CALLABONNA
URANIUM LIMITED

ABN 19 127 106 665

Combined Annual Report for the Period
14 Feb 2009 to 13 Feb 2010

EXPLORATION LICENCE 26006 & 26012

ARUNTA PROJECT

Tenement Holders: Arunta Uranium Pty Ltd ACN 127 112 323
(Subsidiary of Callabonna Uranium Ltd)

Submitted by: Callabonna Uranium Ltd

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EXECUTIVE SUMMARY

EL 26006 ‘Mt Hay’ and 26012 ‘Undoolya’ are located near Alice Springs in the Arunta Region and Aileron Basin of the Northern Territory. EL 26006 and 26012 are held by Arunta Uranium Pty Ltd, a wholly owned subsidiary of Callabonna Uranium Ltd. The tenements form part of the Arunta Project which also includes ELs 26040, 27181 and ELAs 27802, 27803 and 27804 for a total area of 2,328 km2. The project is managed by the parent company Callabonna Uranium Ltd.

EL 26006 is also subject to a farm-in joint venture with NuPower Resources Ltd. The joint venture is targeting sandstone-hosted uranium deposits amendable to mining by in-situ leach. A secondary target is also calcrete-hosted uranium mineralisation in recent drainage channels.

This combined annual report will summarise the exploration activities completed during year 2 in EL 26006 and 26012. Work carried out during the reporting period involved a reconnaissance field program and the continued assessment of previous exploration results.

CONTENTS

INTRODUCTION

The Arunta Project is held by Callabonna Uranium Ltd's (CUL) wholly owned subsidiary, Arunta Uranium Pty Ltd. The Arunta Project comprises ELs 26006, 26012, 26040, 27181 and ELAs 27802, 27803 and 27804 for a total area of 2,328 km2. The project is located near Alice Springs in the Arunta Region and Aileron Basin of the Northern Territory. The project is managed by the parent company Callabonna Uranium Ltd. NuPower Resources is in a joint venture with CUL over EL 26006 and is the operator. Exploration targets sandstone-hosted uranium, high grade unconformity-style uranium and calcrete-hosted uranium (similar to the Napperby Deposit with an inferred resource of 7.4 M lbs contained U3O8).

