Cameco Australia Pty Ltd

Exploration Licence 3106
ARRARRA
NORTHERN TERRITORY

Annual Report for Period
17 April 2007 to 16 April 2008

CONFIDENTIAL
SUMMARY

The Arrarra Project is located in north-western Arnhem Land, and is managed and operated by Cameco Australia Pty Ltd (Cameco). Exploration licence EL3106 was granted on the 17th April 2003 for an initial period of six years. At grant, the total area under licence was 83.6 km² comprising 26 sub-blocks; from this 24.4 km² (29.2%) was excluded from exploration as ‘No-Go’ zones by the Northern Land Council.

Exploration activities for the fifth year of tenure consisted of a helicopter-assisted sampling program and Sub-Audio Magnetic (SAM) survey. The SAM survey was aimed at delineating sub-surface conductive structures in the vicinity of the Mamurri Hill prospect, while the outcrop sampling program was aimed at explaining geochemical anomalies defined during the recent geochemical review. Also included in this report is a summary of petrographic descriptions from drill holes in 2006.

The SAM survey appears to have been relatively successful in delineating two sub-surface conductive units that may be associated with dilational or shear zones. This survey has allowed the generation of two targets which will be followed up in 2008. The geochemical surface sampling results appear to support the presence of a potentially interesting geochemical signature within a few hundred metres of the targets proposed by the initial geochemical review. Further sampling and data review is required to confirm initial results.

All exploration work was conducted from the King River camp, located approximately 45 kilometres to the northeast and therefore a helicopter was utilised to assist with transportation.

Planned work for the sixth year may comprise follow up mapping and rock geochemistry on selected areas and a RC drill program proximal to Mamurri Hill.
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1. INTRODUCTION

This report describes exploration carried out by Cameco Australia Pty Ltd (Cameco) over the Arrarra Project tenement EL 3106 during the fifth year of tenure. The Exploration Licence is located on Aboriginal Land and the work program was carried out under the terms of consent documentation agreed with the Northern Land Council, pursuant to the Aboriginal Land Rights (Northern Territory) Act.

Following the Liaison Committee meeting held on June 15 2007 at Croker Island, the Northern Land Council on behalf of the Traditional Owners approved the program.

The 2007 exploration activities comprised a helicopter supported SAM survey and outcrop sampling program.

Contractors used on the project:
- SAM survey by GAP Geophysics Australia Pty Ltd (GAP), Brisbane;
- Helicopter Services by Jayrow, Darwin
- Chemical assaying by NTEL, Darwin; and
- Petrographic work by Pontifex and Associates, Adelaide;

1.1 Location and Access

The tenement is located in western Arnhem Land 24 km northwest of the Aboriginal community of Gunbalanya (Oenpelli) and is wholly within Aboriginal Land. The tenement is centred approximately 52 km north of Jabiru and 50 km west-northwest of the now rehabilitated mine site at Nabarlek (see figure 1). The southern boundary is marked by the East Alligator River and Kakadu National Park. The Arrarra project tenement is surrounded by ELA 23311 and ELA 23312 both of which are currently under moratorium.

Figure 1 - EL3106 Location Map

Access from Darwin is via the Arnhem Highway to Jabiru then north to Oenpelli. The project area is 35 km northwest of Oenpelli and can be reached via several tracks.

Access within the tenement is variable dependent upon topography. In general, most of the country is flat lying and can be easily traversed by four-wheel drive vehicle. Several pre-existing tracks are present, with the main one traversing east-west across the lower portion of the tenement to the old Arrarra uranium prospect. Another old track transects the central-east and northern portions of the tenement towards Davidson’s Arnhem Land Safari Camp. These tracks were upgraded by Cameco in 2007 to enable exploration vehicles access to the Mamurri Hill area.

