# YEAR 1

## ANNUAL GROUP REPORT

### DALY WATERS PROJECT

<table>
<thead>
<tr>
<th>Title Holder</th>
<th>NATURAL RESOURCES EXPLORATION PTY. LTD.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operator</td>
<td>Natural Resources Exploration Pty. Ltd.</td>
</tr>
<tr>
<td>Tenement Manager</td>
<td>Becana Devencorn, Natural Resources Exploration Pty. Ltd.</td>
</tr>
<tr>
<td>Titles / Tenements</td>
<td>EL(s): 27877, 27878, 27879 and 27905.</td>
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<tr>
<td>Project Names</td>
<td>Nutwood Downs, Kalala, Shenandoah and Black Springs.</td>
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<td>Report Title</td>
<td>Year 1 Annual Group Report – Daly Waters Project</td>
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<td>Type of Report</td>
<td>Annual Group Technical Report</td>
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<td>Author(s)</td>
<td>Devencorn, B</td>
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<td>Company Ref:</td>
<td>NRE_NT2011: DW (Group x4) – Yr 1 Annual Group Report</td>
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<tr>
<td>Target Commodity / Commodities</td>
<td>Phosphate and Base Metals</td>
</tr>
<tr>
<td>Date of Report</td>
<td>14 October 2011</td>
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</tbody>
</table>

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Summary

Section 34 of the Mining Act requires the submission of an Annual Report prepared by the titleholder for each exploration licence. Exploration Licences (EL) 27877, 27878, 27879 and 27905 have been approved for Annual Group Technical Reporting. This Annual Group Technical Report for these tenures, more commonly known to Natural Resources Exploration (‘NRE’) as its Daly Waters Project, provides a summary of the activities carried out over the permits in the past 12 months, including any results produced by those activities.

NRE has carried out a detailed geological assessment of its Daly Water Prospects, during the first year of grant. NRE’s exploration activities during this first term also included considerable research prior to a site visit and initial reconnaissance program.

Research included review and compilation of the data in the Northern Territory Geological Services’ (‘NTGS’) open file reports, air photo imagery and examination of the latest geological maps. NRE also carried out XRF analysis of water bore cuttings across the Daly Waters Project held at the Darwin and Alice Springs Core Libraries. NRE identified potential base metal mineralisation from these activities and thereafter designed a limited drilling program in order to obtain key geological information currently unavailable across the region, for example, depth to basement, as well as establish whether base metal mineralisation existed at a depth deeper than the somewhat shallow water bores previously drilled in the Daly Waters Region.

NRE applied for and was successful in its application for Drilling Collaboration with the Northern Territory Government as part of its Bringing Forward Initiative Program. NRE conducted a site visit and initial reconnaissance program on its Daly Waters Project as well as lodged a Mining Management Plan in respect of its drilling program.

NRE has met all work and expenditure commitments for its Daly Waters Project for the term of the licence.
1. **Introduction**

Natural Resources Exploration (‘NRE’) has conducted extensive office-based studies and field work during the first year of Exploration Licences forming part of its Daly Waters Project. The Daly Waters Project consists of four (4) tenements (EL27877 Nutwood Downs, EL27878 Kalala, EL27879 Shenandoah and EL27905 Black Springs). The Project is located in the central north of the Northern Territory, approximately 500 kilometres southeast of Darwin. The township of Daly Waters is situated within an incised portion of the project area.

NRE conducted an extensive review of all previous exploration across the tenement, completed an initial site visit and reconnaissance program, applied for and was successful in a Drilling Collaboration Program with the Northern Territory Government and prepared and lodged a Mining Management Plan. NRE also went on to conduct XRF analysis of water bore cuttings across the tenures, held at the Darwin Core Library.

*Figure 1. Location Map*

NRE’s exploration rationale and objectives for its Daly Waters Project considered the evaluation of phosphate and base metal mineralisation. The Project was also considered for other targets such as uranium and diamonds during the early phases of exploration. Investigations during the first year were intended to locate any outcropping of mineralisation and any indicators of any subsurface mineralisation across the tenements.
NRE’s activities during the first year of grant have been a very successful and have delineated areas for further exploration activities to be conducted during the second term.

