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1.0 SUMMARY

Exploration Licence (EL) 27879 was granted to Natural Resources Exploration Pty Ltd (NRE) on the 03 August 2010 for a period of six years. The first relinquishment of 177 blocks (50% of total) was due 03 August 2012, however NRE requested a waiver of the relinquishment condition which was lodged with the Titles Department on 03 August 2012.

2.0 INTRODUCTION

Natural Resources Exploration Pty Ltd was granted the Exploration Licence (EL) 27879 on the 03 August 2010 for a period of six years. The tenement has a total of 355 sub-blocks (Table 1) covering 1169 km².

Table 1 – Blocks and sub-blocks of EL 27879

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<td><strong>TOTAL</strong></td>
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2.1 Location and Access

EL 27879 is approximately 120km South of Birdum (Figure 1).

The Daly Waters Project is located over the Daly Rivers Arch, surround the township of Daly Waters in the Northern Territory.
The Daly Waters Project is in close proximity to local infrastructure including the Stuart Highway and rail line. The Stuart Highway runs directly through the Daly Waters Project. Port Darwin can be reached via the Stuart Highway by travelling approximately 590 kilometres north.

Figure 1 – Location of EL 27879

3.0 TARGET COMMODITY

The focus of Natural Resources Exploration’s exploration activities is for a variety of minerals including base metals, gold, phosphate and diamonds.
The Carpentaria Basin is a Jurassic-aged basin located in the central northern part of the Northern Territory. To most of its extent, it unconformably overlies the sedimentary rocks of the McArthur Basin, Georgina Basin, Murphy Inlier, South Nicholson Basin and Daly Basin. It is said to have excellent potential for bauxite and manganese deposits while also having potential for petroleum.

In terms of resources, the Carpentaria Basin hosts giant manganese deposits at Groote Eylandt and bauxite at Gove. There are numerous additional bauxite and manganese occurrences as well as oil shows which have been recorded offshore.

4.0 BLOCKS RELINQUISHED

All sub-blocks from EL 27879 are to be relinquished.

5.0 WORK CONDUCTED ON RELINQUISHED GROUND

NRE conducted a site visit earlier in the year in order to meet with landowners, conduct geological mapping and collect a number of heavy mineral samples. Prior to NRE’s site visit and field work, NRE conducted extensive desktop studies including the interpretation of gravity, radiometrics and magnetic data over the region.

On NRE’s interpretation of the gravity and magnetic data, NRE identified a structural high within the tenement that extended north into NRE’s adjacent tenement ‘Kalala’. ‘Kalala’ was the focus of a limited drilling program and downhole geophysics in collaboration with the Northern Territory Geological Survey (‘NTGS’). The structural high appears to extend across three of NRE’s neighbouring tenements, one of which includes the tenure subject of this application, EL27879. These projects all form part of NRE’s approved ‘Daly Waters’ Project.

NRE collected a number of heavy mineral samples on the tenement and these samples are still currently being processed by a laboratory in Perth for a suite of elements including, diamond indicator minerals. NRE requests a partial waiver of reduction so that it may have the opportunity to obtain and interpret the results in relation to its nearby drilling and down hole geophysics program in order to better understand the structural high as well as to have the opportunity to obtain and interpret the results from its heavy mineral sampling.

NRE has conducted extensive exploration activities over the project area prior to the current reporting period. These have been detailed in previous annual reports and are only briefly touched on within this report.

NRE’s previous exploration activities included the following:

a. Historical Exploration Activity Evaluation and Interpretation.
   This included an extensive review of historic exploration over the Daly Waters Project area with the regional assessment of areas being for phosphate, base metals and other commodities. NRE conducted a compilation of data sets from historical data into NRE’s database for interpretation and target generation. It also included analysis of historical drill chip samples.

b. Historical Water Bore Chip Sampling
   Selected historical water bore chip samples stored at the Northern Territory Geological Survey were assayed for a range of metals. A total of thirty water bore chip samples were examined from the current license area and anomalous levels of zinc, copper, lead and arsenic were observed. Full details are in First Annual Report (Devencorn, 2011).
c. Reconnaissance Site Visit
In August 2011 NRE conducted an initial site visit and reconnaissance program around EL27878, Kalala. Meetings with the landowners were conducted and proposed drill hole locations were ground inspected to assess their geological and accessibility conditions. 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.