1.2 Tenure

Exploration Licence EL 3106 was granted on 17 April 2003 for an initial period of six years. On granting, the total area under licence was 83.6 km$^2$, (26 sub-blocks); from this 24.4 km$^2$ (29.2%) was excluded from exploration by the Northern Land Council.
A detailed history of tenure for EL3106 is contained within previous Cameco annual reports.

1.3 Physiography

The tenement contains several localised outliers of dissected sandstone, which provide the only significant relief in the area. Using land unit classification (Needham, 1988), the tenement can be said to encompass diverse landform types including:
- Estuarine floodplains (estuary, mangrove, savannah grass plains)
- Low profile dissected sandstone plateau outliers
- Slightly undulating country covered with savannah woodland developed on a variety of surfaces including sand, gravel and ferricrete (collectively designated as a regolith surface).

Several soil/regolith types are present, including:
- Sand outwash slopes from sandstone outliers
- Transported/alluvial sand
- Colluvial sandy loam/soil
- Estuarine black soil floodplains

1.4 Hydrology

The generally low relief limits the amount of direct drainage. The main drainage systems flow south and west into the East Alligator River floodplain. The East Alligator River forms the south-western border of the tenement, and the Oenpelli Lagoon is located on the south-eastern side.

1.5 Flora and Fauna

Vegetation types in EL3106 are summarised in the BMR report on *Geology of the Alligator Rivers Uranium Field* (Needham, 1988). Areas of sandy soils are dominated by closed woodlands comprised of Eucalyptus, Acacia and annual native grasses, while sandstone country has open woodlands or bare rock with pockets of Spinifex. Melaleuca becomes the dominant tree in low lying swampy areas, but dense semitropical rainforests, including large Ficus, are common in the year-round swamps and at the overhanging or steep edges of sandstone mesas. Weed infestations and other non-native vegetation such as Mission Grass and Mimosa Pigra are becoming more prominent throughout western Arnhem Land including the Arrarra tenement. This problem is being monitored by Cameco and some remedial action has been taken by personnel attached to DEMED (Gunbalanya Outstation Resource Centre), Department of Infrastructure, Planning and Environment (Weeds Branch) and the Northern Land Council (Caring For Country).

Feral animals such as pigs and horses are endemic within the Arnhem Land region, and are particularly common in Arrarra. Shooters from Oenpelli frequent Arrarra in search of these animals for pet meat. Buffalo are known to exist in the area but only in limited numbers.
2. GEOLOGICAL SETTING

A detailed account of the regional and local geological setting and references to various scientific aspects of the ARUF are given in previous annual reports, specifically those for 2004 and 2005 (Sawyer et al., 2004; Rawlings and Beckitt, 2005). The reader is directed to these reports should that level of detail be required. Figure 2 shows the interpreted regional geology of the tenement.

Figure 2 - Regional Geology

3. PREVIOUS EXPLORATION

A compilation of historical exploration on the Arrarra tenement is given in both the Annual Reports cited above. Figure 3 shows the locality of various prospects throughout the tenement. A brief outline of the Cameco-conducted field activities is as follows:

Figure 3 - Prospect locality Map

2003
- Compilation of all historical data and preparation of a work program.
- Fieldwork included a detailed on-ground orientation followed by close-spaced systematic rock sampling and radiometric anomaly investigation.

2004
- Integration of new geophysical data with interpretation of geological mapping and rock chip geochemistry to identify new anomalies and target areas for ongoing work.
- Drilling of 314 regional-scale RAB holes for 4,341 m throughout the tenement to determine bedrock geology, identify blind anomalies and alteration systems, and to geochemically characterise existing prospects with a modern multi-element suite. Several RAB holes confirmed mineralisation at historic prospects. Best results included:
  - 377 ppm U and 27 ppb Au at Mamurri Hill
  - 79 ppm U and 97 ppb Au at Two Knobs
  - 35 ppm U and 25 ppb Au at Arrarra west
  - 38 ppm U over 12 m at Injardil.
- Geological reconnaissance and prospecting around established prospects and anomalies.
- Infill outcrop sampling to study clay mineralogy and geochemistry and ground follow-up and sampling of radiometric anomalies identified in 2003.

