EXPLORATION LICENCE 23517
AT WATTS CREEK NT

ANNUAL REPORT FOR YEAR ENDING 14TH APRIL 2004

Prepared by G R Orridge,

TABLE OF CONTENTS

1. INTRODUCTION.
2. GEOLOGY, MINERALISATION AND PAST MINING ACTIVITIES.
3. WORK CARRIED OUT DURING THE FIRST YEAR OF TENURE.
   3.1 Research of Previous Exploration.
   3.2 Field Activities.
   3.3 Conclusions.
   3.4 Expenditures.
4. PROPOSALS FOR YEAR TWO EXPLORATION WORK.
5. SELECTED REFERENCES.

TABLE 1. Summary of Early Proterozoic Stratigraphy.

FIGURE 1. Location Map.
FIGURE 2. Tenement Map.
FIGURE 3. Regional Geological Map: 1:100,000.
FIGURE 4. Prospect Location Map.
1. INTRODUCTION.

Exploration Licence 23517 was approved for a six year term on 15\textsuperscript{th} April 2003 and is held in the names of M D Teelow, G A Clarke and G R Orridge. It is located in the Union Reef 1:50,000 sheet area, some 160 km southeast of Darwin, and 35 km north of Pine Creek (Figure 1). The tenement covers ten one-minute-square graticular blocks, and has an area of approximately 33 square kilometres (Figure 2).

Vehicle access to the area is gained by various mining tracks, from Mt Wells tin battery to the west, or from Frances Creek iron ore field to the southeast. The northeastern parts of the area are traversed by a series of relatively rugged northwest-trending ridges, which rise some 170m above the more subdued topography along Watts Creek in the southwest.

2. GEOLOGY, MINERALISATION AND PAST MINING ACTIVITY.

The area is underlain by low-grade metamorphosed Early Proterozoic sediments of the Pine Creek Orogen, and include a fairly complete sequence, ranging from the upper part of the basal Mount Partridge Group (the Wildman Siltstone), to the lower part of the Burrell Creek Formation of the uppermost Finniss River Group. A summary of the stratigraphy is presented in Table 1. The general geology is shown in Figure 3, which reproduces portions of the McKinlay River and Pine Creek 100,000 scale published geological maps (BMR 1985).

The strata are folded about NNW-plunging upright to locally overturned folds, which form the southwestern edge of a major regional anticlinorium. Metamorphosed mafic intrusive sills (Zamu Dolerite) are widespread, particularly at certain horizons such as the Koolpin Formation.

The Licence area covers part of the historic Watts Creek alluvial gold field, which was worked on a small scale in the 1890's; a production of only eighteen ounces of gold is recorded from this era. Sporadic alluvial and hardrock prospecting continued up to 1987, but with insignificant gold production. Systematic exploration for hardrock gold resources commenced in 1987 and continued through to 1996. It was discovered that the source of the alluvial deposits was auriferous quartz stockworks, occurring intermittently along the upper boundary of the Wildman Siltstone with the overlying Koolpin Formation. A brittle-fracturing sandstone bed at this horizon is a favoured host to mineralisation.
3. WORK CARRIED OUT DURING THE FIRST YEAR OF TENURE.

3.1 Research of Previous Exploration.

Dominion Mining Ltd commenced exploration on EL4759 in 1986; this tenement overlapped most of the current Licence area. Compass Resources N.L. took over the title in 1988, and continued exploration up to 1996 under a block of Mineral Claims which were taken to cover the most prospective portions of the area.

Dominion concentrated their work at the so-called Southern Stockwork Zone, which was the centre of earlier alluvial and hardrock prospecting, and is situated just outside the eastern boundary of current EL23517 (see Figure 4). They completed a program of geological mapping, trenching (15 costeans for 2,380m) and drilling of a total of 28 RC holes for 1,648m, testing a 600m-long zone of auriferous quartz vein stockworks. This work indicated that the mineralisation, taken as a whole, was sub-economic. The best drilling results were 8m @ 1.05 g/t (WC1), 6m @ 2.07 g/t and 4m @ 1.02 g/t (WC2) and 4m @ 2.1 g/t (WC3), indicating that the best mineralisation was restricted to a short section, of some 200m, in the central part of the prospect.

The stockwork zone is in Wildman Siltstone, close to the contact with overlying Koolpin Formation, apparently close to the axial plane of a tight overturned anticline. Most auriferous quartz veins are steeply east-dipping.

A more limited program of reconnaissance costeaning and RC drilling was undertaken along strike for some 3000m NNW from the Southern Stockworks, and comprised nine costeans for 2,688m, and eight RC drillholes for 582m. This section was designated the Camp Area or Watts Creek North, and falls within EL23517 (Figure 4). Only sporadic sub-economic mineralisation was encountered.

Compass Resources concentrated their attention on the Main Ridge Prospect, to the north of the Camp Area (Figure 4), and completed 32 RC drillholes along a strike length of some 800m of an auriferous stockwork zone, testing the mineralisation to a maximum vertical depth of approximately 115m. The mineralisation occurs in an easterly-dipping bed of feldspathic quartz sandstone which crops out on the western side of the Main Ridge. This appears to be at approximately the same stratigraphic position as the Southern Stockwork Zone, but offset onto a parallel NNW anticlinal fold (Figures 3 & 4).

