GBS GOLD AUSTRALIA PTY LTD

ANNUAL EXPLORATION REPORT ON MLN’s 4, 206, 1020, 1034 MCN’s 1172, 4785 FOR PERIOD ENDING 28 FEBRUARY 2009, FOUNTAIN HEAD BURNSIDE PROJECT, NT

Pine Creek SD5208 1:250,000
McKinlay River 5271 1:100,000
Batchelor 5171 1:100,000

Titleholder: Territory Goldfields NL

Distribution:-

1. DPIFM Darwin NT
2. GBS Gold Australia Perth
3. Burnside Operations P/L Brocks Creek
4. Union Reefs, Pine Creek

GBS Report No. PC/BJV/09-07

Zia U. Bajwah
March 2009
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1.0 INTRODUCTION

The Fountain Head project is centered 135km SE of Darwin, NT and 10 km east of the Brocks Creek mine office, on the Ban Ban (14/3-III) and Burnside (14/2-II) 1:50,000 sheets. Following the formation of the Burnside Joint Venture on 4 April 2002, management was placed under the Burnside Operations P/L. Since 2005, the Burnside Operations is wholly owned subsidiary of GBS Gold Australia Pty Ltd. The Fountain Head deposits were subjected to a first pass review that ranked the tenement group considerably high and a program of drilling was undertaken to extend the resource base. In the following, a summary of resource definition program during 2008-09 reporting year is presented.

2.0 LOCATION AND ACCESS

The tenement group is situated 135 km SE of Darwin and 10km east of Brocks Creek. They lie on the Ban Ban (14/3-III) and Burnside (14/2-II) 1:50,000 sheets and are between latitudes 13°26’ south and 13°29’ south and longitudes 131°29’ east and 131°32’ east. The tenement group lies within Perpetual Pastoral Lease No. 1111, Ban Ban Springs, held by Ban Ban Springs Station Pty. Ltd. Access is via the Stuart Highway to the Fountain Head/Grove Hill Road, and lies just north of the Darwin-Alice Springs railway reserve and the Brocks Creek access road (Figure 1).

3.0 TENEMENT STATUS AND OWNERSHIP

The Fountain Head tenement group comprises MLN4, 206, 1020, 1034, MCN 1172, and 4785. The total area covered is 879.67ha. The tenements are registered in the name of Territory Goldfields N.L. and managed by Burnside Operations P/L on behalf of the Burnside Joint Venture
Figure 1: Location of Fountain Head Group of tenements
Table 1: Tenement Details of the Fountain Head Group

<table>
<thead>
<tr>
<th>Tenement</th>
<th>Granted</th>
<th>Expiry</th>
<th>Area (ha)</th>
</tr>
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<tbody>
<tr>
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<td>02/05/14</td>
<td>529.9</td>
</tr>
<tr>
<td>MLN 206</td>
<td>18/05/71</td>
<td>31/12/29</td>
<td>16.18</td>
</tr>
<tr>
<td>MLN 1020</td>
<td>15/10/90</td>
<td>02/05/14</td>
<td>12.04</td>
</tr>
<tr>
<td>MLN 1034</td>
<td>01/12/88</td>
<td>30/11/13</td>
<td>304.2</td>
</tr>
<tr>
<td>MCN 1172</td>
<td>28/02/89</td>
<td>31/12/10</td>
<td>3.1</td>
</tr>
<tr>
<td>MCN 4785</td>
<td>17/03/95</td>
<td>31/12/10</td>
<td>14.25</td>
</tr>
</tbody>
</table>

4.0 GEOLOGY

Regional geology is outlined in many publications, notably Ahmad et al. (1993), and Needham and Needham and Stuart-Smith (1984), and Needham et al. (1988). The tenements are within the Pine Creek Geosyncline, a folded sequence of Palaeoproterozoic pelitic and psammitic sediments, with interlayered cherty tuff units. Mafic sills of the Zamu Dolerite (~1.87Ga) intruded lower formations of the South Alligator Group.

The mineralisation at Fountain Head occurs within the upper units of the Mount Bonnie Formation, the uppermost division of the South Alligator Group. This comprises cyclic siltstone, mudstone and greywacke packages that have been metamorphosed to greenschist facies. In the region of Fountain Head stratigraphy is folded along axes that strike NW-SE and plunge to the SE at shallow angles. Dominion geologists examined observations made by Cottle (1937) on the Chinese workings at Fountainhead. It was reported that the Chinese miners preferentially worked thin, high grade veins in carbonaceous mudstones leaving the thicker, lower grade veins in greywacke. Sheeted quartz vein stock-works occur mainly in the axial zone with veins predominantly dipping
northeast. The SSE-striking anticline has variable limb dips and the axis is faulted. Some saddle reefs occur in the axial zone.

