

## Overview

Gold production for the 2009 financial year from the Challenger Mine was 98,755 ounces at an average site cash operating cost of \$438 per ounce. This was achieved from processing 434,087 tonnes of ore at an average grade of 7.54 g/t.

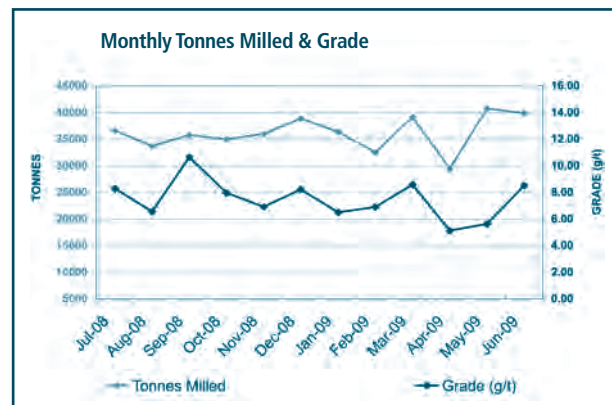
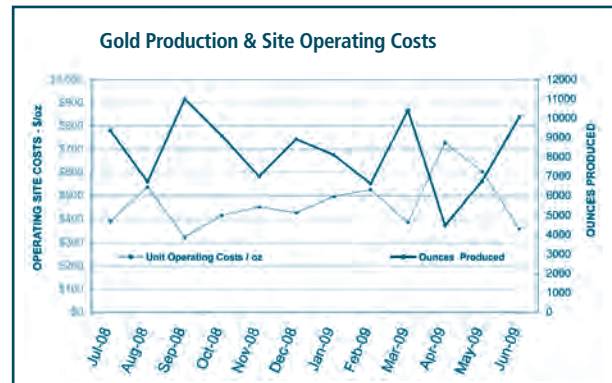
Since the commissioning of the treatment plant in October 2002, Challenger had produced 566,635 ounces of gold at an average cost of \$357 per ounce to the end of the 2009 financial year from open pit and underground mining. From the commencement of underground stoping in July 2005, a total of 424,352 ounces have been produced from the treatment of 1,616,861 tonnes of ore at an average mill feed grade of 8.7 g/t and an average operating cost of \$347/oz.

As a result of successful exploration drilling during the year from both surface and underground, the Challenger resource inventory increased by 26%, underpinning confidence in an extended mine life for the Project. Resources at the end of the year were 4,611,550 tonnes of ore at an average grade of 9.9 g/t containing 1,461,140 ounces of gold, of which 702,570 ounces were classified as reserves.

Following the completion of a feasibility study in March 2009, work commenced on a \$4.82 million expansion of the Challenger processing plant to increase annual throughput capacity to 530,000 tonnes of ore, which will result in annual production of around 120,000 ounces of gold.

The expansion, which is scheduled for completion by the end of December 2009, involves improvements in cyclone and re-grind efficiencies, supplementing the addition of a second ball mill similar to the existing mill and the installation of a thickener, which will utilise process water more cost effectively.

There was also a major focus during the year on progressing underground development to provide sufficient stoping ore for the planned increased production.



		Period Ended	
		30-Jun-09	30-Jun-08
Tonnes Mined			
(including low grade)	(tonnes)	430,798	449,527
Ore Processed	(tonnes)	434,087	432,895
Head Grade	(g/t)	7.54	8.35
Recovery	(%)	94.0%	93.8%
Gold Produced*	(oz)	98,755	109,326
Cash Operating Cost <sup>1</sup>	(A\$/oz)	\$438	\$367
Mine Development and Capital Expenditure <sup>2</sup>	(A\$/oz)	\$249	\$189

<sup>1</sup>Cash operating cost refers to the cost of gold pour and produced and includes all expenditures directly incurred on mining, crushing and processing net of all movements in deferred mining expenditure and stockpiles plus site overheads. These costs do not include royalty payable to the South Australian Government of 3.5% of revenue (from 1 January 2009, previously \$13/ounce) and a production royalty of A\$4 per ounce to local indigenous groups.

<sup>2</sup>Excludes expenditure on the ventilation shaft.



