Report ARU-08/007

ANNUAL REPORT FOR YEAR ENDING 21/07/08, AC 74 KURINELLI, NORTHERN TERRITORY, AUSTRALIA

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INTRODUCTION

BACKGROUND

The Kurinelli goldfield is situated in the northeast Davenport Province in the central part of Northern Territory, 140 kilometres southeast of Tennant Creek (Figures 1-2). Gold mineralisation was discovered in the area over 100 years ago in 1898 by prospector/explorer Davidson (Davidson, 1905) but the region has been subjected to only limited, spasmodic attention since that time. Current activity by local prospectors in the area is directed towards recovery of gold nuggets from shallow alluvial and colluvial deposits using metal detectors. Several hundred to several thousand ounces of gold are estimated to have been recovered in this way over the past 10-20 years.

Historical activity centred on gold mineralisation within quartz veins which characteristically occur within interbedded sandstone/siltstone (Rooneys Formation) and conformable gabbro/dolerite. The two main mines were the Kurinelli Mine (former MCC59) and the Dempsey’s Choice Mine (MCC191). Historical production was about 400 ounces of gold.

The central part of the field covers an area of 8 x 20 kilometres. More scattered mineralisation is recorded in similar host rocks over an area in excess of 20 x 30 kilometres. The units which host the mineralisation also occur elsewhere in the Davenport Province.

Despite the presence of outcropping gold mineralisation, the Kurinelli goldfield has never been subjected to systematic exploration using modern geophysical and geochemical exploration methods developed in the past 10-15 years. Of particular importance is the fact that the area received little attention in the BLEG ‘gold rush’ of the 1980’s though it may have been covered in Australia-wide open range exploration of this type by one multi-national group.

This lack of activity over the past two decades can be attributed to a combination of factors which included:

- the subdued nature of the topography, the arid climate and a widespread thin cover of aeolian sand;
- fragmented exploration title over the area prior to 1994;
- a Reserve From Exploration (RE) over the entire field between 1994 and 1996 where title could only be held as mineral claims and mining leases (which resulted in even more fragmentation of ownership);
- a Reserve from Occupation (RO) between 1996-2004, where no form of mining or exploration tenure could be applied for or granted; and
- uncertainty in mining and exploration tenure in the Northern Territory especially between 1996-2002 because of the ramifications of the Native Title Act.

Although many companies have held tenure in the Davenport Province in the past, most work has been superficial, and drilling is notable for its almost total absence away from the old mining centre at Hatches Creek, which is about 20-30 kilometres south of the Kurinelli field.

Current interest in the area stems from the discovery in mid-late 1996 of highly elevated levels of nickel, platinum, palladium and gold in magnetic ironstone boulders which had been recovered by local gold miners. The boulders, which were up to 200 millimetres in diameter, were located by the use of metal detectors being employed by the local miners to find nugget gold in surficial deposits.
After an initial burst of excitement when a multitude of mineral claims were pegged by the local operators and smaller exploration companies, a suggestion arose that the ironstone boulders, rather than being nickeliferous gossan as had first been thought, were fragments of an iron meteorite. This idea gained some support from semi-formal reports mainly from academics at tertiary institutions and curators at museums. However, as acid-etching of specimens of Kurinelli ironstones revealed breccia and vein textures which seemed totally inconsistent with an extra-terrestrial origin for the ironstones, McCleary Investments Pty Ltd (MIPL, a predecessor of Arafura Resources) commissioned additional scientific studies to resolve the question of the origin of the boulders.

Investigations undertaken by MIPL were documented by Goulevitch (1997) and comprised:

- acid-etching of ironstones;
- conventional and ICP-MS/OES analyses of several ironstones;
- petrographic studies of polished sections from four ironstone boulders by reputable consultants;
- laser-ablation ICP-MS analyses on the polished sections;
- petrological review and description of doleritic and gabbroic rocks from the Kurinelli area;
- reconnaissance soil and lag sampling in the vicinity of the discovery, in particular within areas which had been pegged by MIPL and its associates;
- review of the regional geology and of aeromagnetic data from the region; and
- a search for relevant data in the open file company reports from previous exploration in the area.

Most of the investigations on the ironstones proved inconclusive but finally, in 1999, acid etching of ironstones provided by local occupant, Mr Colin Wessels, revealed unmistakeable triangular (octahedral) *widmanstatten texture* which is a diagnostic indicator of massive iron of meteoritic origin.

Despite this set back, the Kurinelli ironstones drew attention to the under-explored gold potential in the area and this became the main focus of attention of Arafura Resources as early as 1997. At that time, the NT Government, having already imposed an RO over the area in response to the intensive pegging activity in late 1996, called for expressions of interest from parties interested in undertaking more systematic and professional exploration over the central Kurinelli area and its immediate surrounds. Arafura’s application was successful but it would be another 7 years before Native Title and other tenure issues were resolved and Authority C74 granted in mid-2004. Arafura immediately embarked on a programme of regional geochemical soil sampling.

Initial results from the programme confirmed gold potential in the area and follow-up infill sampling was required to confirm the nature of gold anomalism. The results from the first year of exploration activities were reported by Goulevitch (2005). The results of follow-up more detailed systematic soil sampling programmes were reported in Hussey (2006).

The gold anomalism thus identified, an RC drill testing program was conducted in May – June 2006 to determine the relationship of the anomaly to the underlying bedrock. Results proved that the majority of geochemical anomaly is located above low levels of gold mineralisation within the bedrock. There where no economically significant intersections of gold mineralisation identified by this drill program.

