : (61 8) 9458 2922

ANALYTICAL DATA

Sample	Al2O3	CaO	Fe2O3	K2O	MgO	SiO2
32651	0.46	50.86	0.98	0.25	1.66	2.82
32652	1.23	48.85	1.05	0.68	1.58	5.86
32653	0.44	42.60	0.98	0.27	7.63	5.04
32654	0.83	43.77	0.70	0.51	5.19	8.57
32655	29.26	0.22	18.81	0.12	0.05	36.94
32656	10.29	0.27	0.89	1.19	0.29	82.96
32657	0.81	0.29	2.14	0.04	0.04	95.89
32658	0.11	42.98	1.57	0.02	5.18	8.92
32659	0.11	49.62	0.83	0.04	3.80	1.07
32660	0.07	48.26	0.57	0.03	5.13	1.08
32661	0.10	46.84	0.56	0.04	5.81	1.78
32662	0.06	44.66	0.94	0.02	7.73	1.86
32663	2.77	43.62	1.38	1.47	1.54	12.77
32664	3.21	42.03	1.28	1.65	1.15	15.48
32665	2.42	39.14	1.15	1.37	6.10	11.95
32666	0.41	48.88	0.37	0.27	3.97	2.40
*StdNIMG_SARM1	0.36	49.67	2.64	0.02	1.93	3.03
32667	<0.05	34.66	0.44	0.03	17.62	0.52
32668	0.13	45.49	0.50	0.08	8.00	0.39
32669	0.12	43.97	0.52	0.07	9.42	0.46
32670	0.07	45.78	0.43	0.03	8.03	0.22
32671	0.48	41.86	0.63	0.26	10.40	1.34
32672	0.16	47.55	0.48	0.08	5.91	0.75
*SS 32659	0.11	49.90	0.80	0.04	3.86	1.06
*Std NIMP_SARM5	4.16	2.72	12.76	0.09	25.59	51.23
*Rep 32652	1.21	48.78	1.03	0.68	1.62	5.86
Method	X408	X408	X408	X408	X408	X408
Units	%	%	%	%	%	%
Detection Limit	0.05	0.01	0.01	0.01	0.01	0.05

Notes: - = not analysed, -- = element not determined, I.S. = insufficient sample, L.N.R. = listed not received

Our reference : WM063431
Your reference : 115358
Project code :
Report date : 24/05/02
Report Number : 00063433
Report status : Final
Page : 2 of 3

Analabs Pty. Ltd.
ACN 004 591 664
50 Murray Road, Welshpool
Western Australia 6106
Telephone : (61 8) 9458 7999
Facsimile : (61 8) 9458 2922

ANALYTICAL DATA

Sample	Na2O	P2O5	TiO2	MnO	LOI
32651	0.05	0.06	0.02	0.08	42.35
32652	<0.05	0.16	0.08	0.10	40.17
32653	0.06	0.17	0.02	0.15	42.23
32654	0.05	0.32	0.05	0.09	39.89
32655	<0.05	0.14	3.62	0.01	10.81
32656	0.10	0.03	0.56	<0.01	3.53
32657	<0.05	<0.01	0.05	0.07	0.85
32658	<0.05	0.02	<0.01	0.42	40.44
32659	<0.05	0.02	<0.01	0.30	43.83
32660	0.07	0.08	<0.01	0.24	43.91
32661	<0.05	0.02	<0.01	0.28	43.83
32662	<0.05	0.02	<0.01	0.31	44.04
32663	0.06	0.34	0.16	0.06	35.98
32664	0.06	0.40	0.18	0.08	34.31
32665	0.07	0.04	0.16	0.05	37.56
32666	<0.05	0.03	0.02	0.11	43.12
*StdNIMG_SARM1	0.08	1.97	0.04	0.19	<0.01
32667	0.11	0.03	<0.01	0.15	46.65
32668	0.06	0.07	<0.01	0.14	44.76
32669	0.07	0.04	<0.01	0.13	45.13
32670	0.06	0.02	<0.01	0.11	44.82
32671	0.08	0.04	0.02	0.18	44.33
32672	0.06	0.02	<0.01	0.20	44.40
*SS 32659	<0.05	0.02	<0.01	0.28	43.56
*Std NIMP_SARM5	0.47	0.01	0.19	0.23	<0.01
*Rep 32652	0.05	0.15	0.07	0.10	39.97
Method	X408	X408	X408	X408	X408
Units	%	%	%	%	%
Detection Limit	0.05	0.01	0.01	0.01	0.01

Notes: - = not analysed, -- = element not determined, I.S. = insufficient sample, L.N.R. = listed not received

ANALABS

Our reference : WM063431
Your reference : 115358
Project code :
Report date : 24/05/02
Report Number : 00063433
Report status : Final
Page : 3 of 3