2. Tenure

NRE’s Daly Waters Project consists of four (4) granted exploration licences, EL27877, EL27878, EL27879 and EL27905. Together, these tenures consist of 1,415 sub-blocks across Daly Waters making up an area of approximately 4,688 square kilometres.

The first tenure, EL 27877 was granted on 27 July 2010, EL27879 on 3 August 2010 and 27878 and 27905 we both granted on 15 September 2010. Table 1 lists the pertinent tenement details.

Table 1. Tenement Details

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<tr>
<th>Project Name</th>
<th>Tenement Name</th>
<th>Title No. (EL)</th>
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<th>Term (Yrs)</th>
<th>Expiry Date</th>
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<td>14 Sept 16</td>
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<td></td>
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<td>27905</td>
<td>155</td>
<td>511</td>
<td>Granted</td>
<td>15 Sept 10</td>
<td>6</td>
<td>14 Sept 16</td>
</tr>
</tbody>
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Native Title

There are currently four (4) Native Title Claims over the project area, namely the New Lakefield Native Title Claim (Tribunal Number DC02/7), Newcastle Waters Native Title Claim (Tribunal Number DC01/8), Daly Waters Native Title Claim (Tribunal Number DC01/71) and the Nutwood Downs Native Title Claim (Tribunal Number DC 01/59).
Recorded Sites

The Aboriginal Areas Protection Authority (AAPA) has identified a number of sites within the boundaries of the ELs. Moreover, many of these sites are within Restricted Work Areas.

Pastoral Leases

NRE’s Daly Waters Project overlies six (7) Pastoral Leases, namely NT Por 3419 PPL 1191 (“Avago”), NT Por 2724 PPL 936 (“Hidden Valley”), NT Por 1077 PPL 1135 (“Hayfield”), NT Por 2620 PPL 1141 (“Shenandoah”), NT Por 697 PPL 1064 (“Kalala”) and NT Por 1513 PPL 1052 (“Nutwood Downs”). Pastoral Leases across the Project Area are located in Figure 2 below.
2.1 Location and Access

Location

The Daly Waters projects consisting of EL27877, 27878, 27879 and 27905 are located in the central north of the Northern Territory, approximately 500 kilometres southeast of Darwin. The township of Daly Waters is situated within an incised portion of the project area.

The Stuart, Buchanan and Carpentaria Highways intersect the project area and numerous minor roads and unpaved tracks cross the tenures. The Adelaide – Darwin Railway Line lies approximately 1 kilometre away of EL27905 and 50 to 150 kilometres to the west of the remaining block of tenures.

Location and access to the project areas are identified in Figure 3.
2.2 Topography and Drainage

The topography across the project is predominantly gently undulating, with elevation ranging between 200 and 250 meters above sea level.

Birdum, Daly Waters and Two Mile Creeks pass through the centre of EL’s 27878 and 27879, draining to the north. The Strangeways River is the primary drainage system in the east of EL27878. An extensive system of tributaries drain into the Hodgson River across EL27877. This system flows north-easterly towards the Gulf of Carpentaria. No documented drainage is present on EL27905, with Black Springs waterhole being the only watering point present on the tenement.

2.3 Climate and Vegetation

The climate is monsoonal and subtropical; relatively cool and dry between April and October and warm to hot and humid during the wet season (November – March). Vegetation comprises typical savannah with low trees interspersed amongst grasslands with thickets of riverine vegetation along drainage lines.
The nearest weather monitoring station is at Daly Waters. Average temperatures at Daly Waters range from a low of 12°C in July to a high of 38°C in November/December. Average annual rainfall is 665mm with the majority of the rain falling in the ‘wet season’ from November through to March with January typically being the wettest month.

Average humidity ranges from a low during the dry season of 21% (August/September) and increases to a high during the wet season of 46% (February).