In July – August 2007 an additional soil sampling program occurred 1km to the NE of 2006 RC drilling. 2635 samples at an infill grid of 25 x 50m were collected over an anomaly identified in earlier Phase 1 and 2 sampling. Results of this program are reported here in full.
LOCATION AND ACCESS

Kurinelli is located in the northeast Davenport Ranges, about 140 kilometres southeast of Tennant Creek in the Northern Territory (Figure 2).

Access to the Kurinelli area is via the unsealed Davenport Loop Road (DLR) which leaves the Stuart Highway 87 kilometres south of Tennant Creek and 27 kilometres north of the Wauchope Roadhouse. The Davenport Loop Road returns to the Stuart Highway 36 kilometres south of the Wauchope Roadhouse.

The northern access passes through Kurundi and Epenarra Stations situated 52 and 121 kilometres respectively from the Stuart Highway. Access tracks to Kurinelli lead from the DLR at a point 45 kilometres east of Kurundi (23 kilometres to Kurinelli Bore) and at Rooney Yard, 15 kilometres south of Epenarra (20 kilometres to Kurinelli Bore). At the request of the landholder access was via a track just south of Rooney Yard. The southern DLR access passes through Ali Curung and Murray Downs Station reaching the abandoned mining town of Hatches Creek 129 kilometres from the Stuart Highway. Rooney Yard is another 49 kilometres north from Hatches Creek.

Bush tracks and graded fence lines provide access across AC 74 and cross-country 4WD vehicle passage is possible to many areas.

The Kurinelli area is generally inaccessible between January to April each year as seasonal rainfall, scattered though it may be, regularly makes different sections of the DLR and local access tracks impassable.

TOPOGRAPHY AND DRAINAGE

The Kurinelli project area is located near the northeast margin Davenport Range in central Australia. Topography within AC 74 is largely subdued with most of the area at an elevation of 335-400 metres AHD (Figure 2).

The southern part of AC 74 borders the foothills that form the main spine of the Davenport Range and the proposed Davenport National Park. The land surface gradually slopes away from the Davenport Range, from about 380-420 metres AHD in the south to about 335 metres AHD adjacent to the Frew River which drains along the eastern side of the title. The Frew River drains to the north and is sourced in the Davenport Range south of the title. Lennee Creek, a major tributary of the Frew River, also drains the range country to the southwest and passes through the southern part of the title. The western and northwestern portion of the title is drained by Blackfellow Creek and then Whistleduck Creek which drains north across the title.

North trending lines of low hills, which parallel erosionally different basement rock units, occur in the west of AC 74 with peak heights to about 415 metres AHD NW of Kurinelli Bore (“Outstation”). Less extensive NNE trending ridges of similar height occur in the centre of the title to the SE of Kurinelli Bore and more isolated knolls of lesser height (peak 378 metres AHD) occur in the north and east of the tenement.

Numerous permanent and semi-permanent waterholes occur in the Frew River, Lennee Creek, Blackfellow Creek and Whistleduck Creek but the watercourses only flow for short periods after heavy summer rain.
CLIMATE AND VEGETATION

The Kurinelli area is relatively arid with an average annual rainfall of about 300 millimetres. Most of this falls in the period between December and March when the remnants of monsoonal tropical lows and cyclones can pass across the area and deposit several hundred millimetres of rain in a few days. Otherwise the area relies on intermittent summer storm rain. Peak average monthly rainfall is in February.

Maximum temperatures peak at over 40°C in summer and minima below 10°C are common in winter. Occasional frosts can occur.

“Spinifex with low trees and shrubs is the most abundant vegetation. Small patches of turpentine bush on rocky ridges and mulga and gidgea in depressions are common locally. Eucalypts line some of the larger watercourses, especially near waterholes. A variety of grasses grow on plains and valley floors”. (Blake et al., 1986)
SUMMARY

A total of 2635 infill soil samples were collected over an anomaly identified during previous Phase 1 and 2 soil sampling programs. The 25 x 50m grid was located 1km to the NE of 2006 RC drilling area. This round of soil sampling (Phase 2E) was completed to better constrain previously identified anomalies and to generate new exploration targets.

All sampling was located within the boundaries of previous soil sampling programs, with no samples being collected from within exclusion zones around Aboriginal sacred sites advised by the Central Land Council. No samples were collected from within granted mineral claims, and priority applications for mineral claims, held by unrelated parties without their permission.

Results of Phase 2E indicated a NE trending band of anomalous results along a strike length of 2km.

- highest average gold-in-soil assay was 2.51ppm Au
- 16 sample sites returned average gold-in-soil assays >100 ppb Au
- about 20% of sample sites produced anomalous results (>10ppb Au)

The soil sampling program better constrained the previously identified geochemical anomaly, with some elevated Au results returned. Overall the geochemically sampling program served its purpose, further defining the known extent of a gold-in-soil anomaly refining target areas for follow-up evaluation and exploration.
TENURE

MINING/MINERAL RIGHTS

Authorisation C74 of 226 blocks (677 square kilometres), which encompasses Reserve from Occupation 24323, was granted to Arafura Resources NL in accordance with Section 178(2) of the Mining Act on 22 July, 2004, for a period of six years. Conditions specified in the grant document are essentially the same as those which apply to Exploration Licences with the exception that any subsequent mineral claims or authorisations granted to other parties will be restricted to a maximum depth of 5 metres to ensure that bona fide prospectors and local miners are not unduly prevented from carrying on activities directed at the recovery of gold nuggets. Such mineral claims or authorisations shall not exceed the size of an existing mineral claim or authorisation surrendered prior to the grant of a new claim or authorisation.

