Deralinya Project
Combined Reporting C66/2013
2014 ANNUAL REPORT

Project Name: Deralinya
Tenement Numbers: E63/1521, E63/1522, E63/1523, E63/1524
Tenement Operator: Segue Resources
Tenement Holder: Fraser Range Resources Pty Ltd
Report Type: Annual Report
Report Title: Deralinya Project ANNUAL REPORT
Author: Dr Howard Carr, Technical Director, Segue Resources

1:250 000 map sheet: Cundeelee (SH5111), Seemore (SH5112), Plumridge (SH5108), and Minigwal (SH5107) (See Section 5.1)

1:100 000 map sheet:

Target Commodity: Au, Ni, Base Metals, Mineral Sands, Uranium, Lignite
Keywords: Au, Ni, Base Metals, Mineral Sands, Uranium, Lignite
Prospects drilled: None
List of Assays: None
Summary

The Deralinya Project area comprises four exploration licenses (E63/1521, E63/1522, E63/1523 and E63/1524) that straddle the Proterozoic and Archaean stratigraphy across a major crustal suture. This structural zone separates the Proterozoic Albany-Fraser Orogen from the Archaean Yilgarn Province. The Deralinya Project Tenements are prospective for a range of base metals and precious metals, ranging from Archaean greenstone-hosted gold and base metal mineralisation to Proterozoic Tropicana-style gold mineralisation and also uranium, lignite, mineral sands and rare earth elements hosted in the younger cover sequences.

Fraser Range Resources Pty Ltd (FRR) was acquired by Segue Resources Limited (Segue) in December 2013 and is now a wholly owned subsidiary of Segue. Operationally the tenement is part of the Segue’s Fraser Range Project, which includes the Plumridge and Deralinya Projects. The commodity focus is Gold, Uranium, Mineral Sands, Lignite and Nickel.

During the reporting period, an initial review of the project was completed by CSA Global and a work plan prepared. The work programme includes field mapping, a Ground (Moving Loop) Electro-Magnetic survey and reconnaissance air core drilling. However, several significant rain events in early 2014 have delayed Segue’s field work at the northern portion of the Plumridge Project and therefore field work has not yet commenced at Deralinya.

Location

The Deralinya Project is located approximately 100km northeast of Esperance and 175km southeast of Norseman (Figure 11, Figure 1) and covers an area of 1,298km² in four separate Deralinya Project Tenements.

Access to these Deralinya Project Tenements is generally poor, relying on abandoned exploration tracks or rarely used bushfire fighting tracks in heavily vegetated crown land south of the Dundas Nature Reserve.

The northern Deralinya Project Tenements are reached via the sealed Fisheries Road from Esperance to Condingup and then via the multilane sheeted gravel Parmango Road that runs northeasterly past the heritage site of Deralinya and joins up with the Balladonia Road. Tracks running off the Parmango Road see very occasional recreational use and are significantly overgrown and commonly blocked by fallen timber. Tracks were mainly created by coal explorers in the early 1980’s.

The southern Deralinya Project tenements can be reached, with difficulty, from the Parmango Road, but are better accessed from the long northeasterly trending Mount Ney Road, which runs up to the old Splinter Project area.

Climate, Topography and Vegetation

The Deralinya Project area experiences a Mediterranean climate with warm, dry summers and cool, wet winters. It is subject to broad variations in the weather; with hot summer days driven by northerly winds, and cold, wet, winter days with southerly winds.

The area covered by the Deralinya Project tenements comprises flat to gently undulating ground with occasional isolated rocky granitic hills (e.g. Mounts Heywood, Ney and Andrew), low sand dunes and numerous small clay pans.

Dense mallee scrub covers most of the area apart from the clay pans and areas cleared by fires. The composition of the woodlands varies from place to place but essentially comprises mallee species with an extensive understorey. The far southern portions of the Deralinya Project area are covered by agricultural paddocks.
Regions of clay pans and salt lakes are interpreted as remnant palaeodrainage systems and, in the south, the former near shore/estuarine areas.

