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HAMMER HILL PROJECT

EL 9725
EL 10136
YEAR 6 ANNUAL REPORT
for period
13th February 2007 to 12th February 2008

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February 2008

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

SUMMARY

This report presents the work completed during the sixth year of tenure on the Hammer Hill Project; a joint venture between Mithril Resources (manager) and Arafura Resources. The project covers granted Exploration Licences EL 9725 and 10136, which have joint reporting.

The Hammer Hill Project area straddles the Huckitta and Illogwa Creek 250,000-scale map sheets and is centred about 180 km northeast of Alice Springs, south of the Plenty Highway.

Work completed over the tenement area during the sixth year of tenure includes:

- A review on the effectiveness of the ground EM last year
- Flying of a helicopter based VTEM survey
- Identification of high priority VTEM targets
- Field verification of targets generated, including mapping and rock sampling
- Ground EM over three targets
- Recommendations for drill test of multiple conductors identified at target IVT015 and IVT016

In addition to the above, BHPB elected to joint venture into the project (as part of the Mithril / BHP Billiton alliance) whereby BHP Billiton can earn up to 51% of the project through $5M sole funding exploration activities.

Future work will consist of drilling of existing targets and continuing the ground EM over the VTEM targets generated.

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1.0 Introduction

This report presents the work completed on the Hammer Hill Project by Mithril Resources for the year ending 12 February 2008. The project comprises Exploration Licences EL 9725 and 10136, which were granted on 18 December 2001 and 13 February 2002, respectively. These tenements have joint reporting status.

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. In November 2007 BHP Billiton elected to participate in a joint venture with Mithril whereby BHPBilliton could earn up to 51% of the project (leaving Mithril with 19%) though sole funding the expenditure on the project to the tune of $5M.

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

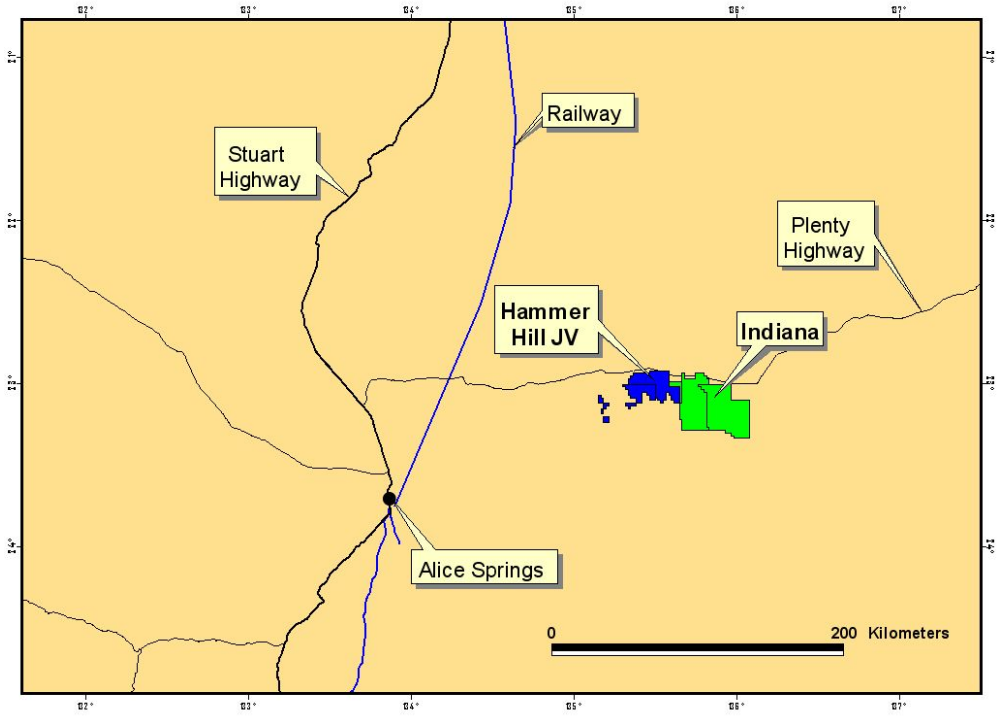

Figure 1: Project Location Plan

The project area is considered prospective for Ni-Cu-PGE 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 nickel and chrome

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 to now consist of 51 blocks.

An application for EL 10136 was submitted on 1 June 1998 by Norman S McCleary. Title was granted for a six year period on 13 February 2002. On 5 March 2002, the title was transferred to Arafura Resources NL. The original licence contained 441 blocks and has been compulsorily reduced twice to now consist of 111 blocks. An application to waive a further compulsory 50 % reduction for the sixth year of tenure has been approved and both ELs have been extended for a further 2 years.

