HNC (AUSTRALIA) RESOURCES PTY LIMITED

EL 27969

Title Holder: Compass Resources Limited
Operator: HNC (Australia) Resources Pty Limited

Annual Report

From 17th August 2010 to 16th August 2011

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INTRODUCTION

EL 27969 is a new tenement under the Joint Venture between Compass Resources Ltd and HNC Australia Pty Ltd. Compass Resources Ltd was placed in voluntary administration in January 2009 and then placed under a deed of company arrangement from 1 May 2009 for a period of 12 months. Under the terms of the JV agreement between Compass Resources Limited and HNC, a wholly owned subsidiary of HNC, named HNC (Australia) Resources Pty Ltd (HAR) will continue exploration activities in 2011/2012 on the Joint Venture tenements.

During Year 1 of EL 27969, 30 line km of heliborne electromagnetic and magnetic surveys (XTEM) were carried out. A gravity survey was also carried out consisting of 9 stations in total.

The area is considered prospective for uranium, copper, lead, zinc, cobalt and nickel mineralisation.

LOCATION AND ACCESS

The tenement is located approximately 70 kilometres south of Darwin and nearby the original mine sites of the Whites and Intermediate (Rum Jungle) Deposits.

Access from Darwin is via sealed roads to Batchelor and thence northward to the tenement via the start of the Litchfield Road. Access is also possible during the dry season by following the old railway line south from Darwin River, then along local dirt roads.

TENEMENT DETAILS

EL 27969 was granted on the 17th August 2010 for a period of six (6) years. Ownership is Compass Resources Limited 100% and HAR are operators as part of the Joint Venture Agreement.

The tenement is located on the Darwin 1:250,000 map sheet, and consists of 4 sub blocks (2.59 sq km)
**GEOLOGICAL SETTING**

The Browns deposit lies in the Rum Jungle Mineral Field. The basement geology is dominated by the Archaean Rum Jungle Complex comprising two inliers (the Rum Jungle and Waterhouse domes) of S- and I-type granitoids. These are unconformably overlain by Palaeoproterozoic sedimentary strata forming the base of the Pine Creek Orogen. This sedimentary strata hosts significant deposits of stratiform base metal mineralization and structurally controlled uranium mineralisation.

The Browns Oxide deposit is hosted in weathered Proterozoic Coomalie dolomite and Whites Formation. Beneath the base of oxidation both units dip steeply to the southeast and a large body of stratiform base metal mineralization occurs in the basal shales close to the boundary with the dolomite.

The Proterozoic Zamu Dolerite intrudes both the Whites Formation and base metal mineralization but the majority of the dolerite is to the south of the Oxide Pit.

Close to the base of oxidation the bedding is folded suddenly and becomes almost flat lying. Though some tectonic folding may be involved the majority of this change in bedding dip is in response to preferential weathering and dissolution of dolomite (acid generated from breakdown of sulphides) causing slumping of the shale/dolomite contact and associated base metal gossan.

Erosion in the Tertiary created an uneven topographic surface that has filled with fluviatile deposits of Tertiary clays, sands and gravels. These deposits are part of an extensive area of Tertiary valley fill that forms low ridges immediately to the north of the mining leases.

Identification of rock units within the weathered horizon can be problematic. Major element geochemistry often provides a better indication of rock type than geological logging of drill holes and was the primary source of data when developing the geological model.
The Browns-Browns East stratabound base metal sulphide resource occurs at the base of the Whites Formation. Mineralisation extends for 2.5 km along strike essentially from the eastern edge of the historical Whites open cut pit, to the west. Mineralisation occurs on the contact with the Coomalie Dolomite, or through apparent facies change, and away from the contact up to 70 metres within the Whites formation. (From the former Compass Annual Reports)

**PREVIOUS EXPLORATION**

There has been no previous exploration by HAR on this tenement. HAR has not carried out a search on the work carried out by previous explorers on this area.

**WORK COMPLETED DURING YEAR 1 - 2010-2011**

During the 2011 reporting period 30 line km of heliborne electromagnetic and magnetic surveys (XTEM) were carried out over EL 27969. A gravity survey was also carried out consisting of 9 stations in total. The gravity was designed to infill existing surveys and the XTEM was flown at 100m line spacings to give a very high resolution survey. This data has been submitted on disc to the Department following some significant data acquisition problems which had to be overcome.

Preliminary geophysical modelling has been carried out on this EL and we are hoping to continue with this to generate anomalies worthy of follow up during the next reporting period.

**PLANS FOR YEAR 2 – 2011-2012**

Further geophysical modelling of the gravity and EM data are planned to generate suitable targets for the upcoming reporting period. Ideally we would like to generate some targets suitable for drilling however this will depend on the detailed geophysical modelling that is currently underway.

It is anticipated expenditure will exceed $11,000.00.