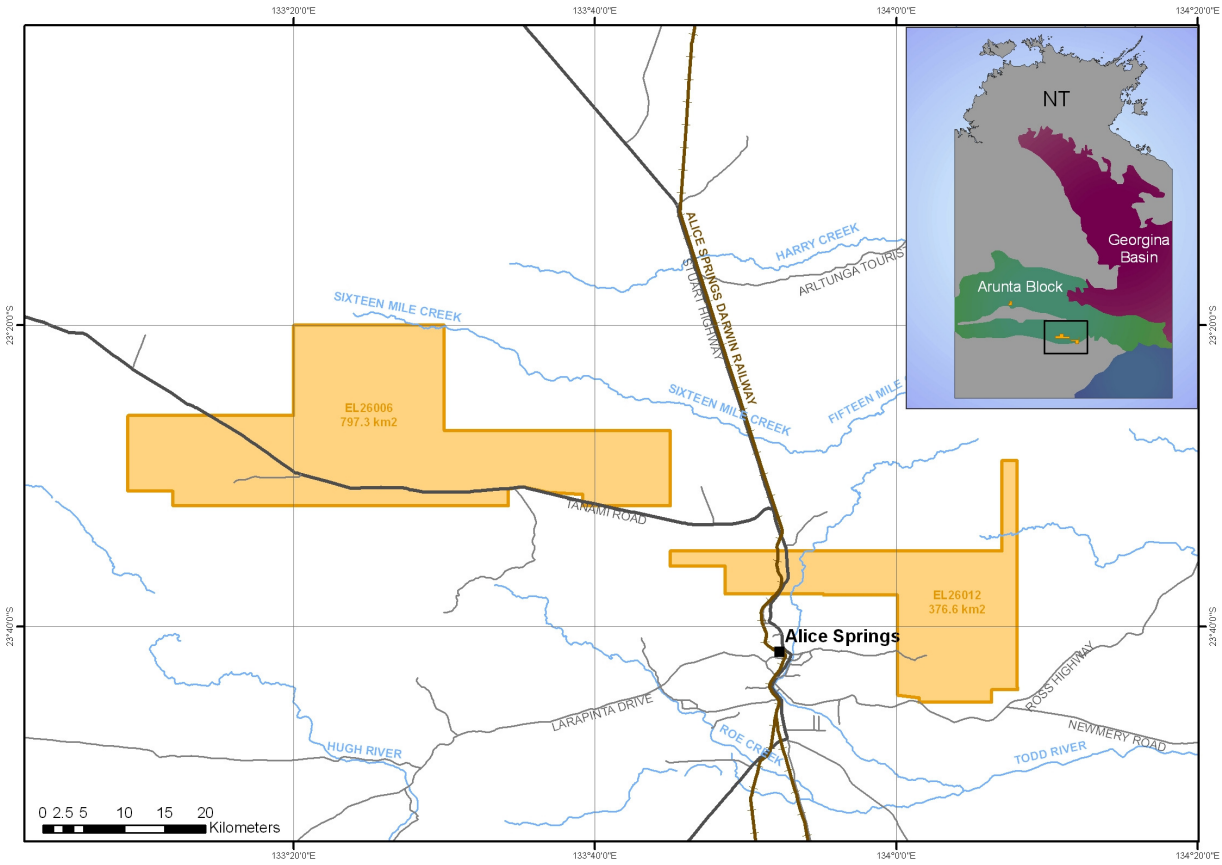

Figure 1. Project Location Map

TENURE

Exploration licence 26006 was granted on 14 February 2008 for a period of 6 years and 26012 were granted on 18 December 2007 for a period of six years (Table 1). The two tenements cover a total area of 383 sub-blocks and 1,173.9 square kilometres.

Tenement	Name	Granted	Expiry	Sub-Blocks	Area Sq Kms
EL 26006	Mt Hay	14-Feb-08	13-Feb-14	257	797.3
EL 26012	Undoolya	18-Dec-07	17-Dec-13	126	376.6

Table 1. Tenement Details

NATIVE TITLE

One Native Title claim overlaps EL 26006 (Table 2). No negotiations have begun with Native Title holders. In accordance with the Native Title Act 1993 and the Northern Territory Mining Act, Callabonna Uranium Ltd will initiate Native Title negotiations before we commence on ground exploration.

Name	Federal Court Number	NNTT Number	Registration Date	Overlapping Arunta ELs
Mt Everard	NTD36/05	DC05/12	20-Apr-06	EL 26006

Table 2. Native Title Claims

LOCATION & ENVIRONMENT

The Arunta Project is in a region known as 'Central Australia', located centrally in the southern part of the Northern Territory within the Arunta Block. The project area is located to the north and northwest of Alice Springs in the MacDonnell Shire local government area. The tenements can be accessed via the Stuart Highways and Tanami Road. Other minor roads and unpaved tracks are also available for travel. The Alice Springs Darwin Railway Line also travels by the project area providing good access to infrastructure. In the arid climate, average rainfall ranges from 8.1mm a month during the dry season to 41.8mm a month during the wet season but rainfall can vary quite significantly from year to year. The mean annual temperatures range from a summer maximum of 36.4° C to a winter minimum of 4.0° C, with a mean diurnal variation of about 13° C. The land is flat to gently undulating desert plains and low rocky foothills at the base of the McDonnell Ranges covered by acacia woodlands and grasslands. A majority of the land is covered by pastoral leases where the primary land use is cattle grazing.

EXPLORATION RATIONALE

EL 26006 and 26012 were originally targeted for calcrete-style uranium deposits. Calcrete-hosted uranium deposits are known to develop as near-surface concentrations in sediments within major palaeo-drainage and playa lake systems. They form where uranium-rich granites have weathered in a semi-arid to arid climate. The weathered uranium is transported in drainage systems and redeposited with sediments cemented by secondary minerals including calcrete, calcite, dolomite, and gypsum. The uranium occurs as carnotite which is deposited as a chemical precipitate late in the formation of the calcrete. In the Arunta region uranium-enriched granitoids are a potential source of uranium, although mafic rocks may be required to furnish vanadium. The Napperby deposit (an inferred resource of 7.4 M lbs contained U_3O_8) demonstrates that suitable ore-forming processes have operated in the region.