At the date of grant the area of AC 74 was effectively reduced by the area of 9 granted mineral claims held by third parties and 16 applications for mineral claims by third parties, all of which titles pre-dated Arafura’s expression of interest in the area. Should any of these be surrendered or cancelled their ground will become available to the holder of AC 74. The combined area of these titles and applications is less than 600 hectares.

Four granted mineral claims, (MCC 950-953; 68 hectares), and two options to purchase from Mr B. Rayner, (MCC 22798-22799; 31 hectares), are also held by Arafura within the area of AC 74.

AC 74 was reduced to 113 blocks for the third year of grant. All 113 blocks were retained in year 4.

LAND TENURE

Background land tenure under AC 74 is part of:

- Kurundi Station, Perpetual Pastoral Lease 1109 - NT portion 716, owned by Brenda Marie SAINT of Kurundi Station, PO Box 508, TENNANT CREEK 0861 (Ph: 89641516 Fax: 89641964)

The boundary between Kurundi Station and Epenarra Station (PPL 1206; Fax 89641552) is located within a few hundred metres of the northern boundary of AC 74.

The southern and southwestern boundaries of AC 74 follow the boundary between Kurundi Station and the proposed Davenport National Park (Crown Lease Perpetual 1117) (Figure 2).

NATIVE TITLE

A registered native title claim is in place over Kurundi Station:

- D6017/01 - DC01/017 Kurundi, C/- Central Land Council

Arafura Resources has negotiated and executed an Exploration Agreement with the Central Land Council (on behalf of registered Native Title Claimant Groups). AC 74, adjacent EL 9701 and MCCs 950-953 are subject to this agreement. As a result, there are no Native Title impediments to
continued exploration on these titles other than holding appropriate consultations, avoiding sacred sites and, in due course, paying agreed amounts of financial compensation.

In accordance with Condition 6 of the Second Schedule attached to the grant documents of AC 74, the registered native title claimants were invited to a meeting held in Hatches Creek on 18 August, 2004, to explain the exploration programme which is the subject of this report. 20-25 indigenous persons and several CLC representatives attended the meeting. This also constituted the “introductory meeting” required by the Exploration Agreement (see below).

Should mining eventuate within the area of AC 74, a mining compensation agreement will have to be negotiated both with the holder of the pastoral lease in accordance with the Mining Act, and also with the registered Native Title Claimants in accordance with the Right To Negotiate provisions of the Native Title Act. A mining tenement can only be granted where an appropriate Native Title agreement is emplaced. The terms of the Exploration Agreement provide for continuation of exploration on the area of the proposed mining tenement while the mining agreement is being negotiated with the registered Native Title Claimants.

**ABORIGINAL SACRED SITE CLEARANCES**

Prior to the commencement of soil sampling activities in 2004 an Aboriginal Sacred Sites survey was conducted over the area of intended activity by members of the relevant Native Title Group. The survey was coordinated by Anthropologist, Mr Phil Lancono, and Mining Officer, Ms Julie-Ann Stoll, of the Central Land Council. The CLC subsequently advised Arafura of the location of exclusion zones around identified sacred sites and these areas were avoided during the sampling programmes other than where they overlapped with existing roads and tracks. The exclusion zones also encompassed all sites listed on the Sacred Sites Register of the Aboriginal Areas Protection Authority (AAPA).

The sacred sites clearance issued by the CLC is effective for “Phases 1-3” of exploration at Kurinelli as defined in correspondence from Arafura to the CLC dated 22 June, 2004. Phase 1 (soil sampling) was completed in 2004. Phase 2 was completed in two stages in April-May and October-November, 2005. Phase 3 is RAB or RC drilling of identified targets. Prior to the commencement of Phase 3 detailed location plans and work programmes have to be submitted to the CLC in accordance with the provisions of the Exploration Agreement.

In accordance with the provisions of Arafura’s Exploration Agreement, the CLC and the relevant Native Title Group were invited to a meeting in March 2006 to explain and detail the proposed drilling programme planned as part of Phase 3 exploration activities in the Kurinelli project area. The proposed drill sites and the surrounding area were subjected to a further assessment by the CLC and Native Title claimants for the purpose of Sacred Site avoidance, the result of which were reported to Arafura in April 2006, prior to commencing earthworks for the 2006 RC drilling program.
GEOLOGICAL SETTING

REGIONAL GEOLOGY
(after Hussey, 2007)

Prospective basement rocks in the Kurinelli Project Area are part of the Palaeoproterozoic Ooradidgee Group within the Davenport Province of the Tennant Creek Region in central Northern Territory. The geology of the Davenport Province was first described in detail by Blake et al. (1987) but their description and maps have been modified since that time, most recently by Donnellan (2004) and Donnellan and Johnstone (2002, 2004) after close-spaced low level airborne geophysical surveys were completed over the region. The following summary is written mainly with reference with the 1:500 000 scale Tennant Creek Region maps of Donnellan (2002) and Donnellan and Johnstone, (2004) and to a lesser extent with the 1:250 000 scale Davenport Province map of Blake et al. (1988).