Challenger Surface Drilling

Construction of a 4.5 metre diameter, 730 metre deep ventilation shaft commenced during the year, and is scheduled to be completed ready for the installation of a surface exhaust fan in December 2009. This shaft, the cost of which is estimated at \$10.5 million, will provide air ventilation for mining to at least 1.2 km below surface, the depth of current resources. Expenditure on the ventilation shaft by the end of the financial year totalled \$4.13 million.

**Capital and Development**

Underground mining by the Company's contractors, HWE Mining, advanced the decline during the year, which will serve to access all three currently scheduled ore bodies down to the 400 level. Development of the M1 shoot continued down to the 420 level, with the M2 shoot partly developed for future mining on many levels within different panels. These panels will be between the 980 to 840 levels and between the 600 and 560 levels.

The M3 high grade shoot was partly developed between the 980 and 1040 levels with further panels designed to be developed from the 900 and 600 levels.

Underground mine development expenditure totalled \$20.35 million, which not only covered access development to extend all ore shoots (including the adjacent infrastructure of sub-level ventilation raises) but also included electrical and pumping stations, refuge chambers, underground booster fans and the installation of an underground re-fuelling station and workshop.

Other capital expenditure during the year including purchase of insurance spares, a new secondary surface crusher, extensions to the village accommodation and the drilling of a fourth bore to extend the bore field, totalled \$4.21 million.

**Underground Mining**

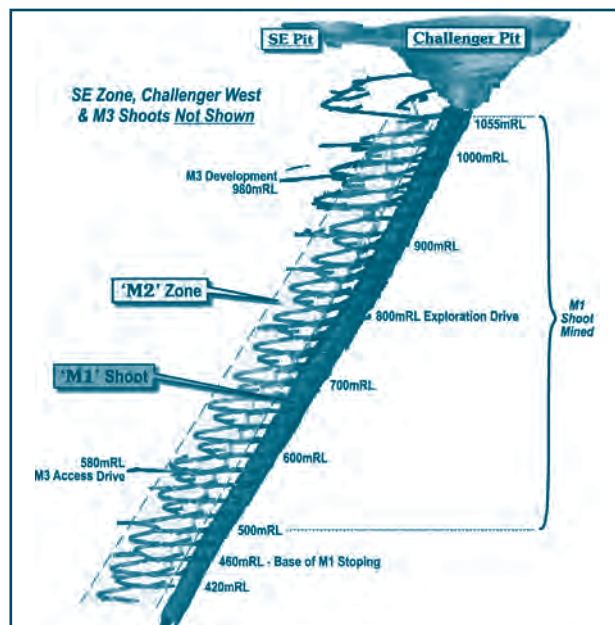
During the year, 48% of ore was mined from the M1 shoot and 52% from the M2 shoot with the proportion of ore from the M2 shoot increasing to 63% over the second half of the year.

Ore was sourced from the M1 shoot between the 580 and 460 levels and from parts of the M2 shoot between the 1020 and 940 levels. Mining of an initial panel of the M3 shoot commenced at the end of the year between the 980 and 1040 levels.

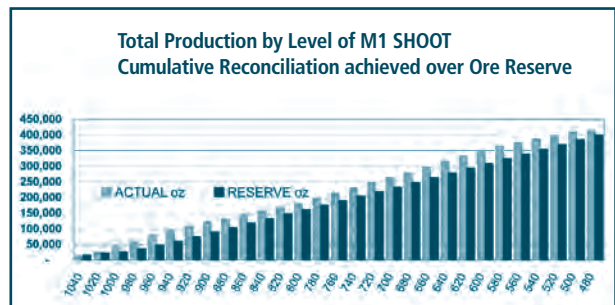
The method of identifying the drive locations and stope profiles is identical for both the M1 and M2 shoots. Diamond drilling establishes the general structural locations from the level 20 metres above. Mapping of every face and subsequent sludge drilling identifies the precise location of veins which are highly mineralised. The M3 shoot is generally higher grade but narrower and will be defined and partly stoped using hand-held air leg techniques as well as mechanized methods.



Raise Bore – Drilling Ventilation Shaft Pilot Hole



Challenger underground showing current level development



Underground Diamond Drilling

General ground stresses remain relatively benign for the depths being mined. Special attention is given to any confluence of mafic or other structures which can adversely affect ground conditions.