The **Mt Bonnie Formation and Burrell Creek Formation** is the host to gold mineralisation which occurs within the Fountain Head Anticline, and was exposed in the face of a trial mining pit developed by Dominion in 1985. This fold is gently plunging, asymmetric and has a tight closure. It has a steeply dipping (~70 degrees) north east limb and a more gently dipping [50-65 degrees] south west limb. The hinge of the anticline plunges roughly 15 degrees towards 126 degrees at the pit, though regionally its plunges are 20 to 30 degrees SE. In the local area of the defined resource, the fold axis plunges to both the NW and SE, with the mineralisation located at the culmination of a doubly plunging domal structure.

Geology of the area is shown in Figure 1. Gold mineralisation at Fountain Head is hosted by sub vertical shear related stock-works, fracture zones in grey-wackes and saddle reefs at lithological contacts. Most of the resource is in the hinge zone of the anticline with gold grade rapidly tapering off down dip on the limbs. Fracture zones within the hinge zone lie parallel to the axis of the fold and have acted as a locus for fluid channeling. Broadly strata-bound ore zones are the result of two styles of mineralisation. *Quartz stock-works* have formed only in competent greywacke units, where folding of the hinge zone and adjacent limbs has increased fracture permeability. *Saddle reefs* have commonly formed at the contact between greywacke and mudstone units, and are thickest in the hinge zone, tapering rapidly down the limbs. The gold mineralisation is part of a quartz-pyrite-arsenopyrite meso-thermal system (Shaw 2006). The mineralised sector of the host anticline is structurally related to a NW striking fault system that is intersected by subtle NE striking fractures. The Glencoe mineralised system, 2 500m to the north of Fountain Head, lies on a parallel fault system also striking NW. Further NE again, the Woolwonga deposit is developed on a NW striking faulted anticlinal system.
Figure 2: Geology of the Fountain Head Gold deposit
5.0 PREVIOUS EXPLORATION

Shaw (2006) has outlined previous exploration at the Fountain Head tenements, and this is reported here. The discovery of a gold bearing quartz reef in 1883 was followed by intensive eluvial mining until 1886. Production in this period could have been up to 20,000oz.

From 1886 small scale mining of individual quartz reefs and alluvial work was carried out for a total production of around 9,870oz up to 1936. 1985-1989 Zapopan NL carried out an alluvial/eluvial mining operation. Between July 1987 and December 1989 they produced 10,104 ounces of gold from 825,187 loose cubic metres. In 1995 Dominion Mining Limited carried out trial open pit mining at Fountain Head (Potters Zone) to determine bulk performance at the Cosmo mill.

Modern exploration has consisted of 1,650m of trenching and 14,000m of RAB, RC and diamond drilling. This activity covered 1,200m strike of the mineralisation, and drill hole spacing locally attained 20m by 7.5m. Much of this early work was by Zapopan NL and Destiny Prospecting between 1982 and 1991, coincident with the alluvial mining period. In 1993, Dominion estimated a mineable gold reserve was based on a gold price of $485/oz and totalled 149,691t @ 3.42g Au/t from a pit with a strip ratio of 13.1:1. During 1996 Northern Gold NL completed a RAB drilling program over MLN 4 and MLN 1034, in order to identify areas of bedrock mineralisation associated with soil anomalism away from the historic producing areas. A total of 311 RAB drill holes were completed for 2,855m. The RAB drilling resulted in the collection of 1,428 samples, which were submitted to AssayCorp, in Pine Creek, for low level gold and arsenic analysis. During the 1996 field season, Northern Gold N.L. completed an RC drilling program over MLNs 1034 and 4 for resource evaluation. Reverse circulation drilling was undertaken in order to determine the extent and style of bedrock mineralisation around the existing open cuts. A total of 49 RC drill holes were completed for a total of 4,850 metres. All drill hole locations were surveyed by Qasco Northern Surveys and Micro Survey on the local grid. The RC drilling program resulted in the collection of 4,850 samples, which were submitted to AssayCorp, in Pine Creek, for Fire Assay Au analysis. A total of 35 samples were re-split and sent to Amdel in Darwin (Glassock, 1997).
Four samples were composited from RC drill chips and were sent to Amtec in Perth for Metallurgical Test work. Resource estimates were conducted using Gemcom software, with a Total Resource (Measured/Indicated/Inferred) of 1.601 Moz @ 1.696 g/t Au for 87,924 oz Au. In 1999-01 rehabilitation programs were carried out in compliance with the conditions of the Mining Act and the Mine Management Act. Drill holes within MLN 1034 were capped with concrete plugs and buried at a depth of 0.3 metres below surface level. No field work was reported during 2001. In 2002-03 under the management of the Burnside JV, the gold resources were subjected to a technical review that ranked the Fountain Head leases relatively highly compared with others in the region known to contain gold resources. The 2003-2004 year saw the area subjected to more detailed technical review and preliminary geological modelling to assist in resource definition and drill planning. A semi-regional structural interpretation based on SPOT imagery was completed. The 2004-2005 year saw a 13 hole, 798m RC drilling programme carried out as a result of modeling work completed in the previous year. Details on drilling, sampling method, logging etc were reported in the previous annual report (Shaw 2006).