3. **Geology**

3.1 **Regional Geology**

The Daly Waters Project tenements are located in the central region of the Mesozoic Dunmarra Basin, an unmetamorphosed intracratonic basin unconformably part of the Neoproterozoic-Palaeozoic overlying the Georgina, Wiso and Daly Basins and Palaeoproterozoic-Mesoproterozoic sedimentary rocks of the McArthur Basin. The Dunmarra Basin is largely unmetamorphosed and attains a maximum thickness of ~100 meters. No mineral occurrences are known but potential is thought to exist for diamondiferous kimberlite pipes, phosphates, base metals and uranium. The regional geology is shown in *Figure 4*.

*Figure 4.* Regional Geology Map
The unmetamorphosed Georgina Basin is an intracratonic Neoproterozoic to Devonian sedimentary basin forming part of the Central Australian Platform Cover. The Basin is an erosional remnant of a series of originally interconnected central Australian intracratonic basins (the Centralian Super-Basin) that range from Neoproterozoic to Palaeozoic. The Basin contains up to 3.7 kilometres of sedimentary rocks with frequent oil shows throughout. Although mainly explored for phosphate, oil and gas, several small lead-zinc occurrences are located along the southern margin. The large Wonarah phosphate deposit and a number of smaller deposits and prospects exist within the Basin. Base metal potential in the southern part of the basin has been highlighted by recent NTGS studies whilst a large part of the basin is currently under exploration for diamonds.

Like the Georgina Basin, the Wiso Basin (Cambrian to Devonian) is an unmetamorphosed intracratonic sedimentary basin that also forms part of the Central Australian Platform Cover. It unconformably overlies the Aileron Province metamorphic rocks to the south, Tanami Region and Victoria-Birrindudu Basin to the west, and Tennant Creek Region to the east. Creataceous rocks of the Dunmarra Basin cover its northern margin. Sediments in the Wiso Basin are up to three (3) kilometres thick and although rare oil shows are noted in stratigraphic drillholes, no petroleum wells have been drilled. The Basin is considered prospective for petroleum and phosphate and is currently being explored for diamonds.

Similarly, the Daly Basin (Cambrian to Ordovician), is an unmetamorphosed sedimentary basin forming part of the Central Australian Platform Cover. Up to 1 kilometre thick, it unconformably overlies the Pine Creek Orogen metamorphic rocks and MacArthur Basin to the north and east and the Victoria Basin to the west. Cretaceous rocks of the Dunmarra Basin cover its southern margin. Little exploration has been conducted in the basin but it is a source of limestone suitable for quicklime and cement and potential exists for Mississippi Valley-Type (MVT) Pb-Zn occurrences. Some potential also exists for phosphate deposits.

Unmetamorphosed sedimentary rocks of the Mesoproterozoic-Palaeoproterozoic McArthur Basin forms part of the North Australian Platform Cover and unconformably overlie the Palaeoproterozoic Pine Creek Orogen to the northwest, the Murphy Inlier to the southeast and Arnhem Inlier to the northeast. Hosting the McArthur River Zn-Pb-Ag mine, several minor occurrences of base metals and uranium are known and the basin is considered to have significant exploration potential for sediment hosted base metal deposits.
3.2 Permit Geology

EL27905, EL27878 and EL27879

The local geology is dominated by Cainozoic and Tertiary sedimentary units comprising alluvium and black soil (Cza), haematitic clayey soils, residual sands and ferruginous rubble (Czs), laterite, nodular and pisolitic ironstone and ferruginous rubble (TI). These ferruginous and lateritic weathering profiles have developed over poorly exposed Crataceous marine sediments of the Mullaman Beds (Klm) (claystone, siltstone, glauconitic sandstone and ferruginous conglomerate) in response to prolonged weathering during the Tertiary.

The Cretaceous Mullaman Beds represent the oldest outcropping geology in the region. However, unconformably underlying this stratigraphy are Middle Cambrian Limestones and Lower Cambrian basic volcanics, primarily comprised of basalt.

EL27877

The surficial geological setting across the western portion of the tenement is analogous to that of the remainder of the project area. However, the older lithological units underlying Cainozoic sediments crop out at surface more commonly in the east of EL27877.