**Figure 1. Road Access Routes to the Deralinya Project**

The Mineral Assets comprise four exploration licences – E63/1521, E63/1522, E63/1523 and E63/1524 (Table 1 and Figure 2) that have been granted under the Western Australian Mining Act (1978) ([Mining Act](#)). Full Tenement details are presented in Table 2. The Mineral Assets have an aggregate area of 1,298.1km².

**Geological Overview**

The tenement has a veneer of flat-lying Mesozoic and Tertiary age sediments deposited in the Eucla Basin overlying a metamorphic crystalline basement of Proterozoic age, which was subjected to the Albany-Fraser Orogen. No Proterozoic basement rocks outcrop within the tenement.
Table 1 Deralinya Project tenement schedule

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Most of licences are on Vacant Crown Land. However the southernmost licence E63/1524 covers around 88 km² of agricultural land.

Native Title

It is a requirement that the consent of Native Title claimants be obtained before a Tenement can be granted. This has been obtained by way of Agreements for Heritage Protection with the three Native Title claimant groups – the Ngadju, The Esperance Nyungars and the Narnoonbinya Family Group – affected by the grant of the Tenements that were executed by FRR and the Native Title claimants during 2012. The claims for Native Title over the Deralinya Project are shown in Figure 2. The Narnoonbinya claim has been dropped, leaving only the Ngadju and the Esperance Nyungar claims.
Project Details

Local Geology

The Albany-Fraser Terrane consists of two Proterozoic mobile belts that flank the southern margins of the Archaean Southwest Gneiss Terrane and southern and eastern margins of the Yilgarn block. The two Proterozoic mobile belts are Palaeo-Meso Proterozoic in age and are characterised by high grade gneisses and granulites, granitoid intrusions and polyphase deformation.

The geology of the Albany-Fraser Orogen has recently been described by Spaggiari et al. (2009, 2010, and 2011).

The Deralinya Project area straddles a complex structural zone interpreted to bridge both Proterozoic and Archaean rocks in major crustal suture zone.

The Deralinya Project mostly lies within the Biranup Complex (1,600-1,700Ma). To the northwest the Deralinya Project covers rocks interpreted to be part of the Biranup Zone, comprising dominant migmatitic gneiss (mostly garnet-bearing) as well as granitic and metasedimentary gneiss. These rocks are considered strongly deformed Palaeo–Mesoproterozoic high-grade metasediments. They may include remnants of Archaean rocks and also intrusions of Recherche and Esperance Supersuite granites.

In some places amphibolite (either remnants of Archaean rocks or related to the Fraser Zone) is interpreted, for example in the Splinter area.

To the southeast the Deralinya Project covers interpreted Recherche Supersuite. This is a moderately to strongly deformed and recrystallized metagranite. It is heterogeneous, even grained or porphyritic, with possible intrusions of later lesser deformed Esperance Supersuite granitoids.

A new interpretation of the pre-Mesozoic bedrock geology using new magnetic and gravity data has recently been completed by Stannard and Meyers (2013) as shown in Figure 3. This interpretation of the geology is broadly similar to previous interpretations, albeit with significantly more detail, and a great deal of structural information has been identified. However, of particular significance is the recognition of a large (20km x 4km) lozenge of interpreted mafic/ultramafic rock in the centre of the project area. There are number of eye-like features (or fold closures) recognisable within the unit.

The potential for nickel-copper mineralisation is thus significantly enhanced within the project area. The likelihood of such mafic units in the project area is underpinned by the recognition of similar rocks elsewhere in the district, locally at the Splinter area, to the northwest in the nearby Ausquest tenements where a series of EM conductors associated with geochemical anomalism have been interpreted as mafic-hosted sulphide targets, and to the west at Mount Ridley where BHP drilled a layered mafic body.

Historical Exploration

There has been limited exploration in Deralinya Project licence areas. Thick scrub, lack of water and no surface drainage severely limited early prospecting. The same factors inhibited modern era mapping and the poorly known geology was perceived to be of limited prospectivity.