On 22 November 2005, Mithril Resources entered a Heads-of-Agreement with Arafura Resources to farm-in to these tenements. The first phase of the Farm-in agreement was successfully completed on 26 June 2006, with Mithril Resources appointed as tenement operators as of 31 July 2006.

As mentioned above BHP Billiton entered into a joint venture with Mithril in November 2006 whereby they can earn a 51% interest in the project through expenditure of $5M.

Tenement	Grant date	Original size (blocks)	Current size (blocks)
EL 9725	24/12/2001	285	51
EL 10136	13/02/2002	441	111

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 south-eastern 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, calcsilicate 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 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 and 10136. 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, Molyhill tungsten and Jervois base metal mineralisation. Most work along the Mount Sainthill Fault Zone and the granite-rich terrain 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.

CRA Exploration; EL2790; CR82-043

Reconnaissance drainage sampling (one per 13.5 km^2) 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 Exploration Activities (2001-2006)

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.

A short reconnaissance trip was made to Hammer Hill, Holstein's and West Gimlet in 2004. Six rockchip samples were collected from Hammer Hill for geochemical analysis and 3 samples were collected for petrographic examination. From Holstein's lodes, eleven rockchip samples were collected for mineralogy and seven composite rockchip samples, one from each lode, were collected for geochemical analysis. At Holstein's and West Gimlet a spectrometer was used to measure the thorium-specific radioactivity. The presence of thorium is considered to be diagnostic of the presence of REE mineralisation.

Geochemical results and petrographic analyses from Hammer Hill samples confirmed the presence of ultramafic rocks. Elemental ratios from microprobe analysis are consistent with those of known Ni-Cu deposits.

Assay results from the Holstein's rockchips show elevated Ce, La, Ba, P, Y and Th. Low Ca abundances relative to P suggests that monazite is probably an important mineral. Difference between analytical methods show that much of the REE-Th mineralisation is recalcitrant (relatively acid insoluble).

Surveys of discrete magnetic lows at West Gimlet did not reveal anything of interest.

4.3 Mithril Resources Work 2006/07

Mithril completed a number of phases of surface geochemical sampling programs during 2006 and a number of high quality Ni/Cu/Co anomalies were detected. These were followed up with five ground em traverses which indicated no conductive bodies in the basement. The EM did however indicate that airborne EM would be a viable exploration tool in the region.

5.0 Mithril Resources Work 2007/08

During the current reporting year a number of extensive exploration activities were completed over the project area. These included a 1325 line km VTEM survey, ground verification of targets generated followed by ground EM surveys over three targets. From this a number of high quality drill targets have been identified for drill testing.

The helicopter borne time domain VTEM survey was completed by Geotech Airborne Pty Ltd in September and October in 2007. Approximately 1325 line km were flown over the project area in an ENE-WSW orientation. Multiple quality targets (interpreted from the preliminary data) were identified and these are summarised in table 2 and highlighted in figure 2. At the time of writing the final data from this survey was not available and will be submitted as soon as possible after it is received by Mithril.

