ANNUAL REPORT

MINING LEASE 23812

SPRING HILL

FOR THE PERIOD 16/1/07 to 15/1/08

by

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INTRODUCTION

BACKGROUND
The Mining Lease was held by Tennant Creek Gold (NT) Pty Ltd until it was acquired by Western Desert Resources Ltd in July 2007. The tenement covers the historic Spring Hill gold mining centre.

LOCATION AND ACCESS
The tenement is located about 200km south east of Darwin in the Top End of the Northern Territory (Figure 1).

Access is by the sealed Stuart Highway south from Darwin, and thence by the unsealed Spring Hill road. Access within the project area is by 4WD tracks.

CLIMATE
The climate is semi-arid, tropical with warm dry winters and hot wet summers. The average annual rainfall is 1200mm with most falls in the wet season.

TOPOGRAPHY AND VEGETATION
The project area is located within the Uplands physiographic division. The Uplands represent low steep-sided hills separated by narrow valleys. The area is within the Mary River system which drains to the north.

The Spring Hill project is located on the crest of two steep sided ridges which rise about 180 metres above the surrounding country. The country is typically highly dissected tropical savannah. Soils are skeletal and poorly developed.

The area can be classified as Low Woodland with Eucalyptus tintinnans (Salmon Gum) being the dominant tree species with a Soghum grassland understorey.

TENURE

MINING/MINERAL RIGHTS
ML 23812 was provisionally granted to Tennant Creek Gold (NT) Pty Ltd on 16th January 2004 conditional on completion of a boundary survey. Problems were encountered with carrying out the survey which was completed in August 2005. The lease was finally granted in March 2007.

The tenement was purchased by WDR Gold Pty Ltd, a wholly owned subsidiary of Western Desert Resources Ltd, on July 20th 2007.

ML 23812 surrounds a number of pre-existing mining claims which are shown on figure 3.

LAND TENURE
The tenement is located within the boundaries of Perpetual Pastoral Leases 815 (Mary River West).
NATIVE TITLE
The Spring Hill project falls within the area of a registered Native Title Claim DC 01/6 Mary River West. The area of the mining lease is not affected by Native Title.

ABORIGINAL SACRED SITES
There are no known sacred sites within the project area.

GEOLOGY

REGIONAL GEOLOGY
The project area is located within the Palaeoproterozoic Pine Creek Orogen, which is aged between 2470-1870Ma. The Pine Creek Orogen consists of a sequence of psammitic and pelitic sediments, tuffs and minor volcanics. The sediments have been intruded by granitoids of the Cullen Batholith of Palaeoproterozoic age. The regional geology is shown on figure 2.

LOCAL GEOLOGY
The main project area is underlain by sandstones, siltstones and shales of the Mount Bonnie Formation of the South Alligator Group (figure 3). Gold mineralisation occurs within this formation close to the axis of a tight regional anticline which plunges to the south east.

Gerowie Tuff underlies the Mt Bonnie Formation and crops out in the core of the anticline to the north of the main workings.

In the southwest corner of the mining lease the Mt Bonnie Formation has been folded around an anticline which is orientated in parallel to that at Spring Hill.

The gold mineralisation in the Spring Hill goldfield occurs in two separate zones – the Hong Kong sheeted vein zone and the historic mining centre of the Main, Middle and East lodes (figure 4).

The Hong Kong zone contains a sheeted vein system which dips steeply to the south east (70°). The bedding in this area dips steeply to the west. The quartz veins vary in width from several millimetres to 0.5m, and contain pyrite when unweathered. The zone has a strike length of about 1000m and a width of about 100m.

The historic mining centre contains three main leader veins, which are lodes between 0.4 and 1.5m in width containing quartz with pyrite, galena and arsenopyrite. These were mainly veined in the oxidised zone where the grade averaged 30g/t Au. Bedding parallel veins and saddle reefs also occur within the mined area.

PREVIOUS EXPLORATION

MINING HISTORY
The tenement covers the Spring Hill goldfield. Gold was discovered in the area in the 1870’s. Mining activities took place between 1880 and 1905, and then intermittently until 1966. Total recorded
production was about 22,000 oz of gold which was mainly derived before 1900. Mining mainly took place on the Main and Middle lodes with the oxidised ore being worked to depths in excess of 100m.

In the 1930’s an adit was driven from the eastern side of Spring Hill to test the previously mined lodes at a depth of about 120m. Further work on the Main Adit and excavation of the South Adit were carried out in the 1940’s with recorded production of 650oz of gold.

Treatment of alluvial deposits in creeks draining from the western side of Spring Hill has occurred in recent years.

EXPLORATION BY PREVIOUS COMPANIES

Territory Resources (1985-88)
Gridding, mapping, costeaneing and drilling were carried out over the previously mined East, Middle and Main Lodes.

Billiton Australia (1988-92)
Exploration was carried out by the Spring Hill Joint Venture between Billiton and Ross Mining NL.