“The Tennant Creek Region is a composite term used for the pre-Barramundi basement (Warramunga Province) and the unconformably overlying Palaeo- to Mesoproterozoic North Australian Platform Cover successions of the Davenport and Ashburton provinces to the south and north respectively. To the east and west the Palaeozoic Georgina and Wiso basins overlie the Tennant Creek Region.” (NTGS website, February, 2005)

In the central Tennant Creek Region, volcaniclastic/volcanic rocks and flysch sediments of the Warramunga Province were intruded by granites and deformed by the Tennant Orogeny at ~1850 Ma. These units and intrusives are unconformably overlain by relatively undeformed and predominantly sedimentary successions of the Ashburton Province to the north and mildly deformed and metamorphosed sedimentary and volcanic successions of the Davenport Province to the south. (after NTGS website, February, 2005)

The basal unit in the Davenport Province, the Ooradidgee Group, crops out predominantly in a discrete inlier (here termed the “Kurinelli Block”) some 85 x 50 kilometres in extent centered on the Kurinelli area. The Kurinelli Block, which is evident as a discrete magnetic/gravity domain in geophysical images (Donnellan, 2004; Donnellan and Johnstone, 2004), is bounded to the south by the overlying sequences of the Hatches Creek Group and to the north and east by Cambrian, Cainozoic and Recent sediments. An intrusive plug of “Devil’s Suite” granite (1710 Ma, Donnellan and Johnstone, 2002; here termed the “Hanlon Creek Granite”), some 10-15 x 25 kilometres in extent (obscured for the most part by a veneer of the younger sediment listed above), largely defines the eastern limit of the lower Ooradidgee Group units in the Kurinelli Block but upper Ooradidgee Group rocks have been mapped to the east of the granite. The presence of the Hanlon Creek Granite is clearly demonstrated on aeromagnetic images of the region by a domain of uniformly even magnetic character with coincident low Bougeur gravity response (Donnellan, 2004; Donnellan and Johnstone, 2004).

Lesser exposures of the Ooradidgee Group occur in major anticlinal domes near Kurundi and Wauchope in the Murchison and Davenport Ranges, 50-80 kilometres west of Kurinelli; at Hatches Creek, Skinner Pound and Murray Downs in the Davenport Range, 30-50 kilometres south of Kurinelli; and at Newlands Creek, 100 kilometres to the southeast of Kurinelli. However, it is only in the Kurinelli Block and at Newlands Creek that oldest sediments of the Ooradidgee Group, the Rooneyes Formation, are exposed and, in the Kurinelli area, it is this unit, and dolerites which intrude this unit, that hosts the known gold mineralisation.
In the Kurinelli Block, the lowest exposed units of Ooradidgee Group are the Epenarra Volcanics and the Rooneys Formation. According to Blake et al. (1987), the Rooneys Formation is conformable on and interfingers with the Epenarra Volcanics but the relationship between these units is not clear on published maps of the area where they are shown to be separated by, and overlain by the Kurinelli Sandstone. Elsewhere in the Kurinelli Block the Epenarra Volcanics are separated from the Kurinelli Sandstone by the Edmirringee Volcanics, and the Kurinelli Sandstone is overlain by the Taragan Sandstone and the Treasure Volcanics. Map codes, thicknesses (Blake et al., 1987) and descriptions of rock components of these units are listed in Table 1.

The units of the Oorididgee Group are intruded by dolerite (Pdl) and dioritic to rhyolitic granophyre (Pgy). According to Blake et al. (1987) the mafic intrusions consist of fine grained dolerite ranging to coarse gabbro, they are generally altered, and they are not present any higher in the sequence that the lower part of the Wauchope Sub-Group (lower Hatches Creek Group) which unconformably overlies the Oorididgee Group. Outcrop and magnetic patterns suggest that some of the dolerites consist of folded stratiform sheets (Donnellan and Johnstone, 2002) and this is especially the case where the dolerite (?sills) intrude the Rooneys Formation in the middle of the Kurinelli Block. It would seem from this that intrusion of dolerite sills in the Kurinelli Block preceded regional deformation and metamorphism of the Oorididgee Group and some may have been associated with “Treasure Suite” volcanism in late Oorididgee times (1820 Ma, Donnellan and Johnstone, 2002).

**TABLE 1: Description of Oorididgee Group units in the Kurinelli Block.**

<table>
<thead>
<tr>
<th>OORIDIDGEE GROUP UNITS</th>
<th>THICKNESS (m)</th>
<th>CODE</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasure Volcanics</td>
<td>0-&gt;1800</td>
<td>Pot</td>
<td>rhyolitic to dacitic lava and pyroclastics including ignimbrite, felsic intrusives, feldspathic/lithic arenite, quartz arenite, minor basaltic lava</td>
</tr>
<tr>
<td>Taragan Sandstone</td>
<td>0-&gt;1000</td>
<td>Poa</td>
<td>feldspathic/sublithic arenite, quartz arenite and conglomerate, minor siltstone, mudstone and altered felsic lava</td>
</tr>
<tr>
<td>Edmirringee Volcanics</td>
<td>0-2500</td>
<td>Pog</td>
<td>basaltic lava, minor volcaniclastic arenite and felsic lava</td>
</tr>
<tr>
<td>Kurinelli Sandstone</td>
<td>0-2600</td>
<td>Pok</td>
<td>subarkosic/lithic arenite, quartz arenite, siltstone and minor felsic and mafic lava and tuff</td>
</tr>
<tr>
<td>Epenarra Volcanics</td>
<td>0-&gt;3000</td>
<td>Por</td>
<td>felsic lava and pyroclastic rocks including ignimbrite and lapilli tuff, volcaniclastic arenite and conglomerate, minor mafic lava</td>
</tr>
<tr>
<td>Rooneys Formation</td>
<td>0-&gt;1200</td>
<td>Pon</td>
<td>greywacke, siltstone, subarkosic/sublithic/lithic arenite, minor felsic porphyry; locally schistose</td>
</tr>
</tbody>
</table>

**LOCAL GEOLOGY**

AC 74 covers a large part of the central core of the Kurinelli Block. The Palaeoproterozoic basement rocks of the Kurinelli area are dominantly arenites and siltstones of the Rooneys
Formation with intrusive sills of dolerite and gabbro bordered to the northwest, west and southeast by Kurinelli Sandstone. To the south and northeast the basement rocks are obscured by surficial deposits of Cambrian, Cainozoic and Holocene ages.