Recognition of extensive Tertiary Basins and their similarity with those hosting uranium deposits in South Australia (e.g. Beverley, Honeymoon, Four Mile) suggests prospectivity in the Arunta region for sandstone-hosted uranium. These deposits tend not to have a substantial surface radiometric response and exploration

typically involves defining aquifer units using airborne EM with systematic drill-testing of potential host channels. Sampling of bore water can help to limit the area required to be drilled. This target style is the current focus of exploration within EL 26006 undertaken by the NuPower/CUL joint venture.

EXPENDITURE

During the reporting period, Callabonna spent $7,931 on EL 26006 and $4,696 on EL 26012. Callabonna was unable to meet the minimum expenditure commitments of $44,000 on EL 26006 and $26,000 on EL 26012.

During the second year of tenure the parent company, Callabonna Uranium Ltd, merged with MKY Resources Ltd, an ASX listed public company in September 2009. Preparation for the merger resulted in a delay of exploration activities across all the Company's projects. As a result, Arunta Uranium Pty Ltd was only able to complete one field reconnaissance trip to EL 26006 and 26012 last year.

GEOLOGICAL SETTING

PROTEROZOIC GEOLOGY

Much of EL 26006 is underlain by Cainozoic sediments of unknown thickness. EL26012, however, is underlain primarily by Proterozoic gneisses, amphibolite and lesser schist. A variety of gneisses have been mapped (Fig. 2) including augen or porphyroblastic textured and some contain garnet.