The Cretaceous Mullaman Beds (Kl) are commonly exposed at surface through the central region of the licence, representing a region of slight topographic relief in which drainage systems have commonly developed.

Geological logging of water bores indicates that Middle Cambrian Limestone unconformably underlies the Mullaman Beds across the western and central regions of the tenements. However, these units become progressively thinner to the east as the Lower Cambrian Antrim Plateau / Nutwood Downs Volcanics rise closer to the surface. In the far east of the tenements, this Lower Cambrian lithology comprised of basalt and flaggy feldspathic sandstone crops out over a wide area. Although not outcropping within the tenement, the underlying Lower Cambrian Bukalara Sandstone sits directly below the volcanics in this region, as represented in water bore drill chips.

Minor outcrop of Proterozoic basement lithology has been mapped in the centre of the tenement (P). No information pertaining to the composition of this unit has been provided by geologists, but north-south trending faulting of the unit has been recorded within this unit.

The permit geology for all tenures is illustrated in Figure 5 below.
4. **NRE’s Exploration Activities during the Reporting Period**

NRE’s exploration program for the first term consisted of an initial regional assessment of areas within the Daly Waters Project for phosphate, base metals and other commodities.

The targets within the Daly Waters Project areas were identified based on desk top research of regional geological and geophysical data, augmented with compilation and assessment of all previous exploration results.

The aim of work was to identify areas of possible further exploration work and in particular, areas and models for mineralisation across the four (4) tenements forming the Daly Waters Project.
An array of material was assessed during the first term to assist with optimal target generation and included:

- Data from all previous exploration as documented in open file reports retrieved from the Northern Territory Government, including:
  - Surface geological sampling,
  - Geochemical anomalism mapping,
  - Geological mapping,
  - Detailed geophysical survey data,
  - Geophysical anomalism mapping,
  - Drilling results, and
  - Local and regional geological assessments and conclusions derived from exploration programs.

- Water bore data available for all bores drilled in the regions of interest. This data includes geological logging and water assaying.

- Geological maps provided by the Northern Territory Government.

- Aeromagnetics, aero-radiometrics and gravity surveys provided by the Northern Territory Government.

- Satellite imagery, ASTER and Google Earth imagery.

- Data supplied by landowners in relation to geological and topographic features of interest on their properties.

### 4.1 Previous Exploration Studies & Assessment

NRE has conducted an extensive review of historic exploration over its Daly Waters Project. The earliest exploration on record dates back to 1971 by Comalco which explored for bauxite. Much of the exploration since this time was for diamonds with a number of companies such as CRA Exploration Limited, AOG Minerals, Ashton Mining Ltd, De Beers Australia Exploration, Diamond Mines Australia and Aberfoyle Exploration.

Diamond exploration by these companies was ultimately considered as unsuccessful in locating kimberlite pipes. Previous exploration has been summarised in Table 2 and location of historic tenements is shown in Figure 6.
## Table 2. Historic Tenures

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<thead>
<tr>
<th>Tenure Number</th>
<th>Period</th>
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<td>EL 23015</td>
<td>2002-2003</td>
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In addition to a comprehensive desk top study of all previous exploration associated with the Daly Waters Project region, water bore analysis and assessment of geophysical imagery has taken place across the tenure. Work has included the following:

**Geophysical Imagery Analysis**

- Assessment of regional radiometrics to identify any radiometric anomalies in the region – correlation with water bore data and surface geology.
- Assessment of regional aeromagnetics to identify any magnetic anomalies in the region – correlation with water bore data and geology; and

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**Figure 6.** Historic tenements over NRE’s Daly Water Project.
- Assessment of regional gravity data to identify any density anomalies in the region – correlation with water bore data and geology.

4.2 Water Bore Cuttings Analysis

NRE engaged Terra Search Pty. Ltd. to attend the Northern Territory’s Darwin Core Facility to analyse a number of cuttings available from historically drilled water bores around its Daly Waters Project (Figure 7).

Figure 7. Water Bore Location Map

The Northern Territory Geological Survey (NTGS) maintains a database and storage facility for samples from historic water bores drilling in the Northern Territory. The total number of drill holes for which records are kept is approximately 34,250.