- CRA Exploration (CRAE) undertook regional exploration in the early 1980’s searching for lignite/coal. CRAE flew INPUT airborne Electromagnetic surveys to define palaeochannels and cut access tracks to drill a number of stratigraphic wells.

- Griffin Coal also explored for coal in the same period. They targeted Eocene fluviatile/marine sediments at the western margin of the Eucla Basin, south of Harms Lake. Exploration was based on recorded occurrences in the Kalgoorlie-Norseman area and on previous work by Griffin. Geological reconnaissance and a gravity survey were followed by drilling. No Eocene sediments were encountered.
above shallow granitic basement.

- Uranium was the focus of exploration by Noranda in 1986 in the Lake Steel area.

- Eucla Mining undertook exploration for heavy mineral sands during the early 1990’s, but with limited success.

- Pecan Resources undertook loam sampling in 1996 to the northwest of Fraser Range that were found to contain gahnites in three of the samples collected. This finding was interpreted to support the potential for Broken Hill type zinc mineralisation in the high-grade metasediments. Age dating on a number of samples was also completed.

- Pan Australian completed exploration in the late 1990’s testing for an extension of the Archaean Yilgarn Craton into a regional formerly interpreted as Albany-Fraser Province. World Geoscience completed aeromagnetics over the area on 400m spaced E-W orientated lines at a flight height of 60m. 45 magnetic target areas were identified.

- BHP Billiton – Discovery Nickel JV looked for Broken Hill type Ag-Pb-Zn, and polymetallic VMS type mineralisation in 2004-2004. Calcrete geochemical sampling highlighted an area of Cu-Au-Zn-Ni anomalous, called Zone B, measuring 3km x 1km. They drilled 39 RAB holes along two lines, 500m apart, measuring 900m x 1,200m, to blade refusal with depths ranging from 9–56m. This geochemical exploration identified a large 3km x 1km Cu+Au±Zn±Ni anomaly on the contact between the Archaean domain and Palaeo-Meso Proterozoic Fraser Mobile Belt.

- Azure Minerals completed a range of exploration activities over the Splinter project area, located centrally (but not included) within the Deralinya Project tenements in the period 2004 to 2008. Work comprised airborne aeromagnetic/radiometric, ground gravity and IP surveys and their interpretation, calcrete, soil and rockchip sampling, aircore, RC percussion and diamond core drilling. The RC percussion and core drilling tested magnetic and gravity anomalies for iron-oxide Cu-Au deposits and magnetite mineralisation. No significant Cu-Au-(U) mineralisation was identified, but hole SRC002 returned a best intercept of 24 m at 30.8% iron from E63/868. Azure’s calcrete sampling returned a maximum assay of 7ppb Au, but most samples were around the 1ppb level. Given the thickness of cover revealed in the drilling at Splinter – cover is commonly >20m thick – these low results are not surprising, and are considered a poor test of basement mineralisation.

- In 2005-2006, Nickel Australia completed exploration at Splinter prospect and to the west, in the area partly overlapping E63/1522. Exploration activities comprised ground EM and gravity surveys, aircore and RAB drilling, petrology, surface sampling (calcrete, soil, and rock-chip) and re-analysis of previous years samples. A number of soil samples returned assays greater than 1 ppm U. Drilling did not return any significant intersections. Whilst gold and nickel based exploration has failed to define any anomalous zones gravity and surface geochemistry has defined an anomaly which has a potential to host the Olympic Dam/Carrapateena style iron-oxide Cu-Au mineralisation. Further drilling, geochemistry and IP was required to fully define this northeast-striking 4km long zone.

- Goldport Pty Ltd carried out exploration for Au and Cu in the area partly overlapping the current E63/1522 in 2006-2009. They completed a ground gravity survey on 1km spaced stations and reprocessed the existing aeromagnetic data. A number of auger calcrete and soil samples were collected within the top metre of surface cover. Anomalous Cu and Au with lesser Mo and W have been identified largely in the northern part of the survey area. Two gravity highs within the anomalous areas were selected for further drill testing.