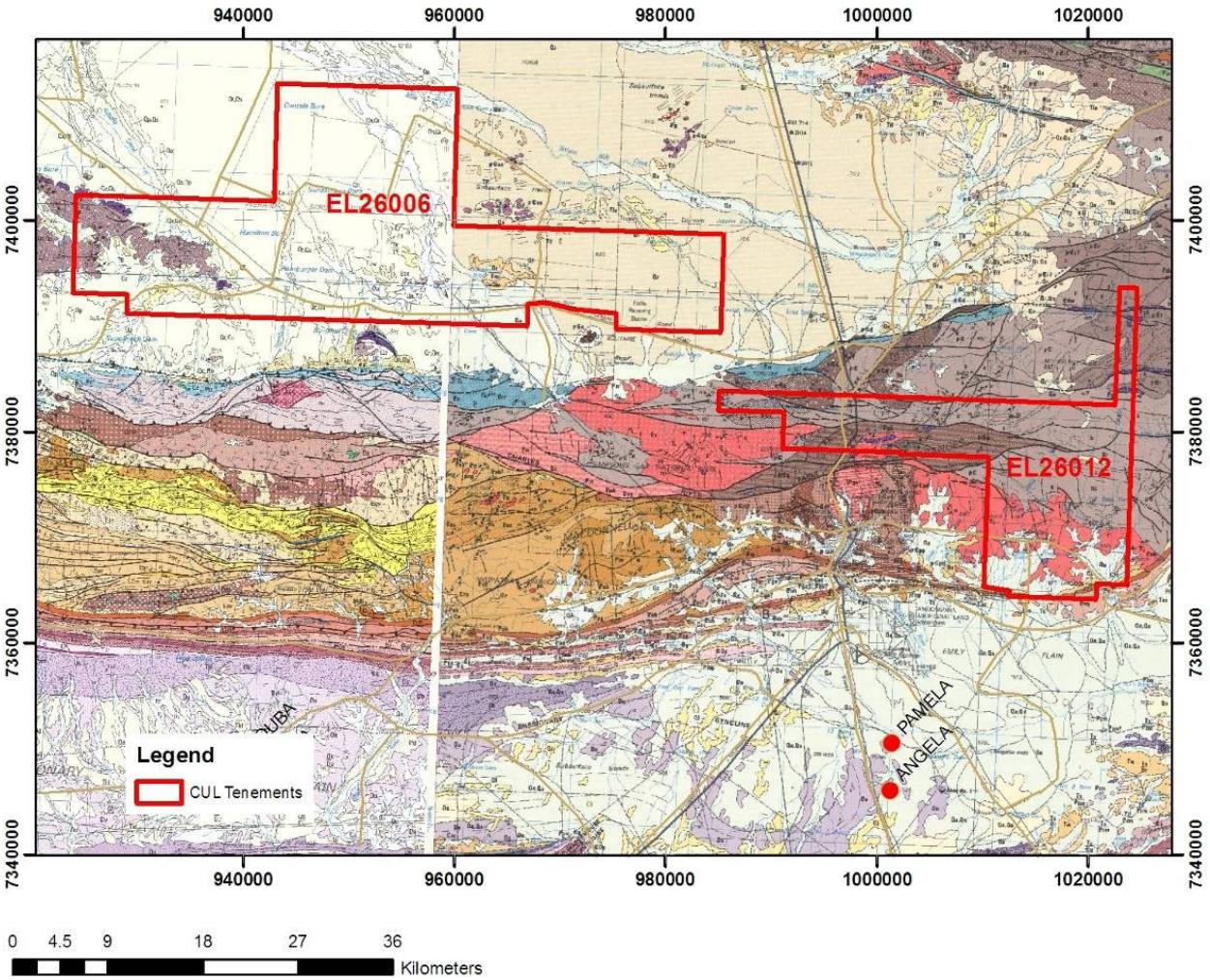

Figure 2: 1:250,000 geology of the tenement areas (from Geoscience Australia).

A high strain zone occurs to the immediate north of EL26012 (pale blue in figure 2 marked Prr). The magnetic image in figure 3 defines an ENE-WSW trending fault zone coincident with the mapped high strain zone. This image also suggests a major east-west trending boundary to the south of the tenement that is not reflected in the 250,000 scale mapping.

Potential for calcrete-hosted deposits is greatest in the southern portion of the tenement where Cainozoic sediments onlap the Proterozoic rocks.