Billiton initially carried out a regional drainage survey, geological mapping, and rock-chip sampling. It also carried out a low level aeromagnetic survey.

Further exploration included the establishment of a grid, soil sampling, costeaneing, drilling, metallurgical testwork, a TEM and an IP survey, and structural mapping. Billiton carried out a total of five drilling campaigns comprising ten diamond and 83 RC holes.

The TEM survey located a conductor with a length of at least one kilometre that lies directly beneath the Middle Lode workings and parallels the axis of the Spring Hill Anticline.

The exploration also delineated a low-grade sheeted quartz vein system to the west of the main historical workings, named the Hong Kong Zone, where a resource was estimated.

Ross Mining NL (1993-97)
1993 and 1994 Ross Mining contracted Eupene Exploration to carry out exploration of the Spring Hill tenements. Three phases of drilling were carried out (nine diamond and 145 RC holes). The drill programmes included infill and twin hole drilling in the Hong Kong Zone and the Main and East Lode areas and exploration drilling at the Vein Heaven and Steve’s Gully Prospects.

A total of 23,627m of drilling was carried out by Billiton and Eupene Exploration, of which 1,658m was cored.

The drilling pattern is shown in Figure 4. In general, holes were drilled on 25 metre sections over the strike length of the Hong Kong Zone and the Main, Middle, and East Lodes. Most holes were drilled from east to west. The distance between holes on the same lines varied, but was mostly of the order of 25m.

During 1995 and 1996 Ross Mining carried out environmental investigations, metallurgical testwork on core samples, resource and reserve estimations, and scoping studies.
The metallurgical testwork indicated that the mineralisation is free milling. Agitation leach tests on six oxide and four transition zone samples returned between 92% and 99% gold extraction, and on seven sulphides samples returned between 77% and 99%, with an average of 88%. Column leach testwork indicated that the oxide and transition zone material was suited to heap leach treatment, but the sulphide zone mineralisation was not.

**Acacia Resources Ltd (1998)**
Acacia Resources Ltd completed a data review and validation of Ross Mining’s resource model. It separated the model into two major domains, the Hong Kong Zone and the Main and East Lode area.

**Tennant Creek Gold (NT) Pty Ltd (2002-2003)**
TCG commissioned McDonald Speijers to undertake a scoping study on the Spring Hill Project. The study examined the project viability in terms of operating cost. Data compilation was carried out.

For the Hong Kong Zone and the Main, Middle, and East Lode zones an Indicated Resource of 3.6Mt at 2.34g/t Au, for 274,000oz of contained gold, was estimated at a 1g/t Au assay cut-off grade. Pit optimisations were carried out for A$550 and A$600 gold prices utilising a cost structure that was appropriate at the time, but that may no longer be relevant.

The resulting optimal pit shells indicated that, at the inputs used, mining may have been feasible within seven separate small pits, with maximum depths of between 20m and 40m.

**Pan Resources plc (2006)**
Pan Resources plc held an option to purchase Spring Hill from Tennant Creek Gold. A reinterpretation of the exploration data from Spring Hill was carried out with an emphasis on the geophysical data.

Conclusions from the review included:

- The Spring Hill mineralisation occurs within a magnetically quiet zone, which may represent episodes of magnetite destruction.
- The association of gold mineralisation with sulphides indicates that EM surveys should be able to provide information on possible gold mineralisation at depth beneath the historical workings. B billiton’s 1989 TEM survey proved this concept.

**EXPLORATION COMPLETED DURING CURRENT YEAR**

**Desk Top Studies**
Office studies have been carried out including database compilation, literature research, drill section output and planning for future drilling programmes.

The previous metallurgical testwork carried out by Ross Mining NL has been reviewed by Bemex Corporation.

Satellite imagery (Quickbird VHR) was purchased for the Spring Hill area.
Metallurgical Testwork
Drillcore samples from Spring Hill were sent to Ammtec Laboratories for physical testwork.

RESULTS AND EXPENDITURE

Discussion of results
A database was compiled containing all of the previous drilling information; the data is presented in appendix 1 as Excel TXT files. The coordinates in these files refer to the local grid. Studies of the drill hole sections showed that the gold mineralisation was erratic and that higher grade zones could rarely be traced between section lines 25m apart.

The satellite imagery was orthorectified and the final imagery is presented in appendix 2.

Initial results from the metallurgical testwork by Ammtec indicate that the Bond ball mill work index is in the typical range for oxide gold ore and has a moderate value. The results also indicate that SAG milling could be considered as an option.

There was no expenditure commitment for ML 23812 for the current year. Actual expenditure was $49,661 as shown on the accompanying exploration expenditure form.

PROPOSALS FOR FUTURE WORK

Proposed work programme for 2008 – 2009
The proposed exploration programme for 2008-2009 will include an airborne EM survey, a scoping study covering the metallurgical and processing aspects of any development and further geological studies. Depending on the results of this work further exploration drilling may be undertaken.

The proposed expenditure on ML 23812 for next year will be $40,000.

References