The mineralisation consists of quartz stockworks, and ladder veins, with accessory pyrite and arsenopyrite, concentrated within the sandstone host-bed; this has a true thickness of between seven and twelve metres, and dips regularly towards the ENE at about 60 degrees.
The body of mineralisation is apparently continuous along strike from 8500N to 9300N, and to vertical depths of at least 100m (refer Figure 5), and is apparently not closed off to the north. Assay results indicate that the mineralisation is low grade, with very few intervals (1.0 or 2.0m samples) exceeding 3.0 g/t Au, and average grades through the mineralised section entirely below 2.0 g/t. Given the relatively narrow true widths, and low grades, it appears improbable that there is a significant open pit resource at this prospect.

Compass also undertook preliminary ‘wildcat’ drilling at two other prospects, designated Northern Quartz Prospect and Chinese Workings Prospect, without encountering significant mineralisation.

3.2 Field Activities.

Operations in the field were limited to preliminary reconnaissance, assessing the access and logistical factors bearing on future exploration, together with inspections of the main prospects which had been the subject of past detailed exploration activities.

3.3 Conclusions.

Past exploration concentrated on a single narrow zone of apparently stratabound auriferous quartz stockworks, which had been identified from historical workings, and was followed along strike by trenching and RC drilling over a length of some 5.5 kilometres. Intensive drilling proved only sub-economic mineralisation.

Little exploration appears to have been done outside this zone. In particular there is a lack of systematic soil or rock chip geochemical sampling, and geological mapping, so that possible extensions or repetitions of the identified favourable horizon, or other styles of gold mineralisation may have been overlooked (eg. stratiform gold in iron formation as at Mount Porter 5km to the south).

The northeastern portions of EL23517 cover about ten kilometres strike of the favourable host bed, tested at Main Ridge Prospect, where it wraps around a series of NNW-plunging folds; drainages sourcing in this area are known to bear alluvial gold (Figures 3 & 4). These areas are considered to have high potential for discovering new hardrock gold mineralisation, and clearly warrant further exploration work.
3.4 Expenditures.

Exploration expenditures during the first years tenure are estimated to have been as follows:-

Field reconnaissance with transport and provisions, 4 days @ $250 1,000
Geological services 9 days @ $500 4,500

TOTAL $ 5,500

4. PROPOSALS FOR YEAR TWO EXPLORATION WORK.

During year two it is proposed to concentrate attention on the northeastern areas which contain strike extensions and repetitions of the prospective stratigraphy. The first stage will comprise preparation of a photogeological map at 1:10,000 scale, supported by field geological traversing. The second stage will include general prospection and rock chip sampling of any indications of mineralisation. An expenditure of $10,000 is estimated for this work.

5. SELECTED REFERENCES.

BURN N R. EL4759, Watts Creek; report for activities 26/08/88 to 19/09/88, Dominion Mining Ltd., NT Dpt Mines company report CR89/079.


<table>
<thead>
<tr>
<th>GROUP</th>
<th>FORMATION</th>
<th>MEMBER</th>
<th>LITHOLOGIES</th>
<th>THICKNESS (m)</th>
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<tr>
<td>Finness</td>
<td>Burrell Ck</td>
<td></td>
<td>Greywacke, siltstone, mudstone, rare chert, iron formation and conglomerate.</td>
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<td>South</td>
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<td>Mudstone, siltstone, chert, iron formation.</td>
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<td></td>
<td>Alligator</td>
<td>Lower</td>
<td>Greywacke, mudstone, siltstone, chert, carbonaceous mudstone, rare conglomerate.</td>
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<tr>
<td>Gerowie</td>
<td>Tuff</td>
<td></td>
<td>Chert, mudstone, siltstone.</td>
<td>200-400</td>
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<tr>
<td>Koolpin</td>
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<td>Upper</td>
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<td>50-150</td>
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<td>Middle</td>
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<tr>
<td></td>
<td></td>
<td>Lower</td>
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<td>0-250</td>
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<tr>
<td>Mount</td>
<td>Wildman</td>
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<td>Partridge</td>
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<tr>
<td>Mundogie</td>
<td>Sandstone</td>
<td></td>
<td>Quartzite, arkose, pebble conglomerate, mudstone, siltstone.</td>
<td>500</td>
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</tbody>
</table>

NB: Thickness, as above, are for Type Areas only.
FIGURE 1
EXPLORATION LICENCE 23517
LOCALITY MAP
G. R. Orridge
Printed for: orrid on: 24-Jan-2004
NOTE TO MAP USERS: Mining and Exploration Tenure depicted here are plotted from descriptions supplied by the holders and the Northern Territory.

Datum: Lat/Lon
Inconsistencies may occur between some information.
Distribution of alluvial gold.

Outcrop of upper contact of Wildman Siltstone.

EL 23517
PROSPECT LOCATION MAP

FIGURE 4
EL23517 - MAIN RIDGE PROSPECT

SCHEMATIC LONGITUDINAL PROJECTION OF RC DRILLING.

FIGURE 5