HAMMER HILL PROJECT

EL 9725

PARTIAL RELINQUISHMENT REPORT
for period
13th February 2006 to 12th February 2007

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MARCH 2007

MAP REFERENCE:
Illogwa Creek 250K Sheet SG53/15
Huckitta 250K Sheet SF53/11
SUMMARY

Compulsory reduction of 21 blocks has been made to EL 9725. No field work was undertaken over the relinquished area during the 5 years of tenure, though the area was included in a desktop review and reprocessing of geophysical data. The relevant work is reported here.

EL 9725 is part of the Hammer Hill Project; a joint venture between Mithril Resources (manager) and Arafura Resources. Exploration continues over the retained part of EL 9725, where it is considered prospective for magmatic Ni-Cu sulphide deposits. The relinquished part of EL 9725 is not considered prospective for this type of mineralisation.
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FIGURES (after text)

Figure 1: Location of Hammer Hill Project
Figure 2: Location of relinquished blocks
1.0 Introduction

The Hammer Hill Project area is centred about 180 km northeast of Alice Springs (Figure 1). Access is via the Plenty Highway, which passes through the northernmost part of EL 10136 (Figure 1). Station tracks provide reasonable access throughout the project area.

On 22 November 2005, Mithril Resources entered a Heads-of-Agreement with Arafura Resources to farm-in to the Hammer Hill Project. The first phase of the farm-in agreement was successfully completed on 26 June 2006, with Mithril Resources appointed as tenement operators on 31 July 2006. A formal joint venture agreement has not been completed, so work continues under the original Heads-of-Agreement.

The project area is considered prospective for Ni-Cu sulphide deposits associated with mafic and ultramafic magmatic rocks. Such rock types have been identified at the Hammer Hill Prospect in EL 9725 where they are associated with elevated Ni-Cu abundances. The relinquished part of EL 9725 is not considered prospective for this style of mineralisation.

2.0 Tenure

An application for EL 9725 was submitted on 14 October 1996 by Star Money Lenders, which later became McCleary Investments Pty Ltd. Title was granted for a six year period on 17 December 2001. On the 24 December 2001, the title was transferred to Arafura Resources NL. The original licence contained 285 blocks and has been compulsorily reduced three times, including the current reduction of 21 blocks, to now consist of 51 blocks.

<table>
<thead>
<tr>
<th>Tenement</th>
<th>Grant date</th>
<th>Original size (blocks)</th>
<th>Current size (blocks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EL 9725</td>
<td>24/12/2001</td>
<td>285</td>
<td>51</td>
</tr>
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Table 1: Tenement details

3.0 Geology

3.1 Regional Geology

The Hammer Hill Project lies within the Irindina Province (also known as the Harts Range Metamorphic Complex) of the southeastern Arunta Inlier. The Irindina Province comprises the Harts Range Group, a volcanosedimentary succession that was metamorphosed to granulite facies during the Ordovician Larapinta Event (475-460 Ma). Lithostratigraphical and geochronological data indicate that the Harts Range Group correlates with Neoproterozoic to Cambrian sediments of the adjacent Amadeus and Georgina Basins. Therefore, the Harts Range Group was probably deposited in a basin contiguous with, and possibly linking, the Amadeus and Georgina Basins.
While the Harts Range Group was metamorphosed to granulite-facies, however, sedimentation continued in the Amadeus and Georgina Basins. Structural and lithological evidence suggest that the Larapinta Event was extensional, with very deep burial required for the measured metamorphic conditions (30-35 km). Such an event was probably associated with mantle melting. The numerous mafic and ultramafic units found throughout the Irindina Province, although their timing is poorly constrained, may have intruded during the Larapinta Event. These intrusions are considered prospective for Ni-Cu-PGE sulphide deposits.

The Harts Range Group and Amadeus and Georgina Basins were structurally inverted and brought to the surface during the mid-Palaeozoic Alice Springs Orogeny (450-300 Ma).

3.2 Project Geology

The Hammer Hill Project area is predominantly covered by a veneer of aeolian and colluvial sand and gravel. Strongly weathered biotite, garnet-biotite and quartzofeldspathic gneiss, calcisilicate rocks and amphibolite are sporadically exposed. There are numerous ferricrete, calcrete and silcrete rises, some of which may be indicative of the targeted mafic and ultramafic rocks. No detailed mapping has been undertaken in the area with the best regional maps (background to Figure 2) compiled prior to detailed aeromagnetics and the current understanding of the geological history.

The area is considered prospective for Ni-Cu-PGE mineralisation associated with mafic and ultramafic intrusions. Vein-style REE-Th mineralisation has also been identified in the area.