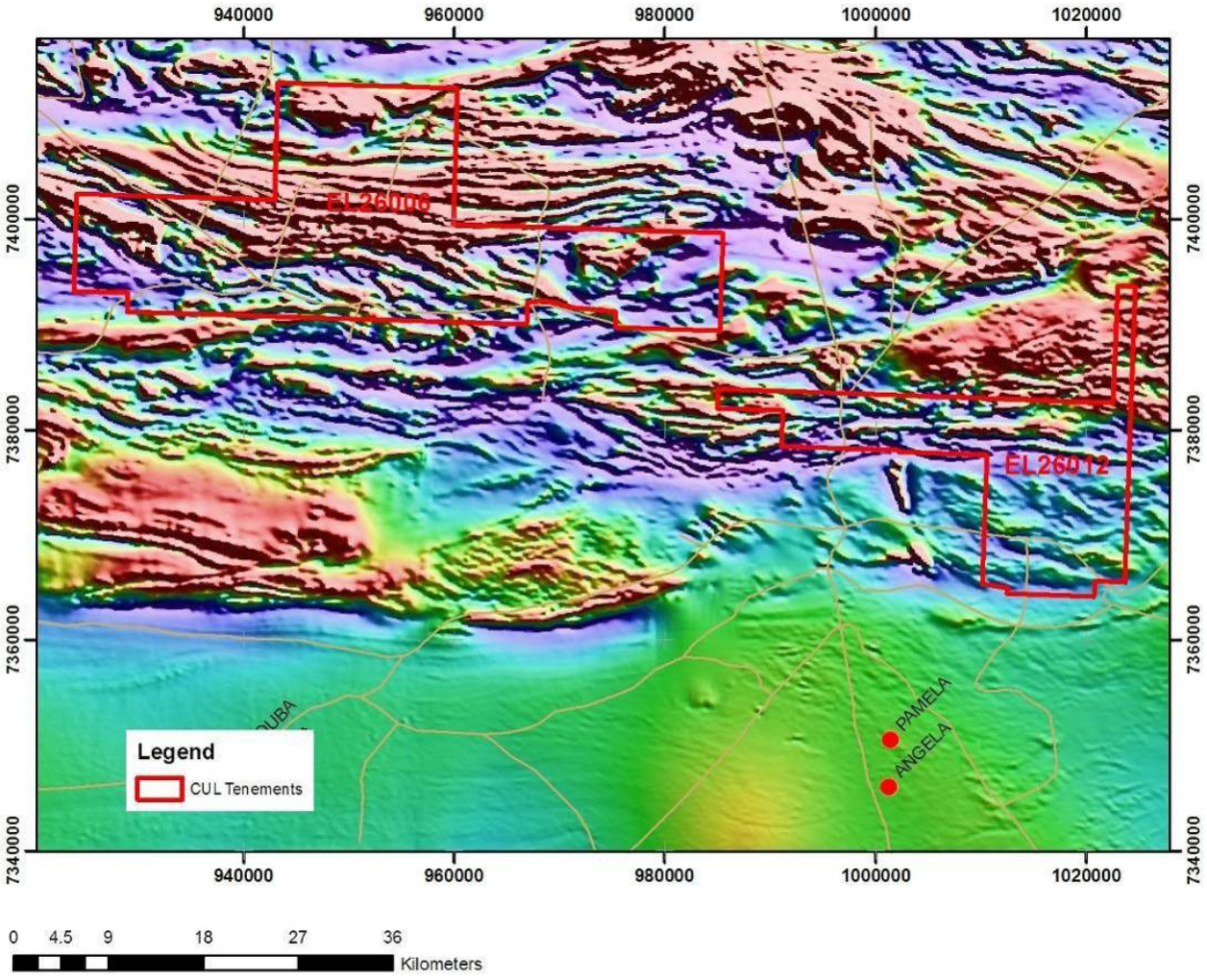

Figure 3: Total Magnetic intensity colour-draped on first vertical derivative of airborne magnetic data.

CAINOZOIC GEOLOGY

The southern NT forms a "basin and range" province with Proterozoic and Palaeozoic rocks forming prominent ranges separated by broad valleys occupied by at least twenty Cainozoic sedimentary basins (Senior et al., 1995). Average sediment thickness ranges from about 180m to as much as 500m. The Mt Hay tenement covers portions of the Sixteen Mile and Burt Tertiary Basins (Fig. 4).

The stratigraphy of these basins is poorly known due to a lack of outcrop, intense weathering and paucity of drillholes. Drilling in the Sixteen Mile Basin indicated considerable thicknesses of probable Tertiary sediments including carbonaceous shales and clay with thin lignite seams (Hossfeld, 1954; Edworthy, 1967).

The Hale Basin was explored extensively for coal (lignite) and sedimentary uranium during the late 1970's and early 1980's. This basin is considered to represent a generalised Tertiary stratigraphy for the southern Northern Territory. Senior et al. (1994) defined a two-fold stratigraphic subdivision that corresponds well with the observed pattern of Cainozoic sedimentation elsewhere in southern Australia. It comprises a restricted, fluvial palaeochannel dominated Palaeogene succession (Hale Formation) overlain by a more widespread, dominantly lacustrine Neogene succession (Waite Formation). An additional stratigraphic unit, the Napperby

Formation (Higgins, 2009) has since been recognised as overlying the Waite Formation and represents the development of prograding alluvial fans shed from the ranges flanking the Cainozoic Basins.

There are strong similarities between the Tertiary basins of the Northern Territory and Eocene sediments in southern Australia that host significant uranium deposits (Higgins, 2009).