d. Stratigraphic Diamond Core Drilling & Ground Survey
NRE drilled one (1) stratigraphic diamond core hole as part of the NTGS Drilling Collaboration. NRE completed the drilling of drill hole ‘NDW12-01’ to a total depth of 317.2m HQ diamond cored completed on 12 June 2012. NRE then also proceeded these activities with a small ground survey around the drill hole due to being unable to conduct downhole geophysics on NDW12-01.

e. Palynological Sampling
In 2012, NRE also took one sample from the drilling and submitted same for palynological examination to L Stoian from the Geological Survey of South Australia. The sample was from a thin (~1cm) mafic clay unit (see Figure 3) at 38.4m depth, just above the unconformity with the underlying limestone.

f. Petrographic Description
Four (4) initial samples were dispatched to consulting petrologist Dr B.J. Barron in Sydney for detailed descriptions as part of NRE’s 2012 exploration activities. The small fragments of half core were collected from various intervals to confirm lithology.

g. XRF Analysis of Drill Core
Also in 2012, XRF multi-element analysis was conducted using a Delta X Premium Hand-held XRF (HHXRF) with Rh anode and 30mm2 Silicon Drift Detector (SDD) over the entire length of hole at regular intervals.

h. Drill Site Rehabilitation
Immediately following the completion of the drilling and geophysics program, NRE conducted drill site rehabilitation and sealed hole below surface. Soil was replaced in the area and sumps were back filled. Original soil was replaced, spread and leveled over the site.

i. Heavy Mineral Diamond Sampling & Grain Microprobe Analyses
During May-June 2011 the diamond exploration activity included surface loam deflation
scraps and stream sediment sampling for heavy mineral kimberlite indicator minerals. A total of nine (9) samples (144.77 kg total) were collected across the then licences. Selected indicator grains from Diatech Labs were sent to Microbeam Services for standard microprobe analyses.

NRE’s exploration program for the third term consisted mainly of compilation of data obtained from the extensive range of activities NRE conducted during the second term which included drilling, heavy mineral sampling, XRF analysis of drill core samples, ground geophysics and various samples sent for analysis.

Figure 2: Daly Waters geophysics location grid reference map for both IP Mise-a-la-masse and Downhole TEM survey and TEM sounding survey. GDA 94.
NRE spent considerable amounts of time analysing the result of these activities to reach conclusion that the rocks and ground conditions would be suitable for a larger ground survey over the target area. As this was going to result in significant time and costs for NRE, NRE proceeded to engage with a third party explorer in the region who had already conducted a ground survey with the goal of entering into a Data Exchange Agreement.

NRE entered into a Data Exchange Agreement which has resulted in great benefits for both parties. It has also saved considerable time and money for both parties by exchanging the information between them and adding to their understanding and interpretation of the region and assisting them in reaching their exploration goals.

Upon receiving the data consisting of a primarily a ground magnetic survey conducted sometime prior by the third party, NRE was able to integrate this newly acquired data with its current dataset. NRE proceeded to analyse and interpret data over its base metal target with particular focus on the formation and structure of the Daly River Arch.

NRE has commenced modeling of the gravity data together with its database of other data with senior geophysist, Mr. Rob Angus. This was initiated in order to produce a better understanding of the target and define areas for further exploration which will include geophysics, sampling and possible limited drilling program.

6.0 CONCLUSIONS

Natural Resources Exploration (‘NRE’) had planned on conducting further diamond exploration surface and heavy mineral sampling depending on the results NRE is yet to obtain in relation to its current heavy mineral samples. Activities also planned included gravity and possibly electromagnetic surveys in order to better define structures as part the base metal exploration over the tenements. Natural Resource Exploration Pty Ltd have re-assessed the literature for EL 27879. Due to the limited availability of data and the change of structure within NRE has prompted the decision by NRE to relinquish all the sub-blocks in the tenement.