4.0 Exploration Work Completed

4.1 Historical Exploration

Numerous companies and individuals have explored in the general area covered by EL 9725. Exploration has been for numerous commodities, including Ni-Cu, the focus of current activity. A summary of the main exploration and associated reports is listed below:

**Placer Prospecting (Australia); ATP 1991, 2277; CR70-16, 70-008**

Tenement covered the eastern part of the Huckitta Dome and east to the Hammer Hill prospect. Explored for U, REE and tantalite in the known pegmatitic prospects, but without success. Low density stream sediment survey provided little encouragement. In the Valley Bore area (NTGS Prospect 3), a band of calc-silicate rocks averaging almost 3 metres in width was traced for 3 km with REE found in three places. Evaluation method not discussed and no assays given.
Arcadia Minerals Ltd; ATP 2568; CR70-049
Undertook a reasonable reconnaissance programme on the ultramafic units east of Hammer Hill. Describes them as relatively large olivine-rich intrusions within a 5 x 3 km zone. Individual outcrops range from a few metres to 1000 x 600 m. Serpentinite and carbonate mesh textures were noted. Assays - Ni to 0.9%, Cr averaging 2000 ppm and Nb only 2 ppm. Some intrusions are plug-like, whereas others are tabular. They typically have siliceous caps.

Cogar and Felderhof; ATP 3193/EL374
Tenement covered most of EL 9725 around Hammer Hill. Sampling of hillock 4 km northwest of Hammer Hill, which was originally thought to be gossanous, did not return anomalous base metal values.

VAM Limited; ATP 2042; CR68-066
Small tenement covered Quartz Hill (Holstein's REE prospect) about 14 km west-southwest of Hammer Hill. VAM sampled seven lodes for an average of 1.4 % combined REO, with individual assays to 3 % Ce and 5 % La. Lode sizes apparently attain 100 m length by 1-3 m in width. VAM points out that airborne reconnaissance highlighted numerous pegmatite reefs to the south of ATP 2042, and considered there should be good potential for discovery of more lodes. Area is reasonably exposed and well drained, so scintillometer, rockchip and stream sediment geochemistry surveys should be effective.

Otter Exploration NL; EL1581; CR78-114, 80-123, 82-367, 79-119
Tenement overlapped the northern margin of EL 10136. Predominantly explored for U, Molyhil tungsten and Jervois base metal mineralisation. Most work along the Mount Sainthill Fault Zone and the granite-rich terrane to the north. Investigated the ultramafic units 8 km north of the EL 10136 and returned surface assays of 860 ppm Ni, 70 ppm Cu, 160 ppm Co and 1150 ppm Cr.

Hillrise Properties Pty Ltd, CRA Exploration; EL 1801 and EL 2494; CR79-12, 81-064, 82-052, 82-061
REE pegmatites identified near Valley Bore and the western margin of EL 9725. At Quartz Hill, found radiometric anomalies to be associated with silicified, barite-, chalcedony- and monazite-rich carbonate rock, possibly related to carbonatites. CRA farmed in and completed a low density stream sediment sampling programme (one sample per 8 sq km) over most of EL 9725 with results warranting no further work.

Parks & Athanasiou, Western Mining Corporation; EL2657; CR84-15
Originally prospecting for rubies, but then WMC farmed in searching for diamonds. Some corundum identified by prospectors. Reconnaissance sampling of the entire Entire Creek catchment to the west of EL 9725 recovered a single micro-diamond and highly significant pyrope garnet.
Hammer Hill Project, Partial Relinquishment for period Ending 12th February, 2007

**CRA Exploration; EL2790; CR82-043**

Reconnaissance drainage sampling (one per 13.5 km²) over a portion of EL 10136. Some weakly anomalous Au values peaking at 25 ppb. Streams emanating from Hammer Hill were not anomalous in Ni or Co.

**Western Mining Corporation; EL 3115 and EL 3303; CR83-004, 83-332, 84-009, 85-045**

WMC followed up the Entire Creek diamond discovery with stream sediment sampling and recovered another microdiamond and several kimberlitic pyrope garnets. Bulk sampling failed to recover any more.

**BHP Minerals; EL 7178, 7179, 7180 and 7470; CR92-212**

Explored for Broken Hill-style base metal deposits in an area covering the eastern and northern parts of EL 9725 and 10136. Work programme was extensive, and included reprocessing aeromagnetics, EM surveys, soil, rockchip and stream sediment surveys and RC drilling.

**PNC Exploration (Australia) Pty Ltd; E 8901, 8220, 8675, 7967 and 8036; CR95-298, 96-286**

PNC conducted extensive uranium exploration over the Harts Range, including detailed airborne radiometrics and magnetics. Some of this exploration was within EL 9725. Discovered Yambla U prospect to the southwest of EL 9725. Samples from Quartz Hill pegmatite returned 4100-9300 ppm U, 1300-3600 ppm Ta, 1.4-2.9 % Y and 1.8-4.0 % Nb with REE minerals noted. Visible Au was identified in a malachite-stained, limonitic vein. At Holstein’s Prospect, identified a swarm of gossanous veins principally mineralised with Fe-Ba-REE-Th-S. Grab samples returned 0.1-10 % REE, 0.2-3 % P, 1.0-24 % Ba, 0.03-3.9 % Th, 0.05-7.0% La, 0.07-12% Ce and 40-600 ppm Y.

4.2 Arafura Resources/ Mithril Resources Exploration Activities (2001-2007)

Andrew Drummond and Associates assessed the previous exploration on EL 9725 and 10136 as part of the Independent Geologist’s Report for the Arafura Resources IPO prospectus. Their report is summarised above (Section 4.1).

Southern Geoscience Consultants Pty Ltd were commissioned to subset, merge and reprocess aeromagnetic data over the Hammer Hill-Holstein’s area from publicly available government surveys.