2005
- Diamond drilling of selected targets at Mamurri Hill, Red Star, and the Arrarra Prospects. Three holes were drilled totalling 819.4 metres.
- Regional and prospect scale RAB drilling to increase knowledge of the geology and geochemistry of the tenement. Total of 144 holes for 2,223 m.

2006
- Helicopter-assisted diamond drilling. Two holes were completed for a total 582.8 metres. These were drilled at the Two Knobs prospect (historical uranium occurrence) and the other at Running Creek. Both sites were designated as valid targets in the original drill hole target compilation. No mineralisation was intersected in either hole.
4. EXPLORATION TARGET

The focus of Cameco exploration strategy is the discovery of unconformity style uranium deposits. The nearby economic deposits at Ranger, Jabiluka, Koongarra and Nabarlek serve as exploration models. The presence of gold, palladium and platinum in these deposits plus the economic gold-platinum resource at Coronation Hill in the South Alligator Valley, indicate an additional potential for this deposit style.

Within the Arrarra Project area the known uranium prospects and showings appear to exhibit a similar relationship to the geology and structural setting of other deposits in the region. Whilst the mineralisation discovered to date is of very low grade, the area is still considered prospective for unconformity related uranium-gold-PGE mineralisation based upon the following:

- Proximity to the unconformity between metasedimentary packages and overlying Kombolgie Sandstone,
- Favourable reported lithologies,
- Presence of chloritic and graphitic breccias in the vicinity of fault structures.

5. 2007 PROGRAM ACTIVITIES

During 2007 exploration activities consisted of a detailed SAM ground geophysical survey and ground checking and sampling of three geochemical anomalies defined in a recent data review. Figure 4 below shows the location of 2007 work areas.

Figure 4 - 2007 Work Areas

5.1 SAM Survey

In August 2007, GAP Geophysics undertook a SAM survey at the Mamurri Hill location. Minor mineralisation at this prospect appears to be related to a broad northwest trending feature, based on the historical drilling pattern. The presence of this trend is supported by a dolerite ‘edge effect’ as interpreted from magnetics, the radiometric response and the topographic pattern. Specific localised structures are not readily identified in the detailed magnetics over the area of mineralisation, which is masked by extensive cover and sandstone. The survey was aimed at identifying more subtle structures, which might assist with understanding the existing distribution of mineralisation and the development of further targets.

The SAM survey was undertaken using a Zonge GGT-25 transmitter (Frequency 4.0 Hz) and a Geometrics 822AS Cs Vapour magnetometer with GAP TM-6 Controller. Lines were oriented northeast, which is perpendicular to the Mamurri trend, and totalled 24-line km. The logistics report, listed in Appendix 1, further elaborates on the survey specifications and the processing GAP used to generate the EQMMR (Equivalent Magnetometric Resistivity) response indicative of conductivity (figure 5). The high quality EQMMR data is sufficient to utilise high-pass filtering methods such as first vertical derivatives, which are usually reserved for magnetics and are particularly beneficial when identifying structure. Processing to extract the EQMMIP (Equivalent Magnetometric Induced Polarisation) response is still under development by GAP and could not be calculated for this survey. Magnetics was also collected but
not found to be superior to the existing 50 m line-spaced airborne magnetic survey originally flown over the entire project area. Figure 6 shows SAM magnetics reduced to pole (RTP) with first cubic convolution (1vcc).

Appendix 1 - Logistics Report for SAM survey by GAP

Figure 5 - SAM – EQMMR Conductivity with 1vd (Vertical Derivative)

Figure 6 - SAM – Magnetics RTP (Reduced to Pole) with 1vcc (cubic convolution)

5.2 Geochemical Outcrop Sampling

An Arnhem Land-wide review of Cameco’s Kombolgie sandstone multi-element geochemistry database has led to the generation of a list of geochemical targets, which are considered worthy of follow up. These targets were derived from both outcrop and drill core sample analytical results and based on three main combinations of elements considered to be indicative of mineralisation. The geochemical criteria used to create these targets combined various elements and element ratios converted to percentiles and assessed for prospectivity against known prospects. Further work is required to ensure these elemental combinations remain current and valid with respect to known deposits.

