HNC (AUSTRALIA) RESOURCES PTY LTD

AN 364 – Mount Fitch North

Annual Report
For the Year ended
1 July, 2010

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29 July 2010
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INTRODUCTION
In April 2007 the tenement holder Compass Resources Limited entered into a series of Joint Ventures with Hunan Nonferrous Metals Corporation (HNC) for exploration and mining of base metals on Compass’s tenements in the Batchelor Region. When the joint ventures were set up Compass Resources Limited was appointed operator of the Regional Exploration Joint Venture and as such was responsible for all reporting.

On 29 January 2009, Compass Resources Limited appointed Ferrier Hodgson as Joint and Several Voluntary Administrators of the company.

On 17 February 2009, Ernst & Young were appointed Joint and several Receivers and Managers of Compass Resources Limited. This appointment was pursuant to registered charges held over the Company in favour of HNC (Australia) Resources Pty Ltd.

On 1 May 2009 the Joint Venture Partners appointed HNC (Australia) Resources Pty Limited (HAR), a wholly owned subsidiary of HNC, as operator of all Joint Ventures. HAR is responsible for reporting on all Compass tenements which are subject to the Joint Ventures. AN364 is one of these tenements.

This tenement is considered prospective for uranium, copper, lead, zinc, cobalt and nickel mineralisation. During the year data acquisition and compilation of drill data continued.

TENEMENT DETAILS

Authority to Explore No. N364 (357.8 hectares) was granted to Compass Resources NL (now Compass Resources Limited) for five years on 2 July, 1993. The tenement was joint-ventured with Billiton Australia Gold Pty. Ltd. (later Acacia Resources Limited) on 4 August, 1993. Acacia managed the joint venture until mid-June 1997 when Compass Resources resumed management.
A request for waiver of reduction of AN 364 was granted on 9 August 1995 for 12 months. A waiver of reduction of AN 364 was again granted on 12 July 1996 for 24 months enabling the retention of the total area until 1 July 1998. A small portion of the south-eastern section of the tenement, which was on Aboriginal Freehold land, was relinquished in July 1998 when the tenement was renewed for a further two years. A series of renewals have been granted in the interim years and currently a Mines Dept renewal has been granted for exploration activities to cover work by Compass Resources until 1st of July 2010. A further Renewal Application has been lodged and is currently pending.

AN 364 is situated approximately 15 kilometres north-northwest of the Batchelor township, approximately 80 kilometres south of Darwin (Figure 1).

ACCESS

Access to the tenement is via sealed roads to Whites Road from Batchelor, then by unsealed roads to the abandoned North Australian Railway which leads north into the tenement. Access within the tenement to the gridded areas is provided by numerous well defined four wheel drive tracks.

An alternative access route during the dry period is from the Darwin River Dam area by travelling 10 kilometres south on the old railway line into the tenement.

AN 364 consists of undulating to flat landscape which drains towards the south and west. Vegetation is predominantly medium sized trees and a grassy understorey, though small patches of forest occur around semi-permanent springs and waterholes and in parts of the major drainages.

Average rainfall for the area is 1,500 mm per year, nearly all of which falls between the months of November and March. The tenement is largely inaccessible by road during these months.
GEOLOGICAL SETTING

(Summarized from the 1:100,000 Interpreted Geology Special of the Rum Jungle Mineral Field and the Simplified 1:250,000 maps published by Geoscience Australia and Northern Territory Geological Survey).

The Mt. Fitch North tenement (AN 364) is situated on the western flank of the predominantly granitoid Archaen Rum Jungle Complex (RJC) in the Rum Jungle Region of the Pine Creek Geosyncline.

The RJC has been mapped in the eastern most corner of the tenement. Unconformably overlaying the RJC to the west are the Lower Proterozoic formations of the Mount Partridge Group (MPG). The MPG hosts the regionally polymetallic-prospective contact between the pyritic argillites of the Whites Formation and the underlaying Coomalie Dolostone. The rudaceous to arenaceous Crater Formation forms basal unit of the MPG. These formations dip moderately west throughout the middle portion of the tenement.

The western extremity of the tenement is mapped as undifferentiated formations of the Middle Proterozoic South Alligator Group, which is partially overlain by Cainozoic sediments.

PREVIOUS EXPLORATION

(Summarized from previous Annual Reports for AN364)

During the 1950s and 1960s, the Bureau of Mineral Resources and Territory Enterprises Pty. Ltd., undertook both base metal and uranium exploration along the Whites Formation-Coomalie Dolomite contact. This involved mapping, costeanning, geochemical and geophysical surveys culminating in significant diamond drill programmes. Only minor mineralisation was reported.