During 2005/2006, further pit optimisation was planned and new area of mineralisation was recognised which would increase the resource base. During resource definition exercise, a resource of 604,206 t @ 2.63 g/t Au for 51,025 oz Au (using a 1.0 g/t Au cut-off) was calculated. It was based upon historic drill data and the 13RC holes from drilling in May 2004. Modelling methodology in the latest model was more stringent, with limited search ellipses and top-cuts being used, and an SG of 2.7, rather than 2.8 being used.

During 2006-07, a total of 167 RC and 13 diamond and 1 RC with diamond tail were drilled for 16,283 metres (RC drilling; 13,734 metres and Diamond drilling; 2,549 metres). This led to refine the resource model.
6.0  EXPLORATION DURING THE YEAR ENDING 28 FEBRUARY 2009

To extend the gold resource base further, drilling within the Fountain Head project area continued during 2008-09 reporting period. The purpose of this campaign was also pit optimisation which could lead to more effective mining operation to feed the Union Reef gold plant. Drilling in the Fountain Head open pit operation has concentrated on the Tally Ho lodes which are located on a shear zone diverging from the main Fountain Head anticline lode structures. This drilling targeted the lower portion of the interpreted depth extensions and defined additional ore material that should extend the Fountain Head open pit mine life. The Tally Ho lodes are interpreted to represent the near-surface expression of a larger and previously overlooked gold system. It remains open at depth and along strike. Further drilling is planned to test these zones and a new resource model is under preparation. Current drilling campaign covered 34 RC drill holes for 3458 metres. A total of 3473 chip samples retrieved during drilling were assayed for gold. All results are reported in Appendix 1 attached.

Notable intercepts of gold horizons are from drill holes TERC007 and TERC0019 which contains gold concentrations ranging from 5.67 g/t to 9.98 g/t. This drilling targeted the lower portion of the interpreted resource depth extensions with the objective of defining additional ore material that would extend the Fountain Head open pit mine life (Figure 3). Although further drilling is required, these drilling results suggest that a cut-back to the existing open pit is economically feasible and indicate an increase in the average grade of the Tally Ho lodes with depth.

In addition to the extended open pit potential, the higher grade tenor and significantly increased true widths of up to 14 metres, suggests that there may also be scope for deeper mineralisation that might support an underground mining operation (Figure 4). The Tally Ho lodes are open down dip and along strike. Further drilling is planned to test these zones and to further increase the contained ounces within the Tally Ho lodes.
**Figure 3:** Fountain Head and Tally Ho lodes system

![Fountain Head Resource - Plan View](image)

**Figure 4:** Fountain Head Resource – 9825 Cross section

![Fountain Head Resource - 9825E Cross Section](image)
**Tally Ho Resource Block Planning Model**

This was completed to provide information to determine potential depth of mining after undertaking the following:

- Validating drill hole data; lithology file had to be corrected,
- Interpreting and wireframing weathering profiles, base of oxidation and lodes,
- Selecting drill holes data within the above mentioned wireframes,
- Compositing drill hole data over 1m intervals,
- Calculating classical statistics and analysing lognormal probability plots to determine domains for modelling and necessary top-cuts,
- Reviewing variogram results issued by our Principal Resource Consultant,
- Creating a Geology cell block model with the correct density values using the above wireframes,
- Estimating grade using ordinary kriging with a 3 pass approach;
- Initially classifying resources such that cells informed during pass 1 were classified as Indicated whilst cells informed during passes 2 and 3 were classified as Inferred.

Resource estimates from this new planning model are compared (given below) with the current Tally Ho model used for external reporting on a pre-mined basis. The results show that the grade has increased by about 0.5 g/t Au.

**Combining Block Models**

Block models for Fountain Head, Ladder Vein West and Tally Ho were combined to form a single block model. (This model will be used by Mining Engineers to ascertain possible mining depths).
<table>
<thead>
<tr>
<th>Mined</th>
<th>Cut-Off</th>
<th>Ind_Tonnes</th>
<th>Ind_Grade</th>
<th>Ind_Ounces</th>
<th>Inf_Tonnes</th>
<th>Inf_Grade</th>
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<tbody>
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<td>Pre-Mined</td>
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<td>Pre-Mined</td>
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<td>1,032,888</td>
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<tr>
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During 2008-09, this exploration activity costed $ 279590.00 and details are given below.

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<th>Tenement</th>
<th>Expenditure $</th>
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</tr>
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<td>MCN 1172</td>
<td>350.00</td>
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<td>MCN 4785</td>
<td>350.00</td>
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<tr>
<td>TOTAL</td>
<td>279590.00</td>
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7.0 PLANNED EXPLORATION FOR 2009/10

During 2008-09, mining operation from the Fountain Head and Tally Ho open pits continued. However, on 15 September 2008, GBS Gold Australia was placed under voluntary administration, but plans are afoot to re-structure the company which may lead to full operational capacity. This will result in undertaking of exploration programs in 2009-10. Under the circumstances, it is imperative that EL is kept in good standing in order to sustain the full value of the tenement, which is critical in securing financial resources or attracting a new investor to re-commence company operations again.
Next year exploration may include further pit optimisation, pit stability investigations and further resource drilling. This program will cost at least $35 000.00.

8.0 REFERENCES