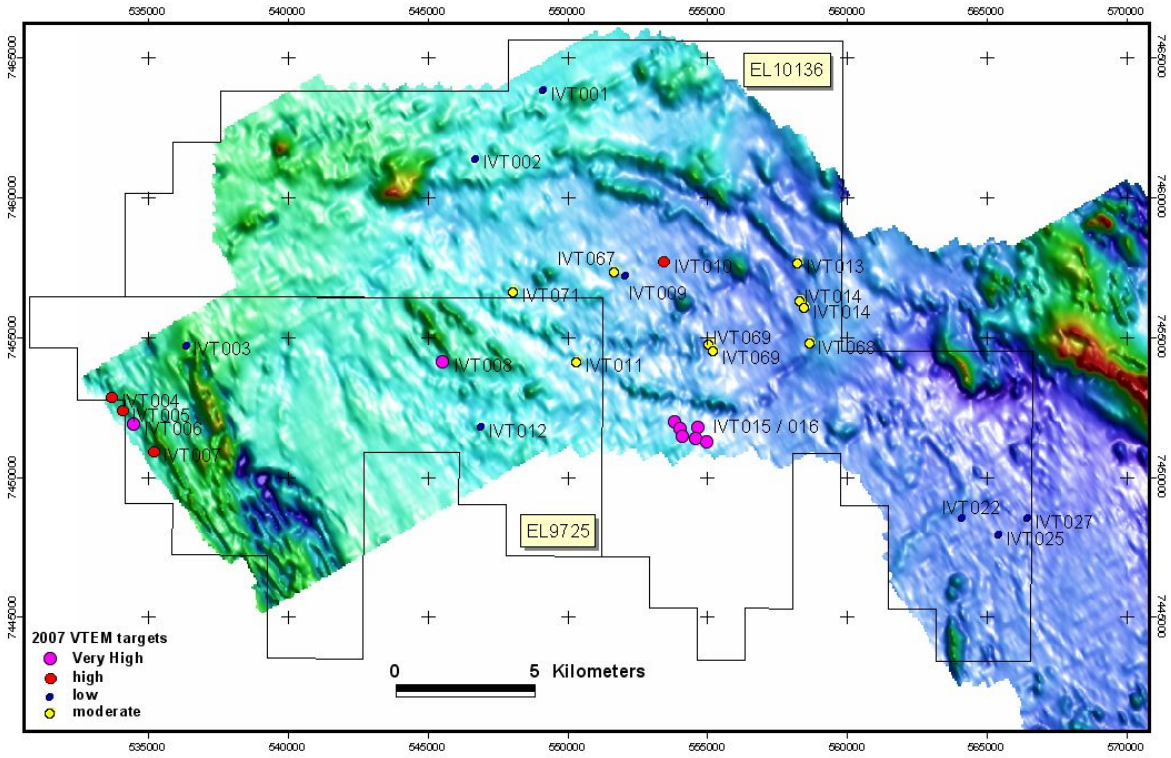

Figure 2: VTEM targets on 1vd magnetic from VTEM survey. Magnetic image indicates area covered by VTEM survey.

Many of these targets were followed up on the ground to determine if the source of the anomaly could be located. Due to the extensive sand cover in the area many of the anomalies are unexplained. A summary of the targets visited and surface observations can be found in table 3. Rockchip samples were taken at a number of locations with a number of them returning elevated nickel and chrome values. These sample locations and results can be found in Appendix 1.

During the reporting period three of the VTEM targets (IVT015,016 and 025) were followed up with ground EM for a total of 9.2 line km. A number of high quality conductive bodies were identified in the IVT015 and 016 areas with no basement conductors identified from IVT025. A summary report showing the ground EM lines and the modelled conductive targets are contained in Appendix 2. All ground EM data is contained in Appendix 3.

TARGET	LINE	EAST	NORTH	DESCRIPTION	PROBABLE SOURCE	RATING
IVT001	L10200	549153	7463830	Single line, late time slow decay within broad conductive response. No assoc. ma	Overburden	low
IVT002	L10230	546738	7461395	Low amp. Late time isolated response - no magnetic assoc	noise	low
IVT003	L10250	536374	7454720	High magnitude, late time isolated response - no magnetic assoc.	powerline noise	low
IVT004	L10260	533711	7452842	low magntitude , late time isolated response - no magnetic assoc.	bedrock	high
IVT005	L10280.1	534099	7452360	low magntitude , late time isolated response - no magnetic assoc.	bedrock	high
IVT006	L10300	534481	7451883	High magnitude, late time isolated response - no magnetic assoc.	bedrock	Very High
IVT007	L10340	535184	7450913	low magntitude , late time isolated response - no magnetic assoc.	bedrock	high
IVT008	L10420	545537	7454112	High magnitude, late time isolated response - no magnetic assoc.	bedrock	Very High
IVT009	L10440	552091	7457207	low magntitude , late time response within larger conductive feature- no magnetic	noise	low
IVT010	L10450	553450	7457668	slow decay on edge of broad conductive response, no mag assoc.	bedrock	high
IVT011	L10500	550337	7454120	low magnitude, late time isolated response, no mag assoc.	noise	moderate
IVT012	L10510	546924	7451805	low magnitude, late time isolated response, no mag assoc.	noise	low
IVT013	L10530	558244	7457650	late time low magnitude response within broad conductive overburden response, no	Overburden	moderate
IVT014	L10570	558335	7456312	late time low magnitude response within broad conductive overburden response, no	Overburden/IP effe	moderate