Most economic interest in AC 74 derives from the area underlain by the Rooneys Formation and associated intrusive dolerite sills which attain apparent thicknesses of up to 800-1000 metres. In discontinuous outcrops, the Rooneys Formation and dolerites occupy an area that is some 20 kilometres long in a northeast-southwest direction tapering from 10 kilometres wide in the northeast to less than 2 kilometres in the southwest. On the basis of a distinctive aeromagnetic signature, this area is shown to be about 27 kilometres long and comprise an area of about 200 square kilometres. This area is referred to here as the “Kurinelli Zone” and it hosts all of the known gold mineralisation in the Kurinelli field.

The southeast limit of the Kurinelli Zone is defined by a major east-northeast trending fault structure along which discontinuous lenticular quartz ridges are developed. This has been mapped over a strike length of about 50 kilometres and, in aeromagnetic imagery, it coincides with a lineament which can be traced over a distance of at least 75 kilometres and as much as 150 kilometres. Part of the structure where it traverses AC 74 is clearly evident in the magnetic image. Field observations suggest that the structure dips shallowly to the southeast and that the same structure forms the western boundary of the Kurinelli Zone where it dips shallowly to the west and northwest. One interpretation of the Kurinelli Zone is that it occurs as a domed klippe of older basement rocks bounded to the southeast, west and north by a single shallow outward dipping thrust fault. Alternatively the southeast and west boundaries can be interpreted to be arcuate splays from a semi-regional southwest-northeast trending fracture system.

Approximately 70% of the area in the Kurinelli Zone is obscured by Quaternary deposits. Some of these areas may be underlain by a thin veneer of flat lying Cambrian carbonate sediments of the Georgina Basin sequence, and probably also by Tertiary silcrete and ferricrete. Substantial calcrete development can be seen in the upper 3-5 metres of both dolerite and dolomitic/calcareous siltstone beds of the Rooneys Formation. Development is likely related to evaporation of groundwater during the Tertiary (Blake et al., 1986).

Gold mineralisation at Kurinelli is historically associated with quartz vein-swarms and reefs. Prospectors identified large nuggets near reefs that dwindled in size with distance away from the reef. Sampling of waste rock around old workings indicates gold is more intimately associated with alteration zones in dolerite and contact margins with Rooneys Formation sediments. Linear alteration trends, (020° and 120°), in dolerite are broadly similar to anomalism trends of gold in the area. The geological map used in Figure 3 is not accurate at a local scale and presents northwestern sample sites on dolerite which is incorrect. For accurate geological interpretation refer to McGilvray (2006). Hornfelsed sediments in the east are also anomalous in gold. Quartz reefs are coincident with minor gold anomalism.
PREVIOUS INVESTIGATIONS

PRIOR TO 1996

The following summary of exploration activity in the area prior to Arafura’s involvement was prepared by Drummond (2001-2003).

Kurinelli is an historical Au mining region, with the first activity undertaken in the 1890’s. In subsequent times a number of small shafts were sunk and a small stamp mill was operational in the 1950’s. The field has received scant attention by scientific exploration - possibly because its importance has only recently been emphasised by the significant Au production, from a large area, by prospectors using metal detectors. Discussion with them leads to the conclusion that about 150 kg have been recovered in the last few years.

Review of Historic Exploration

(a) Gold & Mineral Exploration N L (1972 - 74) EL633. CR75-123

This tenement was in the Kurinelli area. Work done was essentially of a prospecting nature, with bulldozer costeaning. In that time of low Au price and no effective geochemical or geophysical techniques available, their effort was unsuccessful. Evaluation of a small Cu show (locality uncertain) did not provide encouragement.


The original tenement covered some 1300 sq km, being the central part of the Davenport Ranges, including much of Arafura’s ELs 9710 and 9711. The first year’s work consisted predominantly of prospecting and visiting known Au occurrences. Analogies to Telfer were drawn. In the second year reconnaissance surface sampling of various prospects and an introductory stream sampling programme was carried out - neither of which advanced matters much. By the third year, effort was being concentrated around Arafura’s Kurinelli Project area in consequence of the returns from prospectors’ metal detecting. Mapping programmes, rock chip sampling and costeaning were initiated which emphasised that Au seemed to be preferentially associated with sediment and dolerite/gabbro contacts especially where brecciation is evident. There was additional work to the south of the field and out of the Kurinelli Zone around the Aztec and Great Davenport prospects.

Poorly ground-located rock chip sampling over basal Treasure Volcanics in the south west of EL9711 is viewed as most encouraging by Drummond. Twenty-metre composite rock chips returned values of 1.04 g/t and 0.41 g/t Au: an indication for potential for higher bulk Au deposits, rather than confinement to narrow quartz veins.