- In 2008-2010, Norseman Gold PLC compiled and reviewed all available information, and completed a regional scale litho-structural and aeromagnetic data interpretation. The company generated a number
of exploration (predominantly for gold) targets and assessed available geochemical sampling strategies. A reconnaissance trip was also completed to the Fraser Range Project area. First pass drilling program was planned to assess cover thickness and validate the appropriateness of calcrete sampling, when a change in corporate priorities lead to the suspension of the regional exploration work in the Fraser Range area.

- In 2011, Buxton Resources completed a number of exploration activities in the area west of E63/1522 and north of E63/1524. Exploration involved a VTEM survey and rock-chip and calcrete geochemistry to test for gold and nickel mineralisation. VTEM results indicated complex EM responses due to a variety sources including conductive cover, deeper weathering zones and bedrock sources. Calcrete sampling has identified low-order Au and Ni anomalies. The results were considered encouraging, further calcrete sampling was recommended.

- Ausquest Ltd carried out exploration in the Dundas project area, located north and northwest of E63/1521. In 2009 to 2012 activities comprised an airborne magnetic/radiometric survey and collecting 172 calcrete and 166 soil samples.

Figure 3: Interpreted bedrock (pre-Mesozoic) Geology of the Deralinya Project Area
Recent Exploration

The Deralinya Project area was held by Norseman Gold PLC immediately preceding the grant to FRR.

Work completed comprised compilation and review of all available data, a regional and Deralinya Project specific litho-structural interpretation and targeting exercise of aeromagnetic data (predominantly for gold), an assessment of regolith and geochemical sampling options and a reconnaissance visit made to the Deralinya Project areas.

Drill planning to assess cover thickness in areas of interest and validate the appropriateness of calcrete sampling was permitted and access tracks constructed, when a change in corporate priorities lead to the suspension of the regional exploration work in the Fraser Range area.

FRR applied for essentially the same tenement areas, plus an extra one west of the Splinter area, when they were surrendered by Norseman Gold.

Deralinya Project Prospectivity

The Deralinya Project lies in an underexplored, mineralised and prospective region. Segue believes the Deralinya Project tenements are prospective for gold, nickel-copper and other commodities including mineral sands, palaeochannel uranium, magnetite iron ore, graphite and lead-zinc-silver.

Further exploration is warranted in the Deralinya Project Tenement package, however physical access in the region is constrained by thick woodland and scrub dominated by mallee and understory species.

Gold

A lithomagnetic and structural interpretation completed for the Deralinya Project area by Isles and Dorling (2009) and Spaggiari et al. (2011) concluded that the “Munglinup Gneiss/Biranup Zone/Northern Foreland” terrane represents a metamorphically and structurally reworked margin of the Yilgarn Craton rather than an exotic accreted terrane. This terrane is recognised as the host rocks for most of the important gold systems so far recognised in the Albany-Fraser Orogen, including Tropicana-Havana. This terrane is the preferred target for basement-hosted gold exploration in the Deralinya Project area.

An additional or parallel exploration model for gold is structurally driven. The Deralinya Project tenements are located in an area of high structural complexity, known as the ‘S-bend’, a zone of major deformation related to the structural emplacement of the Fraser Zone to the north. Furthermore a number of major faults and shears cross cut the area – providing numerous locations for structural and rheological gold traps – and the whole region lies on the Widgemooltha trend (Figure 4).

New interpretations of the bedrock geology (Meyers and Stannard, 2013, Figure 3) detail both this structural complexity as well as flag the presence of many probably more ‘mafic’ units that provide potential chemical trap for gold particularly where they are in proximity to the structures.

There has been limited surface geochemical sampling in the Deralinya Project area by past explorers. The northwestern corner of the Deralinya Project area was tested partly by a calcrete sampling program conducted by BHP looking for BHT deposits, and 100 calcrete samples were collected in the Splinter project area by Azure Minerals; no other surface geochemical sampling was found in the WAMEX data.