Between 1979 and 1983 Uranerz undertook some regional RAB geochemical sampling to the immediate west of the tenement.
Compass Resources NL drilled two drill holes to the immediate west of the tenement in 1990, intersecting encouraging lead and copper mineralisation.

During 1994/1995 Acacia Resources completed one pre-collared diamond drill hole (MFN 3, collared just west of the tenement) and during 1995/1996 completed 7 reverse circulation drill holes over a major copper geochemical and vegetation anomaly within the tenement.

The diamond drill-hole intersected copper sulphide mineralisation at the base of the Whites Formation, whilst the reverse circulation holes showed the copper geochemical anomaly to be surficial in nature over tremolitic Coomalie Dolomite.

In the period 1997/1998, Compass Resources completed three diamond drill holes; one north of hole MFN 3 and two holes to the south. Hole MFN 4 located 50 metres to the north of MFN 3 intersected a 14 metre wide interval grading 1.94% copper at the base of the Whites Formation.

During the 2000 reporting period, two reverse circulation drill holes were completed to evaluate the tenor of the magnesite present in the Coomalie Dolomite.

During the 2003 field season, major planning for a holistic regional exploration was undertaken. It was proposed that a close spaced airborne electromagnetic survey be undertaken over the Company's tenements. This was based on the premise that a previously located EM anomaly at the nearby Mt. Fitch South prospect was due to that mineralisation. Subsequent drilling at this prospect in 2003 cast doubts on that interpretation; the area is deeply weathered and drilling of the northern extension of the EM anomaly failed to intersect sufficient sulphides to explain the anomaly.

Modelling of ground EM anomalies indicated that helicopter borne EM surveying was not suitable as it lacked sufficient power input to locate potentially subtle anomalies. This would leave the alternative as fixed winged EM surveying, which would require much longer flight lines than the helicopter system.
During the 2004 field season, two reverse circulation drill holes were drilled in this tenement. The first hole, 04MFN07 was stopped short of the target (at 40 metres) due to excess water flow. Hole 04MFN08 was reached the target depth of 45 metres intersecting anomalous base metal values.

During the 2006 field season exploration work consisted of field visits by Compass geological personnel with some reinvestigation of old workings and outcrops plus investigating by GPS the sites of previous exploration. The planning of a 750m drill program was then undertaken after researching previous exploration data.

During 2006 this RC drilling did not eventuate partly because a bush dwelling had been built over the main anomaly and Compass will need to enter into negotiations with the landholder to drill over this area. Compilation of historic data into a GIS database continued.

WORK COMPLETED
During the past year, the HAR continued work as follows:

- Geological mapping (partially completed – landowner restrictions).
- Historical data compilation.
- Data validation in GIS.
- Photogrammetry of 2009 aerial photos.
- Calculating the resources of MTF, MFS and MFN.
- Beginning the geophysical survey.

PLANS FOR NEXT YEAR

Proposed work for 2010-2011 will continue the consolidation of all previous exploration data into a corporate data base, or GIS database.

A proposed geophysical survey has commenced around Mt Fitch and surrounding areas. The 3D mineralization model will be continued.

Expenditure proposed for this work is $21,000.00.
PREVIOUS REPORTS AND REFERENCES

Previous Reports
Annual report for Exploration on AN364 Mt Fitch North 1994, Acacia Resources Limited, S Capp.

Annual report for Exploration on AN364 Mt Fitch North 1995 - part one Acacia Resources Limited, Richard Squire

Annual report for Exploration on AN364 Mt Fitch North 1995 - part two Acacia Resources Limited, Richard Squire

1996 Annual Report for Exploration on AN364 Mt Fitch Northeast, Acacia Resources Limited, Richard Squire

1997 Annual Report of Exploration AN364 - Mt Fitch NorthEast, Compass Resources, M K Boots

1998 Annual Report of Exploration AN364 - Mt Fitch NorthEast, Compass Resources, M K Boots

1999 Annual Report of Exploration AN364 - Mt Fitch North, Compass Resources, M K Boots

2000 Annual Report of Exploration AN364 - Mt Fitch North, Compass Resources, M K Boots

2001 Annual Report of Exploration AN364 - Mt Fitch North, Compass Resources, M K Boots

2002 Annual Report of Exploration AN364 - Mt Fitch North, Compass Resources, M K Boots
2003 Annual Report of Exploration AN364 - Mt Fitch North, Compass Resources, M K Boots

2004 Annual Report of Exploration AN364 - Mt Fitch North, Compass Resources, M K Boots

2005 Annual Report of Exploration AN364 - Mt Fitch North, Compass Resources, M K Boots


References


EXPENDITURE REPORT

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AN 364 LOCATION MAP