ANNUAL REPORT

MINING LEASE 23812

SPRING HILL

FOR THE PERIOD 16/1/08 to 15/1/09

by

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1:250000 Pine Creek

1:100000 Pine Creek

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SUMMARY

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.

The mining lease is underlain by sediments of the South Alligator Group and the Finniss Group of Palaeoproterozoic age. These rocks have been folded along NW trending axes and the folds are tight to isoclinal. A major anticline, the Spring Hill Anticline, occurs in the project area and plunges to the south.

Gold was discovered in the area in the 1870’s. Mining activities at Spring Hill 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.

Exploration carried out by BHP Billiton during 1988 and 1992 delineated a low-grade sheeted quartz vein system to the west of the main historical workings, named the Hong Kong Zone.

An ore reserve estimation completed in 2003 showed that the Hong Kong Zone and the Main, Middle, and East Lode zones had an Indicated Resource of 3.6Mt at 2.34g/t Au, for 274,000oz of contained gold, at a 1g/t Au assay cut-off grade.

Western Desert Resources Ltd has undertaken an airborne EM survey over the tenement during 2008.

Scoping and ore reserve estimation studies were also been carried out.

Preliminary interpretation of the airborne EM data shows that no anomalous conductive zones occur within the mining lease.

The results of the scoping studies indicated that the project was not economic at the gold price current in early 2008.
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. Portions of the tenement are inaccessible to vehicles due to the rough terrain.

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 Sorghum 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.

ABORIGINAL SACRED SITES
There are no known sacred sites within the project area. The Aboriginal Areas Protection Authority issued Authority Certificate C2008/159 over the Mining Lease on 15th August 2008, see appendix 1.

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, costeining 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, costeining, 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. Billiton’s 1989 TEM survey proved this concept.

**EXPLORATION BY WESTERN DESERT RESOURCES LTD**

**2007**
Office studies were carried out including database compilation, literature research, drill section output and planning for future drilling programmes. Satellite imagery (Quickbird VHR) was purchased for the Spring Hill area.

The previous metallurgical testwork carried out by Ross Mining NL was reviewed by Bemex Corporation. Drillcore samples from Spring Hill were sent to Ammtec Laboratories for physical testwork.
EXPLORATION COMPLETED DURING CURRENT YEAR

Airborne EM survey
An airborne EM survey was flown by GeoForce using their Skytem system over the tenement during September 2008. A total of 283 line kilometres were collected in an east-west direction. The nominal terrain clearance was 30m and the line spacing was 150m. The details of the survey are given in the logistics report in appendix 2. The data can be found in appendix 3.

Metallurgical Scoping Study
A metallurgical scoping study was undertaken by Bemex Corporation Pty Ltd and the report is located in appendix 4.

Ore Reserve Estimation
An ore reserve estimation and scoping study was carried out by McLean Geological and Mining Consultants in association with McDonald Speijers. The sections, spreadsheets and reports on this work are detailed in appendix 5.

RESULTS AND EXPENDITURE

Discussion of results
Preliminary interpretation of the airborne EM data shows that no conductive zones have been found within the mining lease.

The scoping studies carried out by Bemex and Mclean Geological and Mining Consultants showed that the project was not economic at the gold price current in early 2008.

Expenditure
The expenditure commitment for 2008 was $40,000. Actual expenditure was $51,985 as shown on the exploration expenditure report.

PROPOSALS FOR FUTURE WORK

Proposed work programme for 2009
The recent rise in the gold price has led to a reassessment of this project. WDR intends to undertake a drilling programme over the Hong Kong zone for heap leachable ore reserves. The scope and timing of this work will be dependent on the company raising enough funds to undertake it.

The proposed expenditure on ML23812 for 2009 will be $150,000.

References