This small tenement (4 blocks) was centered around an Au show which is situated about 4 km south of the old Kurinelli battery. Sampling around it produced disappointing results, with only one of 10 samples returning better than 1.0 g/t. Trenching and bulk sampling were undertaken, but the latter was not processed. Interestingly, this is the first report which mentions carbonate cementation in the weathered zone and the observation of calcrete. Soil sampling was undertaken over a small prospect 7 km south of the battery with no real
encouragement, but the sampling was over a small area, and utilised a technique possibly not sufficiently sensitive, in Drummond's opinion.


This small tenement (12 blocks) occurred in the southern part of the Kurinelli zone. Most of the tenement has an alluvial cover and Wellington undertook no exploration designed to test the cover, or through it. It examined outcropping reef mineralisation elsewhere in the field and decided that the quartz reefs were narrow and lacked the structural setting and alteration associated with significant mineralisation.


The tenements occupied the northern 60% of Arafura's AC74. The target was to discover new quartz veins in the poorly outcropping district by using ground magnetics and refraction seismic and mapping. Broadly spaced soil BLEG was undertaken and it indicated significant anomalism. Shields' BLEG predominantly covered areas in the south-west corner of AC74, and to the north-east of it centred around 20°33'S, 135°08E: these areas did not return anomalous (i.e. >1.0 ppb Au BLEG) assays. However traverses which generally lie in the east of RE1345 were consistently anomalous. The more southerly traverse returned six consecutive anomalous values - averaging 5.5 ppb - over a traverse of almost 4 km. The traverse to the north-east returned six anomalous readings from eight sites over almost 6 km: the eight samples averaged 3.8 ppb. An outlying sample at 20°34'S, 135°05'E returned 107 ppb. Drummond considers that this highlights the extent of mineralisation in the Kurinelli Zone beyond areas of known surface gold accumulation. It also demonstrates the usefulness of the soil BLEG survey technique in the area. The areas which did not return anomalous Au in Shields' programme may simply require sample collection below transported alluvium. Shields also noted that it may only be sub-sections of a quartz reef system that might be mineralised, citing examples such as Woods Point and Walhalla in Victoria.


This small EL was centred around an old Au show mapped 6 km south-east of the Great Davenport mine. Of 35 stream sediment samples panned or tested in a Au wheel some 16 returned either a trace or a colour. This indicates the general Au anomalism at the southern wedge-out of the Kurinelli zone.

(n) BHP Gold Ltd/Newcrest Operations Ltd 1991. Various EL Applications

In 1991, during a corporate and operational transitional change between Newcrest and BHP Gold, the former applied for Exploration Licences which covered almost all of the Davenport Ranges, and extended south-easterly sufficiently to cover Arafura's Supplejack Project. Before the tenements were granted BHP Gold undertook an extensive stream sediment sampling programme and samples were assayed by BLEG techniques for precious metals, and by conventional techniques for base metals. Although BHP Gold defined anomalous areas for follow-up, the project was terminated before any of the Exploration Licences was granted and there were no reporting requirements to NTDME.
Newcrest kindly provided access to its report which does not include the raw assay data. Rather it mainly consists of plots, on a per element basis, of the assay results which BHP Gold considered to be anomalous. Accordingly Drummond has accepted, and considers it reasonable to do so, BHP Gold's definitions of anomalism without being able to undertake any independent checking of the data or the statistical analysis.

General conclusions which can be drawn from a study of BHP Gold's results are as follows,

1. **Gold**

The Kurinelli Sandstone, to the south-east of the Great Davenport mine, and beyond the Kurinelli Zone, is anomalous over about 20 sq km. Despite its evident Au mineralisation, the Kurinelli Zone generally did not provide much anomalism. But this is presumably due to the fact that its north-eastern part, i.e. beyond 1 km north-east from the old battery site, was not sampled. Additionally the south-western part is known to be covered by thicker alluvium.
INVESTIGATIONS BY ARAFURA RESOURCES

Initial activities undertaken by Arafura Resources and its associates in 1996 and 1997 have been described by Goulevitch (1997) as:

- acid-etching of ironstones;
- conventional and ICP-MS/OES analyses of several ironstones;
- petrographic studies of polished sections from four ironstone boulders by reputable consultants;
- laser-ablation ICP-MS analyses on the polished sections;
- petrological review and description of doleritic and gabbroic rocks from the Kurinelli area;
- reconnaissance soil and lag sampling in the vicinity of the discovery;
- review of the regional geology and of aeromagnetic data from the region; and
- a search for relevant data in the open file company reports from previous exploration in the area.

Summary of Phase 1 (September – December 2004)

Systematic regional and local geochemical soil sampling was completed over the Kurinelli Zone in September 2004 (Goulevitch 2005). A total of 821 samples were collected from 782 sites spaced 500 metres apart on lines also spaced 500 metres apart. An area of approximately 200 square kilometres was covered by the survey. No samples were collected from within exclusion zones around Aboriginal sacred sites advised by the Central Land Council or from within granted mineral claims, and priority applications for mineral claims, held by unrelated parties.

Two soil size fractions were collected at each site. A -80# fraction which was subsequently analysed for Cu, Pb, Zn, Co and Ni; and a -2 millimetres fraction which was analysed for low level Au, Pt and Pd.

Numerous elevated gold values were obtained. From the 782 sites sampled,

- 149 sites (19%) returned a value of 2 ppb Au or more;
- 39 sites (5%) returned a value of 5 ppb or more;
- 14 sites (1.8%) returned a value of 10 ppb Au or more;
- the highest value was 234.5 ppb Au at site 137180;
- the second highest value was 40.5 ppb Au; and
- 437 samples returned less than the detection level of 1 ppb.