The BHP calcrete sampling covers part of the reworked Archaean zone identified by Isles and Dorling (2009) and is of particular interest. There are two samples that are greater than the 98th percentile for gold (actual values 13 ppb and 12 ppb) in the calcrete data. However they are single point anomalies and their calcium contents are also the highest calcium values – levelling gold by calcium reduces the significance of these samples, but flags four other samples as anomalous. The low levels of calcium and gold recorded for some of these samples means that these results need to be used with caution.
However, the presence of anomalous gold, whether or not it can be directly related to underlying mineralisation, in the area of interest highlighted by Isles and Dorling (2009), provides encouragement for the prospectivity of this area.

Azure’s calcrete sampling returned a maximum assay of 7 ppb Au, but most samples were around the 1ppb level. Given the thickness of cover revealed in the drilling at Splinter – cover is commonly >20m thick – these low results are not surprising, and are considered a poor test of basement mineralisation.
The Deralinya Project area is covered by a complex regolith with multiple episodes of lateritisation and stripping of saprolite profiles that have developed on both the Precambrian rocks as well as Cainozoic sediments. This means that low-level gold anomalies are likely to be more significant than areas with more intact regolith profiles.

Palaeoshoreline/s and inset palaeovalleys eroded during regressions complicate the regolith story but also provide opportunities for mineral sands, sandstone hosted uranium and possibly lignite. The potential is greatest in the southern licences.

There is the possibility of gold in the palaeochannels, either placer or chemically transported.

A reasonably ubiquitous pedogenic calcrete is reported by past explorers developed at around 0.5-1.5m depth in the surficial sandy soils (aeolian). This calcrete is considered to be the best surface geochemical sampling medium in those areas where the cover sequence is thin enough.

Mallee is the predominant flora in the region – the root systems of mallee reportedly extend to 10-20m depth, so that calcrete is likely to have captured metals transported by the plants from this depth range.

Another exploration tool being investigated by Segue is using the ubiquitous woodland as a sampling medium via biogeochemical sampling of plant materials.

The southern licence group is less prospective for gold in the basement and has thicker regolith. Surface sampling is suggested for the lower priority lithomagnetic zones that lie in the interpreted shallow basement areas.

**Nickel**

The recognition of a possible large lozenge of mafic/ultramafic rock within the project area has important ramifications for the nickel potential of the area. The new nickel model is also relevant in this situation because the Urals-Alaskan style zoned ultramafic pipes are controlled more by structure than by host rock. If a subduction step-back generated more fertile magmas, then any steep, deep-rooted, structure is a potential locus for intrusion of these pipes. The presence of eye structures within the project area present additional nickel targets.

**Uranium**

A series of major palaeovalley systems that drain the Yilgarn craton traverse the Deralinya Project area. Lines of playa lakes, commonly with anomalous uranium radiometric channel signatures, define the locations of many of these palaeovalleys. While these surficial uranium anomalies provide a target for uranium in their own right – similar to the deposits at Lake Way and Lake Maitland near Wiluna, it is the major palaeovalleys that represent the principal uranium targets. These palaeodrainages tap significant catchment areas of weathered, uranium-enriched, granitoids in the adjacent Yilgarn Craton and transport oxidised groundwater capable of carrying uranium in solution. Redox traps within the palaeochannels, either reduced sediments of Mulga Rocks style lignite bodies, can then capture and concentrate this mobile uranium.

The presence of up to 500ppm U over a single 1m sample (from an 11 hole programme) at nearby Lake Steel was the focus of exploration by Noranda in 1986 shows that uranium concentrations of potentially economic interest can form in this region.