IVT014	L10580	558486	7456058	late time low magnitude response within broad conductive overburden response, no	Overburden/IP effe	moderate
IVT015	L10620	553824	7451979	late time low magnitude response, no magnetic assoc	bedrock	Very High
IVT015	L10630	554011	7451737	late time high magnitude response, no magnetic assoc.	bedrock	Very High
IVT015	L10640	554682	7451782	late time low magnitude response, no magnetic assoc	bedrock	Very High
IVT016	L10640	554099	7451442	late time low magnitude response, no magnetic assoc	bedrock	Very High
IVT016	L10650	554596	7451387	late time high magnitude response, no magnetic assoc.	bedrock	Very High
IVT016	L10660	554983	7451259	late time high magnitude response, no magnetic assoc.	bedrock	Very High
IVT022	L10890	564102	7448558	late time isolated high magnitude response, no mag assoc. Possible powerline cor	noise	low
IVT025	L10930	565443	7447945	late time isolated high amplitude response, no mag assoc, possible powerline asso	noise	low
IVT027	L10930	566468	7448536	late time low magnitude isolated response, no mag assoc	noise	low
IVT067	L10430	551702	7457342	Isolated High magnitude slow decay, some mag assoc	overburden	moderate
IVT068	L10620	558661	7454776	Isolated early-mid time response, no assoc mag	overburden	moderate
IVT069	L10560	555047	7454760	Isolated slow decay high amplitude response, no assoc mag, does not persist to la	overburden	moderate
IVT069	L10570	555221	7454519	Isolated slow decay high amplitude response, no assoc mag, does not persist to la	overburden	moderate
IVT071	L10390	548069	7456628	Isolated mid time shielded anomaly, no mag assoc.	overburden	moderate

Table 2: VTEM targets identified

Anomaly #	Project	EL	E (GDA)	N (GDA)	Outcrop	Outcrop type	Cover type	Comments
IVT003	HH	9695	536374	7454720	no		Colluvium(?)	Granitic terrain(?)
IVT006	HH	9695	534481	7451883	yes	Granite gneiss,mica schist,v. minor calc-silicates and amphibolites.		Outcrop so good, hard to see source of anomaly-saline water in creekbed?
IVT008	HH	9695	545537	7454112	no			Motor on bore
IVT016	HH	10136	554099	7451442	no		Colluvium,creek wash,minor windblown	
IVT015	HH	10136	553824	7451979	no		Creek sediments	Minor nearby creek has heavy mineral wash, some magnetic.
IVT068	HH	10136	558661	7454776	yes	Ridge of white chalcedonic silica replacing steep dipping host,strike approx 300.		Nearby highly weathered volcs(?) in creek, some minor Fe enrichment.
IVT069	HH	10136	555047	7455760	no		Alluvial red sand	
IVT067	HH	10136	551702	7457342	yes	Poor but silicified calc-silicate with abundant honeycomb fracturing, some Fe enrichment		No textural evidence of silic. volcs.,possibly carbonates.
IVT010	HH	10136	553450	7457668	no		Sheetwash sands.	
IVT025	HH	10136	565443	7447945	yes	Silicified highly altered layered dolomite(?), crosscutting low Fe veins. In part dark coloured fractured v. silic."crap rock".		Isolated "plug" of brecciated and silic. rock.May be of multiple origins but hard to determine. Suspect shallow subcrop around it.
IVT022	HH	10136	564102	7448558	no		Grassy sandplain.	

Table 3: Field visit locations and descriptions

Expenditure 6th Year of Tenure

In the 6th year of tenure, was spent on the Hammer Hill Project. EL 9725 and 10136 had covenants of $125,000 and $120,000, respectively. Both covenants were met.

Item	Cost
Salaries	11,787
Field costs	5,610
Vehicle costs	1,266
Computing/drafting	345
Geophysical surveys (airborne – VTEM)	93,154
Administration	14,801
TOTAL	**$126,963**

Table 4: Expenditure on EL 9725 for 6th year of tenure

Item	Cost
Salaries	19,553
Field costs	5,783
Vehicle costs	1,266
Computing/drafting	345
Geochemical assays	572
Geophysical surveys (airborne – VTEM)	140,596
Geophysical surveys (ground EM)	38,904
Administration	14,824
TOTAL	**$221,843**

Table 5: Expenditure on EL 10136 for 6th year of tenure

6.0 Conclusions/Future Work

It has been established that the VTEM airborne system has been effective over much of the project area in the identification of basement conductors. Ground follow-up of these conductive features has identified new silicified caps derived from ultramafic outcrops and high conductance bodies from the ground EM, the latter from targets IVT015/016. Drilling of these targets will occur in early 2008

7.0 Proposed Work Program 2008

Further work over the project area will consist of a heritage clearance survey over the drill target areas and it is planned for the drilling (RC and/or diamond)

to commence on IVT015/016 in March 2008. In parallel with this ground EM will continue to be conducted over selected VTEM anomalies identified from the final data once it is received.

Item	Cost
Drilling (RC/Diamond)	180,000
Analytical costs	30,000
Heritage surveys	15,000
Downhole and Ground EM	60,000
Geological mapping / geochemical sampling	20,000
Administration	30,000
TOTAL	**335,000**

Table 6: Proposed expenditure 2008