The data review highlighted 12 areas for further ground checking, which would include additional rock sampling, scintillometer traversing and the recording of geological observations. Table 1 summarises the geochemical targets within the Arrarra tenement as defined by the data review. Due to timing restrictions only six targets were checked this year and a total of five extra rock samples were taken from two sites. The remainder will be checked and sampled in 2008. Figure 7 shows the location of the 12 targets along with the five samples taken.

Figure 7 - Geochemical Target and Sample Location

<table>
<thead>
<tr>
<th>Target_id</th>
<th>Location</th>
<th>Anomaly</th>
<th>Recommended Action</th>
<th>Ground-check comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geochem 07_1</td>
<td>Arrarra</td>
<td>RAB hole did not get to basement</td>
<td>Additional RAB</td>
<td></td>
</tr>
<tr>
<td>Geochem 07_2</td>
<td>Arrarra</td>
<td>RAB sandstone saprolite</td>
<td>Check chips and consider follow up RAB</td>
<td></td>
</tr>
<tr>
<td>Geochem 07_3</td>
<td>Arrarra</td>
<td>Weak U and elevated Bi</td>
<td>Low priority perhaps some sampling</td>
<td>Anomaly approx 200 m from sandstone outcrop and 100 m from swampy area. Extra samples taken from outcropping sandstone</td>
</tr>
<tr>
<td>Target id</td>
<td>Location</td>
<td>Anomaly</td>
<td>Recommended Action</td>
<td>Ground-check comments</td>
</tr>
<tr>
<td>-----------</td>
<td>----------</td>
<td>---------</td>
<td>--------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>Geochem 07_4</td>
<td>Arrarra</td>
<td>Elevated U</td>
<td>Further RAB</td>
<td>Anomalous in sandstone to east within pebbly conglomerate layers, drillhole itself appears to have hit sandstone, extra samples taken from nearby outcropping sandstone</td>
</tr>
<tr>
<td>Geochem 07_5</td>
<td>Arrarra</td>
<td>Weak to moderate prospectivity but high Bi like Jabiluka and drilling did not reach basement</td>
<td>Further RAB</td>
<td></td>
</tr>
<tr>
<td>Geochem 07_6</td>
<td>E of Mamurri Hill</td>
<td>Anomalous Se and drilling did not reach basement</td>
<td>Consider drill follow up</td>
<td>Site checked out but no samples taken. No obvious surficial explanation.</td>
</tr>
<tr>
<td>Geochem 07_7</td>
<td>Floodplain</td>
<td>RAB hole did not get to basement</td>
<td>Additional RAB</td>
<td></td>
</tr>
<tr>
<td>Geochem 07_8</td>
<td>Injardil</td>
<td>RAB hole did not get to basement</td>
<td>Additional RAB</td>
<td></td>
</tr>
<tr>
<td>Geochem 07_9</td>
<td>Mamurri Hill</td>
<td>Two RAB holes without basement one extremely anomalous including Se</td>
<td>Additional RAB – high priority target</td>
<td>Holes are right on the edge of the floodplain and there is no obvious source of the anomaly. Detailed review of geochem required to shed more light on this anomaly.</td>
</tr>
<tr>
<td>Geochem 07_10</td>
<td>Nth of Arrarra</td>
<td>Two RAB holes with moderate anomalies</td>
<td>Additional RAB</td>
<td></td>
</tr>
<tr>
<td>Geochem 07_11</td>
<td>SE of Mamurri Hill</td>
<td>Elevated U, B and Bi, RAB holes did not reach basement</td>
<td>Additional RAB</td>
<td>Geochem07_11</td>
</tr>
<tr>
<td>Geochem 07_12</td>
<td>SE of Mamurri Hill</td>
<td>RAB hole did not reach basement</td>
<td>Additional RAB</td>
<td>Geochem07_12</td>
</tr>
</tbody>
</table>

The following appendices contain all relevant information related to Cameco’s sampling and analytical procedures.

