Palace Resources Ltd

Annual Report

July 2008

Marla Project

EL 23135

Peter Peebles

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1.0 Summary.

Palace Resources Ltd. are targeting and uranium mineralisation in both recent sediments, derived from the weathering and remobilisation of older uraniferous lithologies as well as structurally controlled and uranium mineralisation associated within graphitic and pyritic members of the Lower Proterozoic Dead Bullock Formation and chloritic members of the Killi Kill beds which unconformably overlie the Dead Bullock Formation.

Palace’s partner Excalibur Mining Corporation Ltd. are pursuing structurally controlled gold mineralisation. Often at lithological contacts, fault structures can re-mobilise gold and other rare earth elements along these conduits to areas of lower pressure where ore formation occurs.

Exploration during this period consisted of data review of previous results, interpretation of available regional magnetic and landsat data – targeting possible dispersion halos related to mineralisation.

2.0 Introduction.

This is a technical report outlining exploration activities undertaken by Palace Resources Ltd and Excalibur Mining Corporation Ltd. across the Marla Project tenements in the year to 17th July 2007.

The Marla Project tenements consist of ELs 7357, 8953, 8970, 8971, 9559, 9563, 22355, 22356, 22358, 22389, 22511, 23084, 23085, 23132, 23133, 23134, 23135, 23136 and 23747.

Palace Resources Ltd. listed on the Australian Stock Exchange (ASX) during December 2006, whilst Excalibur Mining Corporation Ltd. relisted on the ASX in early 2007, following approximately twelve months of being delisted.

Between the two companies a total of $9 million has been raised to fund exploration activity.

Under an agreement between the two companies, Palace retains the rights to uranium and Excalibur has the rights to precious metals. These tenements were acquired by Palace from Newmont Tanami Pty Ltd on listing in December 2006. Newmont Tanami retains a royalty from any gold production, and also retains a claw back on a significant gold resource being discovered. This gives Excalibur...
a potential treatment scenario should a very large gold resource be discovered on the tenements.

3.0 Location.

The Marla Project lies approximately 400 kilometres northwest of Alice Springs in the Northern Territory. The area is accessed via station, community and historical exploration tracks from the Stuart Highway. The tenement area covers 6390 km² in total. The Marla Project area is situated within the Granites-Tanami Complex to the north and Aileron Province to the south. Both provinces consist of similar rock sequences and have comparable Palaeoproterozoic magmatic, metamorphic and deformational histories.
4.0 Geology.

The Project Area lies astride the Granites - Tanami and Arunta provinces. Basement metasedimentary sequences in both regions are thought to be lateral equivalents and the sequences merge with one another. The Granites - Tanami and the Northern Arunta provinces contain similar rock sequences and share similar Palaeoproterozoic magmatic, metamorphic and deformational histories.
Both provinces comprise of a deformed Palaeoproterozoic basement turbiditic sequence of greywacke, quartz sandstone, siltstone, shale, and minor mafic rocks and their moderate to high grade metamorphic equivalents (schist, gneiss, quartzite, amphibolite). The Tanami Block also contains chert, pyritic carbonaceous sediments and ironstone, whereas the Arunta Block has minor calc-silicates and meta-felsic volcanics (felsic orthogneiss).

During the Barramundi Orogeny (1890-1850 Ma, Page and Williams, 1988), the sedimentary sequences in the Arunta were intruded by mafic rocks, deformed and metamorphosed up to amphibolite facies.

Granite plutons were emplaced in the closing stages of the Barramundi Orogeny, at about 1820 - 1800 Ma. In the Arunta province, platform quartzite-shale-carbonate sediments (Reynolds Range Group) unconformably overlie the Barramundi metamorphic rocks and probably represent correlatives of the Hatches Creek Group of the Davenport Province to the north (Blake et al. 1987).

Deformation of the Hatches Creek Group preceded granite intrusion at about 1660 Ma (Page and Williams 1988) and involved an early phase of upright northwest-trending folds and a second episode of northeast-trending folds. Faulting, thrusting and metamorphism accompanied both episodes of folding. The Arunta province remained tectonically active after the Barramundi Orogeny with several metamorphic and deformational events, including the ~1800 Ma Strangways granulite event (Shaw et al, 1984), the 1760-1650 Ma Aileron retrogressive event (Windrim and McCulloch, 1986) and the most recent Carboniferous Alice Springs Orogeny.

In the northern Arunta region, significant granitic magmatism occurred at 1780-1770, 1713, 1635 and 1570 Ma. The basement provinces described above are unconformably overlain by younger, Neoproterozoic and Palaeozoic sediments of the Birrindudu, Wiso, Georgina and Ngalia basins (Wells and Moss, 1983).
5.0 Exploration Objectives.

5.1 Gold

Exploration and mine studies have indicated that gold mineralisation in the region has an association with a range of geological environments. Models of gold occurrence for which the Tanami is believed to be most prospective include:

- Disseminated, stratabound deposits hosted by banded iron formations;
- Dead Bullock Soak-Granites styles of mineralisation, controlled by anticlinal folding and iron-rich lithologies
• Discordant stockwork deposits of gold in relatively late stage quartz veins;
• Gold mineralisation in veins hosted by shear zones with strong alteration characteristics;
• Deposits in regolith containing gold concentrated by alluvial, eluvial or lateritic processes.