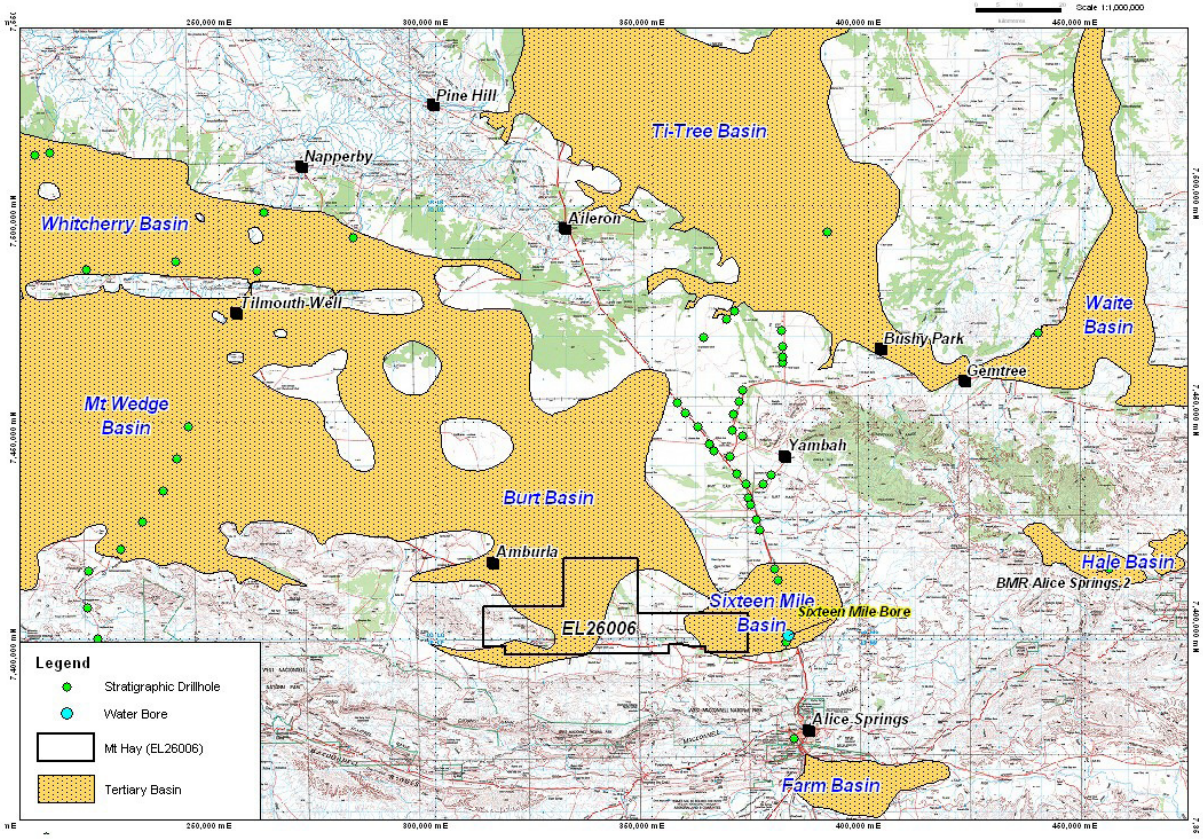

Figure 4: Tertiary Basins of the Alice Springs area

PAST EXPLORATION

SUMMARY

The area has long been recognised as prospective for “sedimentary” (aka sandstone-hosted or roll-front or tabular) uranium deposits. The current tenements have previously been explored for uranium by CRA in the early nineteen seventies. CRA’s tactical approach was to use widely spaced carborne scintillometer traverses and uranium/radon/gamma ray investigation of water bores. These tactics failed (unsurprisingly) to identify any anomalous uranium or radioactivity. The wide-spacing of the sampling is not ideal given the relatively small size of the target and likelihood of limited surface response. Furthermore, thin veneer of alluvial cover is likely to mask even a shallowly-buried radioactive source. A CRAE GEOTEM survey covering EL 26006 revealed conductive drainages that have been better defined by the TEMPEST survey flown by the joint venture.

For more information on historic exploration please refer to the 2009 Annual Technical Report (Wilde, 2009).

WORK CARRIED OUT BY CALLABONNA

YEAR 1

During Year 1 Forty-four gravity readings were completed on EL 26006 to form part of the Central Arunta Gravity Survey (CAGS) a joint initiative of the Northern Territory Geological Survey ("Bringing Forward Discovery Initiative") and Geoscience Australia. The new gravity data were successful in better delineating a major east-west trending structure that limits potential host-rocks to the south.

Ten samples from water bores were also collected within EL 26006 for water quality and uranium content as part of the joint venture with NuPower.

A TEMPEST airborne electromagnetic and magnetic survey was flown by Fugro Airborne Surveys Pty Ltd during August – September 2008 over EL 26006, also as part of the joint venture with NuPower. For further information on exploration results, please refer to the 2009 Annual Technical Report (Wilde, 2009).