Exploration by defining palaeovalleys and the redox conditions within them are relatively straightforward exploration plays.
Base Metals

The base metal potential of the rock packages to the southeast of the “reworked Archaean” remains untested and conceptually valid. High-grade metamorphic rocks with ages from Palaeo- to Neoproterozoic are known globally to host a range of Pb-Zn deposits types of economic interest, for example:

- Classic Broken Hill style (including Cannington) deposits with significant silver contents;
- Balmat Edwards-style, a Neoproterozoic zinc-lead deposit in the Grenville orogen in New York State, age 1000Ma; it is a possibly a metamorphosed carbonate hosted (MVT-style); and,
- Rampura Agucha-style, from Rajasthan, where it is hosted by granulite facies rocks of Palaeoproterozoic to Mesoproterozoic age; it is considered to be a metamorphosed SEDEX zinc deposit characterised by high zinc-lead grades and excellent milling properties; probably about 120 million tonnes at approximately 13% combined Zn-Pb.

All of these deposit styles have different regional and local host rock packages and geochemical signatures and affinities.

The presence of gahnite (an alteration product of zinc mineralisation) in loam samples to the west north west of the project area is a significant clue that BHT-type mineralisation might be present within the high-grade metasediments in the project area.

The key to targeting these mineralisation styles is to better define the rock packages at the Deralinya Project and then to focus on a possible style of target and final exploration pathway. BHT is probably the most attractive with high grades of Ag, but the others would also be worthwhile.

Proposed Exploration Programme

The Deralinya Project is a conceptual, grassroots, exploration play in an area with very limited data available. Segue has provided a clear exploration strategy to further test the mineral potential of the Deralinya Project.

The following work programmes are planned by Segue:

- Infill and repeat calcrete sampling will be undertaken around the anomalous samples collected by BHP. The initial 1km spaced samples will be infilled with 200m-spaced samples around the anomalous samples with two repeats taken at and near the original anomalous samples.
- This orientation work is designed to check the reliability of the calcrete sampling in this area and provide confidence in the suitability of this approach.
- If the follow-up samples repeat the anomalous results then calcrete sampling will be completed on 800m x 200m lines across the areas interpreted as shallow basement.
- Complete a series of aircore traverses across the prospective units identified on the lithomagnetic interpretation – this will provide basement samples, information on lithologies to truth the interpretation and also geochemical samples and material for hyperspectrally assessing alteration assemblages present. Additionally, this approach will provide unequivocal evidence on the regolith upon which to base exploration decisions elsewhere in this area.
- Complete a series of aircore traverses across the interpreted palaeodrainages to assess the location and thickness of the drainages, observe the redox state of the sediments and the amount of sands present, test for mineral sands, lignite and uranium (on site checks with scintillometer and handheld XRF
instruments are recommended). Any basal sands/gravels should also be assayed for gold. Figure 4 shows the areas of proposed calcrete sampling and possible aircore lines.

- Undertake airborne geophysics (EM or aeromagnetics) to screen portions of the tenements following targeting interpretations of the public domain data. The newly recognised mafic zone in E63/1521 is a key area for this approach. Segue intends to undertake an aircore drilling programme to both test areas identified as prospective for gold mineralisation and in parallel to assess the suitability of pedogenic calcrete as a geochemical sample medium in the Deralinya Project area. The rationale for reconnaissance aircore drilling is to map the bedrock geology – lithology, alteration (both visually and spectrally) and geochemistry (thereby validating the of lithomagnetic interpretation); and, to assess the depth of cover and the nature of regolith. This latter information will provide an insight into the applicability of surface geochemistry (calcrete sampling); as well as assessing the Heavy Mineral Sands (HMS), lignite & uranium potential of the test area.

- Should the suitability of calcrete be confirmed then Segue proposes to undertake broad regional calcrete soil sampling to locate gold anomalies, to be followed with infill calcrete sampling over higher tenor anomalies and subsequent drill testing. Samples will be assayed for a multi-element suite that targets gold and base metals related to VMS and nickel.

A two year programme budget of $0.45 million has been outlined and is summarised in Table 2 below. The budget provides for geochemical sampling in Year 1 to define targets, followed by infill/additional sampling, reconnaissance drilling and target testing RC percussion drilling in Year 2.

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