Results of 10 ppb and more appear to be distinctly anomalous, and results of 3-10 ppb Au appear to be possibly anomalous. The results define a coherent zone of elevated gold-in-soil covering an area of about 25-35 square kilometres. Elevated levels of gold-in-soil surround all known areas of past gold mining activity and a halo of 1-2 ppb Au surrounds the bulk of the higher results.

The zone of elevated gold includes several areas which are considered anomalous. The largest of these is approximately 6 kilometres long and up to 2.5 kilometres wide. This anomalous zone envelops Arafura’s granted mineral claims in the area (MCNs 950-953).

Resampling in December, 2004, at and around the site of the highest value, returned results between 5-38 ppb Au and while this work has not reproduced the original result (291/178 ppb Au), the overall Au level around the site (average 13.5 ppb Au) fully supports the broad zone of gold
anomalism defined in the initial sampling and it is entirely consistent with the adjacent results from that initial sampling.

Geological reconnaissance in the vicinity of sample site 137180 has located an array of ferruginous quartz veins, a chip sample from which returned gold assays of 0.36 and 0.44 g/t Au. This appears to represent the first demonstrated occurrence of hard-rock gold mineralisation at Kurinelli well removed from massive quartz reefs which are the source of nuggety gold recovered over the past 15-20 years using metal detectors.

Overall, the 2004 soil sampling programme at Kurinelli has been successful both in defining a broad area of basement gold anomalism, and thus significantly reducing the area of the Kurinelli Zone that can be considered prospective for basement gold mineralisation (from about 200 square kilometres down to 25-35 square kilometres); and also in identifying several specific targets within that reduced area for the next phase of follow-up investigation.

Peak Pt and Pd values of 3 and 4 ppb respectively were obtained from different samples and while these do not appear anomalous, limited follow-up sampling around the respective sites is probably justified.

Peak results for base metals were:

- Cu – 101 ppm - average 16 ppm excluding 14 samples below DL of 1 ppm;
- Pb – 31 ppm - average 10 ppm excluding 403 samples below DL of 5 ppm;
- Zn – 71 ppm - average 19 ppm excluding 5 samples below DL of 1 ppm;
- Ni – 76 ppm - average 25 ppm excluding 1 sample below DL of 2 ppm;
- Co – 49 ppm - average 11 ppm excluding 175 samples below DL of 2 ppm;

None of the base metal results appear anomalous.

**Northern Territory Geological Survey**

The whole of the Kurinelli Block was included in the NTGS’s Bonney Well airborne geophysical survey which covered the Bonney Well and Frew River 1:250 000 map sheets. The survey was flown in 1999 and involved low level acquisition of terrain, magnetic and radiometric data on lines spaced 400 metres apart.

Over AC 74, and more specifically, the Kurinelli Zone, Arafura Resources financed infill flying at 200 metres line spacing. This closer spaced information remains the proprietary information solely of Arafura at the date of this report.

**Summary of Phase 2A – 2D results (April 2005 – July 2006)**

Results of Phases 2A-2D soil sampling are reported in Goulevitch (2005) and Hussey (2006). These soil sampling programs confirm the presence of a significant gold-in-soils anomaly at Kurinelli, with the main anomalous zone being about 2.5 x 6 kilometres. This zone corresponds to basement areas of historic mining and colluvial/elluvial zones worked by prospectors with metal detectors in the past 20 or so years. The results characterise and better define the gold-in-soil geochemical anomalous zone at Kurinelli and appear to support the validity of the sampling protocols employed at Kurinelli by Arafura.
Numerous elevated gold values were obtained in Phases 2A-2D. Of the 2592 sites sampled:

- 2242 sites (86.5%) returned a value of 2 ppb Au or more;
- 1477 sites (57.0%) returned a value of 5 ppb or more;
- 785 sites (30.3%) returned a value of 10 ppb Au or more;
- 29 sites (1.1%) returned a value of 200 ppb Au or more;
- the highest value was 5020 ppb Au;
- the second highest value was 4020 ppb Au; and
- 221 samples returned values less than the detection level of 1 ppb, all of which were collected in Phase 2A.

These results of Phase 2B, 2C and 2D are encouraging and additional soil sampling and testing is recommended across the remainder of the anomalous zone.

**Summary of Phase 3A (May – July 2006)**

A total of 3597 metres in 57 slimline reverse-circulation percussion drill holes (Phase 3A) were completed in AC 74. Phase 3A was targeted to test the extent of the Au-in-soils geochemical anomalism identified by detailed (25 x 50 metre-spaced) soil sampling programmes within phases 2B and 2C.

The results of Phase 3A are reported in Hussey (2007). No wide coherent zones of economic gold mineralisation were identified in Phase 3A. Despite this, numerous anomalous gold intercepts were identified at depth, with the following 2-metre composite results:

- maximum 2-metre intercept was 6.77 ppm Au from 44 metres in KNRC019
- 9 x 2-metre intercepts were above 1.0 ppm Au
- 19 x 2-metre intercepts were above 0.5 ppm Au
- best individual assay was 47.2 ppm Au in a 1 metre sample in KNRC019

The drill testing of anomalous Au-in-soil zones was generally successful with anomalous Au mineralisation identified at depth in more than half of the exploration holes. This suggests that most of the gold in the soil profile is probably locally derived, particularly in the western parts. Results in the southeast were disappointing and suggest that some of the Au may be transported.
WORK COMPLETED IN PREVIOUS YEAR

2007 Soil Sampling program (Phase 2E)

A significant NE trending Au-in-soil geochemical anomaly was identified to the NE of the 2006 RC drill testing area in earlier soil sampling programs. A 25 x 50m soil sampling program was designed to test and better constrain the previously identified Au-in-soil anomalism in this area.