NTGS has, for research and exploration purposes, made available access to both their records and descriptions of the water bores as well as physical access to the samples kept for a large number of the bores at their facilities in both Darwin and Alice Springs. The water bore samples are kept in either Darwin or Alice Springs, according to the proximity of the water bores to these cities. All the water bore data relevant to the Daly Waters Project was located at the Darwin facility.
In January 2011, the Department kindly allowed NRE to set-up in the Darwin Core Facility where NRE’s geologists undertook analysis of the water bore cuttings using a hand-held XRF device and re-logged water bores. Work in relation to the water bore analysis included:

- Delineation of all water bores drilling in the project area;
- Compilation and data entry of all relevant information recorded at the time of drilling, including geology intersected and water chemistry;
- Determination of water bore chips available for XRF analysis;
- XRF Analysis of all relevant water bore chips available for the project area (Appendix 1);
- Re-assay of selected samples at ALS laboratories for further confirmation of mineral anomalies (Appendix 2);
- Accurate re-logging of all relevant water bore chips available for the project area;
- Assessment of XRF results and geological data; and
- Correlation with historic exploration data and geophysical imagery and integration of all results to determine the mineral prospectivity within each tenement.

NRE lodged an Exploration Report with the Northern Territory Department of Resources’ Geoscience Division on 7 June, 2011. This report was required in respect of the XRF and ALS Assaying of Water Bore Chips at the Darwin Core Facility. The Exploration Report was titled ‘XRF & ALS Assaying of Water Bore Chips – Core Facility: Darwin’.

**EL27905 – Black Springs**

Six (6) water bores were selected at the NTGS library in order to assess the sub-surface characteristics of EL27905. Unfortunately, samples of the entire stratigraphic column drilled in most have not been retained at the library as documented. The depth of holes with chips ranged from 33m to 76m, despite the majority of these having been originally drilled to much greater depths.

XRF analysis of selected intervals for all bore holes assessed has indicated that no significant elevation of any elements exists. Low levels of arsenic and zinc are commonly encountered in all holes, with minor chrome also present in RN030871, but not at concentrations worthy of follow up.

**EL27879 – Shenandoah**

A total of eight (8) bores were assessed for their mineral potential across and in close proximity to EL27879. The documented drill depths ranged from 101m to 160m. However, the depth of chips available for assessment is often significantly less.

XRF analysis of water bore drill chips has primarily indicated that sub-surface mineralisation is not likely to the depths drilled. Elevated zinc has been occasionally identified in the central eastern region of the tenement. Peak zinc intercepts include 6m @ 382ppm.
immediately above and below the Mullaman Beds and Tindall Limestone boundary in RN25997 and 3m # 308ppm Zn at end of hole in RN034704 (90 – 93m). Upon correlation and assessment with all other data available for the region, it is considered that these values are not representative of a significant mineral occurrence in the direct vicinity.

**EL27878 – Kalala**

A total of sixteen (16) bore were selected across the tenement for XRF and geological assessment. The documented drill depths ranged from 51.8m to 132.2m, with most holes having chips correlating with that expected.

XRF analysis of all bore holes assessed has led to the delineation of several interesting anomalies across EL27878. Varying levels of copper, lead, zinc, arsenic, nickel, chromium and phosphorous have been encountered in several holes.

The southern region of the tenement has been flagged as being particularly prospective for base metal mineralisation.

Anomalous levels of zinc have most commonly been identified in this area, but there is also evidence of elevated copper, lead and arsenic in a number of holes. Zinc anomalist has been verified at ALS Laboratories for two of the samples analysed (Appendix 2). Integration of geological observations and XRF data with geophysical imagery indicates that anomalism in this southern region correlates with a basement high, further enhancing the areas mineral potential.

**EL27877 – Nutwood Downs**

Six (6) water bores were assessed within and in close proximity to EL27877.

No significant anomalism of any element has been delineated through XRF assessment of bore holes across the tenement. Low levels of zinc and arsenic are common throughout the stratigraphy, but not at concentrations considered worthy of follow up.

