Exploration Licence EL26699 – Tanami NT

Holder and Operator
Palace Resources Limited; ACN 106 240 475

Second Year Statutory Reduction 20 November 2010
Report for Area Reduced

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1:250,000 Sheet;    Tanami SE52-15
1:100,000 Sheet;    Breaden 4859

Datum:    GDA94
          MGA_Zone 52
Executive Summary

Palace Resources Ltd (“Palace”) applied for EL 26699 (“the Tenement”) on the basis of encouraging detailed airborne geophysics on its EL25207 to the west which indicated the potential for unconformity/veinlike-type uranium in the district. The Tenement was granted on 21 November 2008.

The Global Financial Crisis impacted Palace’s financial resources and ground exploration in the Tanami didn’t take place until June 2010. Even then, unseasonal heavy rains in the first half of 2010 had severely restricted vehicular access into the area, due to softness of ground and thick, tall vegetation. A vehicle could not reach within several kilometers of the Tenement. Instead, a geological and ground radiometric reconnaissance and familiarization was carried out in the vicinity of the Tenement. If the results of drilling on EL25207 had been positive, then Palace would apply for clearing of access routes or use a helicopter.

The initial results from the joint-venture on EL25207 were not particularly encouraging for uranium, base metals or rare earths.

Introduction

EL 26699 (“the Tenement”), 34 blocks in area, was granted to Palace Resources Ltd on 21 November 2008. Palace had acquired a significant tenement holding in the Marla area to the south which was prospective for gold but was attracted to the Tanami area because of its geological affinities to the East Alligator River area and therefore it potential for uranium.

Palace was granted a large EL, 25207, on 12/2/07 and a detailed airborne magnetics/radiometrics survey over this area indicated the presence of a Lower/ Mid Proterozoic unconformity and a number of significant radiometric anomalies, in an area of pastoral leasehold, conducive to uranium exploration. Accordingly it applied for 3 other ELs 26697 to 26699.

Before Palace could mount a significant field follow up of the airborne anomalies, etc the economic downturn curtailed its activities and eventually it was forced to joint-venture most of the Tanami Project to Excalibur Mining Corporation Ltd, which is active in the NT. Excalibur did not include EL26699 in the joint venture and therefore no field work was carried out on the Tenement in the first year of tenure.

With a somewhat improved financial climate, Palace purchased air photography and other geophysical imagery to facilitate field work in 2010, comprising initially of geological mapping, ground radiometrics and partial digest soil geochemistry. The annual expenditure covenant was $25,000.
Location and Access

E26699 is centered on 57400E/7881500N (MGA_Z52) in the Tanami Desert region of the Northern Territory. As shown on a 1:500,000 scale topographic overlay below (Fig 1), E26699 lies to the west of the northern end of Supplejack Range. The nearest access track ends several kilometres east of the Tenement, 30kms NNW of Supplejack Downs Homestead. The Homestead lies a further 85km north of the abandoned Tanami Gold Mine on the Tanami (Halls Creek to Alice Springs) Road.

Regionally Tanami lies 350km by road east of Halls Creek, 750km SSW of Katherine and 650km WNW of Alice Springs.

As part of the field trip in June 2010, all vehicular access routes to and within the Tenement were to be logged. Unfortunately, as seen on Fig 2 below, no navigable track pass within 5kms of the Tenement and subsequent access was prevented by dense tall vegetation and rough ranges of sandstone.

Figure 1:- E26699 location
Excalibur Mining Corporation, which has a JV on Palace’s EL25207 west of E26699, has cut a number of new tracks into the JV tenement to gain access for drilling, but these too fail to provide adequate access.

Tenement Status
Upon grant the Tenement comprised 34 graticular blocks with an area of approximately 110km². A second anniversary statutory relinquishment of 50% of the blocks was required before 21 November 2010, resulting in the following change;

<table>
<thead>
<tr>
<th>Blocks retained</th>
<th>Blocks relinquished</th>
<th>Rental</th>
</tr>
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<tr>
<td>SE522708: E,K</td>
<td>SE522710: X,Y</td>
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Geological Setting

From the geological interpretation of the NT Dept of Mines (Fig 4) and the Palace airborne geophysics flown to the west, the Tenement appears to be underlain mainly by the Gardiner Sandstone and Talbot Well Formation sediments (Pdt) of the mid-Proterozoic Birrindudu Group (Pdg), overlying granite to the west and greenstones of the McFarlane Group (Pm, Pm2) to the north
According to this interpretation the Lower-Mid Proterozoic unconformity should be exposed in the north of the Tenement and provide a prospective focus for uranium exploration.

Work Done and Results

All available geology, airborne magnetics and the most recent publicly available air photography was purchased to support a field program in 2010. Unseasonally heavy rainfall stretching from summer through autumn delayed departure until the pastoralist had confirmed vehicular access along tracks.

On June 9, John Jordan of Churchlands Consulting Pty Ltd flew to Alice Springs, hired a 4WD and provisioned for a geological and radiometric reconnaissance and familiarization program. A GF Instruments Gamma Surveyor Spectrometer was taken to record radiation levels.

The Tenement lies within an area of Supplejack Station that is not developed or regularly grazed. The persistently heavy rainfall had resulted in strong growth of native vegetation which presented a 1m-high dense growth that was not only difficult to penetrate but also hid anthills and stakes. The hire vehicle was not adequately prepared for bashing through at least 5kms of such vegetation and accordingly the Tenement could not be reached at this time. Instead geological and radiometric reconnaissance was carried out as close as a vehicle and an hour or two of walking could get. However even walking was made difficult by the heavy shrubs.
It was decided that, pending encouraging results of the drilling on the JV tenement E25207 immediately west, then tracks into the area would need to be prepared, unless in the meantime fires, which regularly pass through the NT savanna, reduced the undergrowth to allow a properly equipped vehicle to pass.

Conclusions and Recommendations

Access into EL26699 by vehicle, even a quad or motorbike, was impractical in 2010 without significant clearing of tracks. The Tenement is too large to carry out meaningful exploration without vehicular transport.

It was concluded in June 2010 following the reconnaissance trip, that the results of drilling on the JV tenement to the west would first be considered before extensive track clearing was requested. A helicopter-based program of mapping and sampling could not be justified.

Whilst the initial results from the JV on EL25207 were not particularly encouraging for uranium, the JV partner remains positive for the prospectivity of the Lower Proterozoic volcanics and metasediments and the unconformity with the overlying Mid-Proterozoic sandstones. Future work on the Tenement should be discussed in light of these results.

In the meantime a 50% reduction was required and it was decided to relinquish the blocks most likely underlain by granitic basement.

Termite mounds hamper access in some areas
The Gardner Sandstone forms a barrier to the east of the Tenement