Appendix 2 - DH Logger Codes  
Appendix 3 - Sample Preparation  
Appendix 4 - NTEL Analytical Methods  
Appendix 5 - NTEL Analytical Suite
6. EXPLORATION RESULTS

6.1 SAM Survey

The SAM results along with the interpreted sandstone and uranium percentiles for drill hole and surface geochemistry are illustrated in figure 8 (normalized to rock type). This survey is similar to the historical project survey flown at a line spacing of 50 m. Dolerite dominates the response, which cannot be readily related to specific bodies due to complexity resulting from variable dips and the low-angle attitude of the sills. The possible exception is a major northerly oriented feature located at the eastern edge of the SAM survey area. This feature is considered to be dolerite intruding along a major structure, which has been inferred from its linearity, extent and intensity. The EQMMR conductivity (figure 5) shows a body that strikes northwest as per the Mamurri structural trend. Existing mineralisation appears to be related to this conductive trend. However, the EQMMR response is discontinuous in places and cannot be positively related to specific structural niches or framework that might be controlling the known mineralisation.

Figure 8 - SAM with Sandstone, Uranium and Targets

At this stage two cursory drill targets have been identified on the assumption that increased conductivity may indicate zones of dilation or shearing, possibly with graphite development. These targets are located near diamond drill hole AAD001, which was drilled in 2006, intersecting very localised alteration with associated weak uranium mineralisation (up to 71 ppm U). The first target is 120 m southwest of AAD001, along the main EQMMR trend and the second is 380 m northeast of the hole on a newly interpreted trend oriented west-east. It is expected that these targets will be drilled in 2008.

6.2 Geochemical Sandstone Outcrop Sampling

Ground inspection of geochem anomalies geochem07_3 and geochem07_4 found outcropping sandstone within 200m of the anomaly location and in the case of anomaly geochem07_4, the scintillometer indicated quite high counts (<300cps) restricted to thin hematitic pebbly bands within the sandstone. Three extra samples were taken at outcrops near anomaly geochem07_4 and two extra samples were taken to the south of anomaly geochem07_3. Anomaly geochem07_9 is thought to occur in sandstone intersected in a RAB hole drilled on the edge of the black soil floodplain. There is no obvious surficial source of the anomaly with the nearest outcrop some 500 m to the north. Similarly geochem07_6, geochem07_11 and geochem07_12 were checked but show no obvious surficial signs of anomalism so no samples were taken at these sites. Figure 7 shows the location of both the geochemical targets and samples taken.

Geochemical results from the five samples all show less than 1ppm uranium and do not appear anomalous in any other elements. Table 2 describes the lithological and radiometric characteristics of the samples. Sample AA072001 contains elevated
(64ppm) thorium within a conglomeratic pebble band in the sandstone, a feature that is quite common throughout Arnhemland in the pebbly beds of the Mamadawerre Sandstone but not indicative of mineralisation. All other samples show thorium levels between 6-20ppm. Gold, arsenic, selenium, platinum, palladium and boron were all at or below detection. Copper, lead, zinc and nickel were all low to below detection. Samples AA072001, AA072003 and AA072005 show elevated levels of bismuth (0.54, 0.52 and 0.70 respectively) with the other two samples at and below detection. Magnesium ranges between 80-160ppm with AA072005 standing out at 1100ppm.

The elevated bismuth, magnesium appears to support the anomalism seen at geochem07_3 with AA072005 showing the higher values in both elements, however in each case samples were taken from sandstone outcrops up to 200m from the defined target so further infill sampling is required. It must be remembered that most of the geochemical targets are based around historical RAB drilling and as such these targets are at depths between 0-10m and further clarification of the original anomaly is required.