### 4.3 Initial Site Visit & Reconnaissance Program

In August 2011, NRE conducted an initial site visit and reconnaissance program on EL27878, Kalala. NRE met with landowners and carried out an on-ground geological assessment of the tenure while also assessing the accessibility to proposed drill hole locations. NRE further discussed all foreseen future drill holes with the landowners and the proposed access to those drill holes along fence lines and existing tracks.
4.4 Drilling Collaboration & Mining Management Plan

NRE made application for, and was successful in its application for a Drilling Collaboration in respect of EL27878 with the Northern Territory Government. Under this program, NRE designed three (3) stratigraphic holes to be drilled, partly RC and partly diamond. The stratigraphic holes were designed to complement the water bores in that diamond drilling would occur only after the deepest water bore on the tenement.

As part of this program, NRE subsequently lodged a Mining Management Plan for the three (3) stratigraphic holes as well as an additional four (4) holes to be conducted either concurrently with the three (3) stratigraphic holes or within the next twelve months after the three (3) stratigraphic holes, depending on logistics and availability of contractors.

NRE is still waiting approval of its Mining Management Plan and expects to receive same in the next month. NRE is also working towards securing a contractor for the drilling of its three (3) stratigraphic holes early 2012.

5. NRE’s Exploration Activities for next 12 month period

The objective of NRE’s exploration activities over the next 12 month period in relation to the Daly Waters Project is to identify any possible sub-surface mineralisation. NRE’s objective will be to conduct a limited drilling program in order to understand the stratigraphy of the region and in particular, in respect of Kalala. Where practical, NRE will also consider conducting additional geophysics over its Daly Waters Project and further determine any possibility of sub-surface mineralisation across all tenements.

Finally, NRE will finalise its initial assessment of possible diamond mineralisation on its Daly Waters Project and should that prove promising, will design a sampling program in respect of same.

6. Reports lodged during the reporting period

NRE lodged an Exploration Report with the Northern Territory Department of Resources’ Geoscience Division on 7 June, 2011. This report was required in respect of the XRF and ALS Assaying of Water Bore Chips at the Darwin Core Facility. The Exploration Report was titled ‘XRF & ALS Assaying of Water Bore Chips – Core Facility: Darwin’.

NRE also lodged a further Exploration Report with the Northern Territory Department of Resources’ Geoscience Division on 12 September 2011. This report was required in respect of the XRF and ALS Assaying of Water Bore Chips at the Alice Springs Core Facility and was titled ‘XRF & ALS Assaying of Water Bore Chips – Core Facility: Alice Springs’.
NRE believes that no other reports were required to be lodged during this reporting period.

7. Conclusions

Natural Resources Exploration’s (‘NRE’) exploration activities during the first term of its Daly Waters Project has been focused on delineating surface targets within the four (4) tenures, namely Exploration Licences (EL)27877, 27878, 27879 and 27905. NRE’s activities to date in relation to surface targets have lead to the following conclusions:

EL27878

The geological setting and geophysical features combined with anomalism identified in water bores indicate that the tenement is prospective for base metals and possibly phosphate mineralisation at economically viable depths.

In addition to the licence possessing good mineral potential, the location is considered to be amongst the most suitable in terms of access to rail, road and supplies. The Adelaide – Darwin Railway is 60 kilometres to the west and the Township of Daly Waters and the sealed Stuart Highway are within 1 to 10 kilometres of the target areas for further follow up.

Drilling is warranted on this tenement but additional geophysical surveying to delineate subsurface features and/or drill testing of the primary target areas may also be warranted after the completion of an initial stratigraphic drilling program.

EL27877, EL27879 and EL27905

NRE has currently been unable to identify any subsurface mineralisation on these tenements in respect of base metals and phosphate. During the second term of these licences, NRE will complete its review of all previous exploration data in search of any follow up work required in respect of diamond mineralisation on these tenements.

NRE is looking forward to commencing its limited drilling program and other exploration activities during the second term of its Daly Waters Project.
8. Bibliography


Annexure I

XRF Geochemical Results of Water Bore Analysis
Annexure II

ALS Geochemical Results of Rock Chip Sampling