In July – August 2007, 2635 soil samples were collected over a NE trending gold-in-soil geochemical anomaly (Phase 2E). The survey was planned as two separate areas (east and west) however, for logistical reasons, all samples were collected in one campaign (Phase 2E). Sample locations are identified in Figures 2 and 3. Sampling techniques and methodology remained consistent with those used in past soil sampling programs. Detailed geological logs and sample location descriptions are included in Appendix 1.

Geological observations on the probable source rock at the B/C soil horizon were routinely logged and mapped during the soil sampling program. The interpreted geological map of this area is shown in Figure 3.

Sampling Techniques

Identical sampling techniques have been used in all soil sampling programs at Kurinelli. At each sample site on the grid a small hole was dug using a pick and shovel to approximately 30 – 50cm depth where a colour or textural change indicated the B/C horizon in the soil profile to be sampled. The depth of each hole was determined by the thickness of the soil profile. At this depth a 500g sample was acquired by manually sieving the soil through a -2mm mesh sieve.

The environmental impact of this program was kept to a very low level with small samples removed and accounted for on a daily basis. All holes were immediately backfilled after the sample was collected.

Site Preparation

Only minimal preparation was required onsite. The 25 x 50m infill grid was walked out and sampling locations marked. Markers where then collected were possible after sampling. Existing tracks where utilised to access the majority of areas.

Surveying

The majority of sampling locations were identified with ±10cm accuracy using a differential GPS. During a period of minor instrument malfunction, some of the sites where accurately located by tape measure from existing grid markers.
Field sampling/Quality control

Duplicate samples were collected approximately every 20 samples. The duplicate sample was taken using the exact same sampling methodology and assayed using the same techniques. Duplicate samples were a different sample ID number to the primary sample and were collected from the same hole.

Exploration Operations Management Plan/Site Rehabilitation

As previously stated, minimal environmental impact was caused during sampling. All holes dug were immediately backfilled. Traversing and sampling operations were largely conducted on foot with minor vehicle support. No additional rehabilitation needs to occur as a result of this sampling program.

Following the 2006 RC program it was requested by the landholders that the levelling of drill pads back to the previous landform shape be put off to a later date. This was due to the rapid revegetation of these areas. This rehabilitation is planned and will be completed in consultation with the landholder.

Geological Logging

A brief descriptive geological log was made at each sample site Appendix 1. The logs describe the soil, landscape, sample depth and provide an indication of the basement rock at that location. Most logs were completed by site geologist Sarah Dixon.
RESULTS AND DISCUSSION

GEOCHEMICAL RESULTS

Chemical Analyses

All samples were analysed for low-level gold by North Australian Laboratories in Pine Creek, Northern Territory. Sample submission sheets and the assay results are included in Appendix 2. A 50g sub-split of the milled assay sample was used for fire assay/AAS gold determinations. Elevated values were re-assayed to repeat the result. Due to significant differences, up to 4 additional 50g sub-splits were assayed as laboratory duplicates. Determination limits were 0.5 ppb Au.

After complete cleaning of sample preparation equipment, the entire -2mm samples were dried and pulverised by NAL to p80-100 microns in clean Keegor Mills after which blanks and standards were inserted as appropriate and fire assay prills prepared from 50g assay charges in new fusion pots.

131 field duplicate samples were submitted blind in sequence as internal sampling controls. A comparison of the average duplicate and average primary assay results are shown in Appendix 2. Most samples show a well-correlated linear relationship with an acceptable dispersion. This indicates the sampling method is reproducible. Significant differences were found in 6 sample sites. This suggests a nugget-effect may exist and indicates that assay values are not always reproducible.

External Control Analyses

No samples had been despatched to an external laboratory at the end of the reporting period.

Results for Phase 2E -2mm Soil Samples.

Located assays results are included as digital data in Appendix 2. The spatial distribution of average -2mm soil values are shown in Figure 4. Figure 4 shows a much better defined distribution of the more elevated Au-in-soil geochemical results highlighting a broad 2 by 0.5-1 kilometre long NE trending anomaly.

A summary of the assay results are as follows:

- Maximum assay was 2800 ppb Au (sample 171657). This sample also had the highest average Au value with 3 assays giving 2507 ppb Au
- 16 samples yielded average gold values >100 ppb Au
- About 20% of samples yielded average gold results >10 ppb Au
DISCUSSION

The latest round of geochemical soil testing (Phase 2E) further defines areas of anomalous gold values within the Kurinelli district. However the results are in many cases lower than nearby anomalous areas that were recently drill tested by Arafura and yielded disappointing results. Hence the Phase 2E results are not particularly encouraging given the previous drilling results.

The NE-SW trend suggests a structural/geological/topographic control may exist. However the data to date does not unravel the link between the gold-in-soil anomaly and the regional geological framework. Further work on the geological controls for gold mineralisation is recommended.

Additional sampling and testing of this area should be undertaken to investigate the source of the gold anomalism. Systematic costeeaning of this geochemical anomaly and/or additional drilling is recommended to explain the gold anomalism in this area.

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ARAFURA RESOURCES LIMITED

Kelvin Hussey  BSc (Hons), MAIG
PRINCIPAL GEOLOGIST
ARAFURA RESOURCES LIMITED

Table 2: Location of the more elevated soil assays in Phase 2E

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**Open File Company Reports held by the NT Geological Survey** (From Drummond, 2001)