With these models in mind, the Company’s geologists have selected prospective target exploration areas based on regional geological, structural, geophysical and geochemical data.

The detailed assessment of these targets has been undertaken by a range of exploration techniques, designed to reveal the geology of the target area, and the presence of indicator elements, particularly gold itself, in anomalous quantities. The task has been made difficult by the very extensive cover of windblown sand and other transported material, which conceals the rock and associated soil, typically to a thickness of several metres. This blanket covers as much as 98% of the region. Consequently the exploration process has relied heavily on point samples obtained by drilling to expose bedrock.

5.2 Uranium

Little is really known about the uranium models available in this region. To the north lies the unconformity between the Tanami and the Victoria/Burrindudju basin. To the south lies the sandstone hosted Bigryli V-U mineralisation. Exploration to date has been hampered by a lack of regional airborne radiometric data and has relied on uranium in soils as a regional targeting tool.

6.0 Previous Exploration.

Gold mineralisation was discovered by Davidson in 1900 at a number of sites within the Tanami region. Gold was reported as having been found by Wickham in the 1920’s in an area about 75km south west of gold occurrences at the Granites. However, there are no reliable records to substantiate this report.

Hossfield, on his journey to Lake Mackay in 1940, collected a single sample consisting of surface stones from low ironstone gravel hills on the eastern margin of the Highland Rocks sheet. The sample returned an assay of 0.15g/t gold and 3.7g/t silver.

The area was mapped by the Bureau of Mineral Resources in the 1960’s and 1970’s, the results of which constitute the 1:250000 Mt. Theo, Mt. Solitaire, The Granites and Highland Rocks map sheets and explanatory notes. In 1994, the
Australian Geological Survey Organisation conducted regolith mapping of the Highland Rocks using airborne gamma-ray and Landsat MSS data. No records exist of exploration within these licenses prior to granting of the ground to Normandy NFM.

7.0 Exploration Activity 18/07/07 to 17/07/08.

Palace Resources Ltd and Excalibur Mining Corporation Ltd have completed a thorough review of available data, generated largely by Newmont Tanamai Pty Ltd ("Newmont"). This work has also seen structural geology interpretations from available geological and aeromagnetic data.

No actual field work has been completed during the year due to the fundraising activities of both companies, and also ongoing discussions with the Central Lands Council, particularly with regard to the sensitive issue of uranium exploration.

A discussion of the results of work done to date is presented below.

8.0 Results and Conclusions.

8.1 Drilling

Newmont have completed very limited drilling, targeting selected anomalies only. This is surprising in that some rock chip samples of up to 120g/t Au have not been followed up via drilling. Significant results are as shown below.

<table>
<thead>
<tr>
<th>Sample Id</th>
<th>Hole ID</th>
<th>From Depth</th>
<th>To Depth</th>
<th>Data Type</th>
<th>Au (ppm)</th>
<th>As (ppm)</th>
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<td>24</td>
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</table>
8.2 Au Soil Sampling

Soil geochemistry has been completed on reconnaissance spacings over large areas of the project. The significant results are shown in the table below.

Table 2
Significant Au anomalies - rock chip and lag sampling

<table>
<thead>
<tr>
<th>Sample</th>
<th>Au g/t</th>
</tr>
</thead>
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<td>757348</td>
<td>0.21</td>
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</tbody>
</table>

A majority of these results are associated with structural contacts as defined by regional magnetic data. In particular, two gold highs are considered encouraging and will be followed up in the future.
8.3 U Soil Sampling

Uranium anomalies identified on the Marla tenements after pattern soil geochemistry, have identified an “open” geochemical high which averages >11.5ppm U. It is located in the north eastern portion of the tenement and occurs near a “paleochannel” identified from TMI images but also sits astride what is possible a fault splay and lithological contact also identified from TMI images.

There is a similar series of geochemical uranium anomalies defined by geochemistry in the north–western part of the project area.
9.0 Proposed Exploration.

Given the amount of work conducted by previous operators, it is apparent that the area has economic potential for both gold and uranium mineralization. There are a number of targets which should be further investigated.

With respect to the exploration for uranium, the targets illustrated above should be drilled on a “first pass” basis. These targets have been defined by both geochemical and geophysical surveys. This can be achieved with a broad spaced RAB drilling programme. As a first pass, it would be appropriate to drill a minimum of 2,000 metres on each of the defined targets. The timing of the proposed drilling programme will depend significantly upon the availability of a suitable drill rig.
With respect to exploration for gold, there are a number of targets already defined by previous drilling and previous geochemical surveys. Again, it is proposed that these be drilled tested using RAB drilling for areas that have not yet been drilled and by air core drilling to follow up anomalous regions defined by previous drilling. The RAB drilling would be in the order of 5,000 metres while the air core drilling would be in the order of 5,000 metres. The timing will depend significantly upon the availability of a suitable drill rig.

10.0 Discussion.

Results from RAB drilling, both soil sampling for Au and soil sampling for U, are encouraging especially considering the level of knowledge on the geological setting of the project.

Foundation for further reconnaissance work is maintained if not strengthened with U & Au anomalies occurring in and around both identified paleochannels and fault zones respectively (within the NE and NW portions of the tenements).

Follow up explorative work such as more reconnaissance drilling and soil sampling is likely to extend these results and provide possible answers on the structure control of mineralisation of both Au and U in this project area.
11.0 References.