**Table 2 - Outcrop sample description**

<table>
<thead>
<tr>
<th>Sample Number</th>
<th>Easting</th>
<th>Northing</th>
<th>CPS (avg)</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA072001</td>
<td>272017</td>
<td>8651171</td>
<td>250</td>
<td>Medium to coarse weakly hematitic pebbly sandstone</td>
</tr>
<tr>
<td>AA072002</td>
<td>272174</td>
<td>8651086</td>
<td>65</td>
<td>Medium to coarse grained arkosic sandstone</td>
</tr>
<tr>
<td>AA072003</td>
<td>272379</td>
<td>8651042</td>
<td>70</td>
<td>Poorly sorted quartz rich conglomerate</td>
</tr>
<tr>
<td>AA072004</td>
<td>266990</td>
<td>8651998</td>
<td>80</td>
<td>Weakly silicified and hematised granulestone</td>
</tr>
<tr>
<td>AA072005</td>
<td>266746</td>
<td>8652070</td>
<td>75</td>
<td>Fine to medium grained sandstone</td>
</tr>
</tbody>
</table>

**6.1 Petrography Summary**

Nine samples of drill core were submitted to Ian Pontifex and Associates for petrographic description in 2006. The report on these samples was received in May 2007, too late for inclusion in the relevant annual report.

**Appendix 9 - Petrographic Report**

Six samples were assigned a metasedimentary origin (‘meta-sandstone’, amphibolite etc), one is Oenpelli dolerite and two were described as “tremolite-rich material”. The latter, from the Two Knobs hole, was observed in outcrop on the south side of the hill in the prospect area. These unusual rock types have been observed elsewhere by PNC and Union Carbide geologists within the King River project area to the east. They were thought to represent weathered remnants of small ultramafic intrusions. The conclusion of the petrographer is that they are either of ultramafic or dolomitic origin.
7. CONCLUSIONS

The SAM survey appears to have been relatively successful at identifying sub-surface conductivities potentially related to shears/zones of dilation within the Mamurri trend. Two new targets have been identified from the survey, which will be tested by the planned 2008 RC program. Further work required at Mamurri Hill includes:

- Distribution, thickness and role of the Oenpelli dolerite in the localisation of the mineralisation, and whether there is untested potential below the dolerite at AAD001 (because of the known spatial association of the Oenpelli Dolerite with most uranium occurrences in western Arnhem Land)
- The role and nature of quartzite associated with the mineralisation in the historical drill holes (Rawlings (2004) referred to this rock as a 'chert')
- The presence of graphite at Mamurri Hill and what is its role and association with mineralisation

On a tenement scale further work required includes:

- Basement geology map incorporating Cameco and historical data
- Reassessment of historical drilling at the prospect scale including structural and lithological controls on mineralisation with priority given to Mamurri Hill and Injardil

The geochemical review produced several anomalies that require follow-up in addition to those investigated in late 2007. While the results from this years outcrop sampling program are encouraging further clarification of the original anomaly along with infill sampling is required to better assess the potential for mineralisation beneath the sandstone within the Arrarra tenement.

8. WORK PROGRAM EXPENDITURE 2007

Estimated expenditure for the year, as stated in the 2006 work program was $130,000. Actual expenditure amounted to $128,438.29.

Table 3 - EL3106 Exploration Expenditure

9. WORK PROGRAM PROPOSALS 2008

The primary activity planned for 2008 is an RC drilling program at and near the Mamurri Hill prospect.

A detailed review of the Mamurri Hill prospect data is planned in an attempt to assess / interpret lithological and structural controls on the mineralisation. Additionally, a data review and solid geology (basement) map should be generated for the entire project area to assist in future planning. Further interpretative work is also planned for the other known prospects to evaluate their potential and whether additional SAM might be warranted.

The budget for 2008 is estimated to be $119,000.
10. REFERENCES