YEAR 2

During Year 2, the Geologists at CUL completed a reconnaissance field trip to the Arunta tenements to view the surface geology. A hand held spectrometer was utilised for quick field assaying of outcrops but no rock chip samples were taken in EL 26006 or 26012 for further analysis.

Through the EL 26006 Mt Hay joint venture, NuPower continued to analyse and interpret the AEM results in from the previous year's aerial survey. The AEM identified several previously unknown palaeo-channels which are not coincident with modern drainage locations, suggesting they are buried and would not have been explored previously (Fig 5). These channels are potentially prospective for sandstone hosted uranium deposits similar to the Beverley or Four Mile types of uranium deposits.

Follow-up drilling in EL 26006 is required to further test the interpreted channels for economic uranium mineralisation.

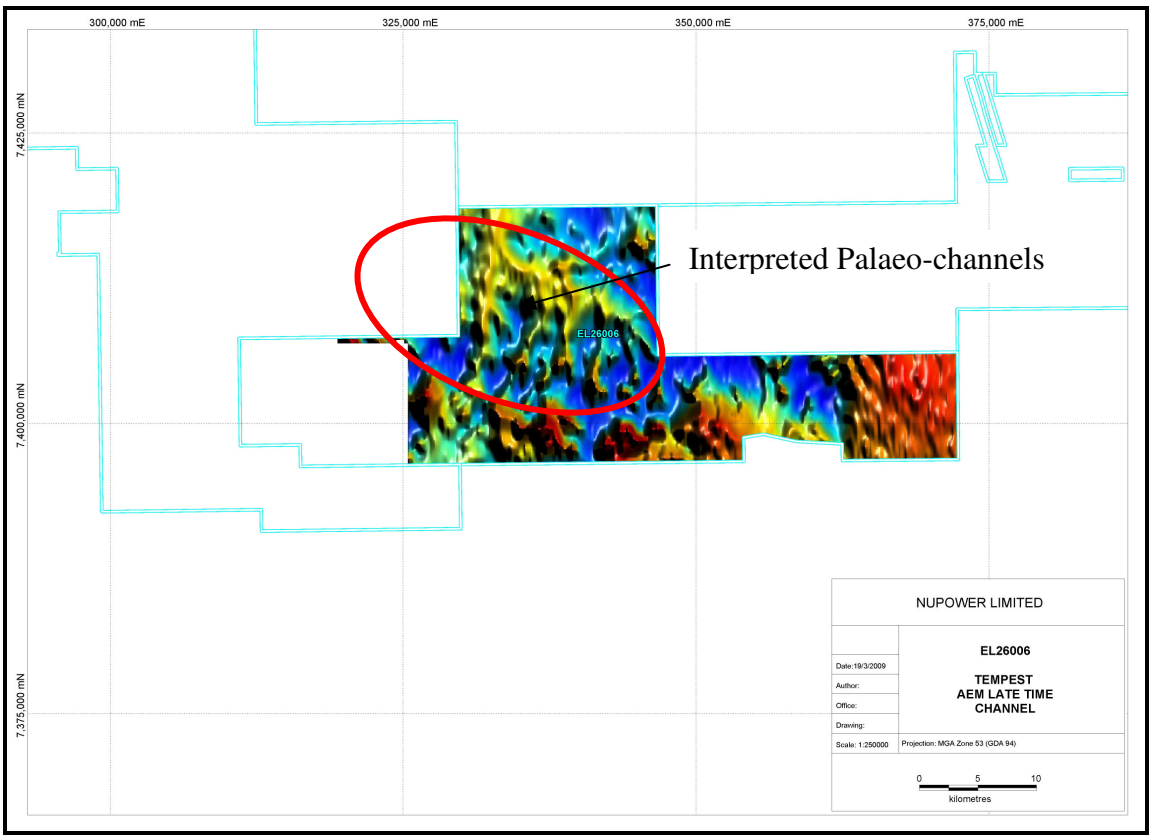

Figure 5: Airborne EM image of Mt Hay JV Lease showing location of interpreted Palaeo-channels

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