Analabs Pty. Ltd.
ACN 004 591 664
50 Murray Road, Welshpool
Western Australia 6106
Telephone : (61 8) 9458 7999
Facsimile : (61 8) 9458 2922

ANALYTICAL DATA

Sample	CO3(R)
32651	54.82
*Blk BLANK	--
32652	54.84
32653	56.30
*Blk BLANK	--
32654	49.49
32655	0.38
32656	0.72
*Std BLANK /10	--
~~32657~~	~~0.99~~
~~32658~~	~~56.09~~
~~32659~~	~~60.08~~
~~32660~~	~~61.00~~
~~32661~~	~~56.33~~
~~32662~~	~~58.69~~
~~32663~~	~~45.33~~
~~32664~~	~~42.40~~
32665	47.21
32666	58.22
~~32667~~	~~64.59~~
~~32668~~	~~57.93~~
*Blk BLANK	--
~~32669~~	~~59.51~~
~~32670~~	~~60.99~~
~~32671~~	~~60.85~~
~~32672~~	~~59.45~~
*SS 32659	--
*Std BLANK /30	--
*Rep 32666	58.26
~~*Rep 32672~~	~~59.43~~
Method	V828
Units	%
Detection Limit	0.025

Notes: - = not analysed, -- = element not determined, I.S. = insufficient sample, L.N.R. = listed not received

ANALYSIS DESCRIPTION

For solid samples, reported units are expressed as mass / mass.
ie: % denotes %mass/%mass, ppm denotes mg/kg, ppb denotes µg/kg.
For liquid samples, reported units are expressed as mass / volume.
ie: % denotes %mass/%volume, ppm denotes mg/L, ppb denotes µg/L.

Job number : WM063431 Order number : 115358

Scheme code : S033 - Drillcore/Rock; Dry, Jaw crush, Fine pulv, Ring

---

Sample preparation. Drillcore,Rock samples; Dry,
Jaw crush, Fine pulverise, Ringmill, <3.5kg,
nominal 75 microns.

Scheme code : X408 - Glass fusion, XRF, Whole rock analysis

Glass fusion, XRF, Whole rock analysis
ie Silicates, feldspar, gypsum, iron ore
, limestone

Al2O3	: Alumina
CaO	: Calcium Oxide
Fe2O3	: Iron Oxide
K2O	: Potassium Oxide
MgO	: Magnesium Oxide
SiO2	: Silica
Na2O	: Sodium Oxide
P2O5	: Phosphorus Pentoxide
TiO2	: Titanium Dioxide
MnO	: Manganese Oxide
LOI	: Loss on Ignition 1000 C - Moisture
Wt1	: Weight one
Wt2	: Weight two
Wt3	: Weight three

Scheme code : V828 - Carbonate Carbon

Hydrochloric acid leach, Leco tube furnace,
Carbonate carbon.

CO3(R)	: Carbonate carbon repeat

EL 10421 "Fenton Airfield"

EL 10422 "Hot Springs"

Fenton Airfield (abandoned)

Douglas

Hayes Creek

Sandy Creek

OOLLOO HOMESTEAD 30 km

DOUGLAS HOT SPRINGS 3 km

kilometres 0 1 2 3 4 5 6 7 8 kilometres

FULL LATITUDE AND LONGITUDE VALUES ARE SHOWN AT THE SHEET CORNERS, WITH MINUTE TICKS INSIDE THE NEATLINE, EVERY FIFTH TICK IS LABELLED

BLACK NUMBERED GRID LINES ARE 1000 METRE INTERVALS OF THE UNIVERSAL TRANSVERSE MERCATOR GRID, ZONE 52 (AUSTRALIAN MAP GRID), AUSTRALIAN NATIONAL SPHEROID

BLUE GRID TICKS OUTSIDE THE NEATLINE ARE 1000 METRE INTERVALS OF THE UNIVERSAL TRANSVERSE MERCATOR GRID, ZONE 52 WORLD GEODETIC SYSTEM 1972. THEIR VALUES ARE THE NEAREST BLACK GRID VALUE

GRID VALUES ARE SHOWN IN FULL ONLY AT THE SOUTH WEST CORNER OF THE MAP

VERTICAL DATUM: AUSTRALIAN HEIGHT DATUM

HORIZONTAL DATUM: AUSTRALIAN GEODETIC DATUM 1966

TRANSVERSE MERCATOR PROJECTION

CONTOUR INTERVAL 20 METRES

WITH SUPPLEMENTARY 10 METRE CONTOURS BELOW 140 METRES

WATERCOURSE GUIDE

All watercourses on this map are intermittent.

MEAN TEMPERATURE RAINFALL

DEF/ARMY/8310

INDEX TO ADJOINING MAPS

BURRELLS CREEK 5171-III	BURNSIDE 5171-II	BAN BAN 5271-III

CR 2002-0217