Ground stresses are closely monitored as the mine deepens. The ground support required is established by Dominion's geologists and mining engineers who are audited and trained by specialist geotechnical engineers who confirm ground conditions and the ground support required. Besides intensive mapping, the geotechnical information used is sourced from extensometers and seismic monitoring underground.

**Treatment Plant**

The treatment plant performed well during the year with a throughput rate of between 50 and 56 tonnes per hour. This will initially rise to 65 tonnes per hour after the addition of the second ball mill.

Recoveries were in line with expectations at 94.0% but are expected to improve from January 2010 when the second ball mill is commissioned.

Availability of the plant remained generally very high at 96.0% in spite of a six day production shutdown during April, which was due to a trunnion bearing failure.

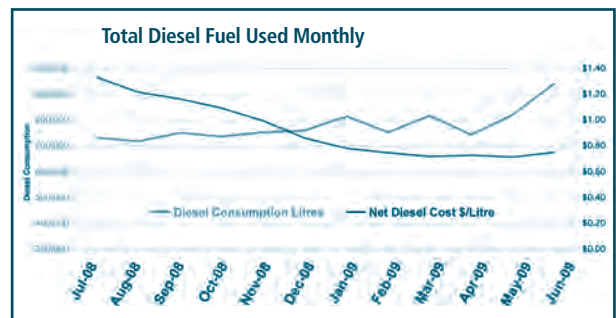
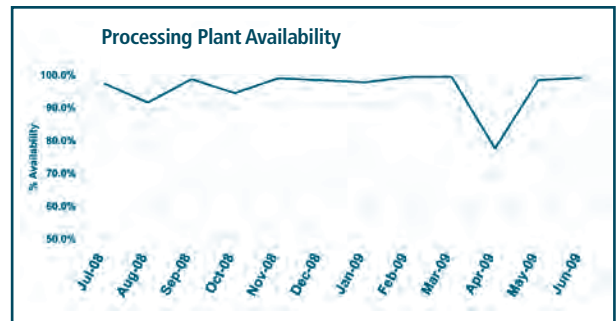
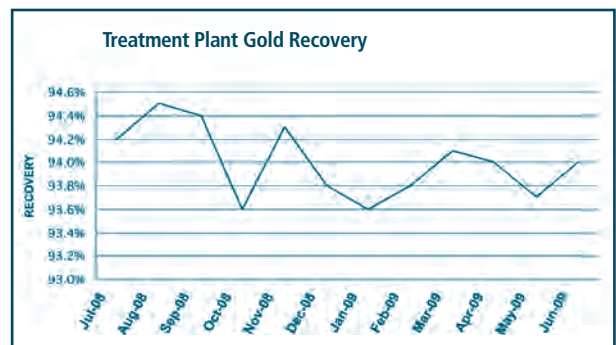
Power usage including the treatment plant, the village and underground mining operation averaged 56.8 kWh per tonne of ore treated. Net power costs totalled \$7.18 million or \$0.291/kWhr during the year. Of this, \$5.99 million was attributable to expenditure on diesel.

In addition, a further \$2.53 million was incurred on diesel fuel used by the underground mining fleet, for diamond drilling from surface, for the raise bore surface ventilation shaft and other specific projects.

The increased rate of production planned from 2010 onwards and longer mine life requires a larger capacity tailings storage area. Government approval has been granted for an extension to the tailings area with work on the extension commencing in June 2009. It is expected this will provide sufficient capacity for over four years of tailings to a similar height to the existing facility after which the combined areas can be further raised.



Challenger Mill



## Occupational Health & Safety

On average, 146 people (including specialist contractors for specific projects) were employed at the mine during the year on a fly in fly out roster from Adelaide. A total of 455,400 hours or 37,950 shifts were worked at Challenger during the year.

HWE Mining, which is responsible for the underground mining operation, employs the majority of personnel with 74 on site. A workforce of 34 is employed by Belminco Ltd, which provides the operating and maintenance functions relating to the treatment plant. The catering contractor, Sodhexo, employs nine people for catering and cleaning services.

The balance of personnel (29) comprises geologists, mining engineers, surveyors, safety and occupational health, and administrative personnel – all of whom are directly employed by Dominion.

The onsite occupational health and safety services were fully occupied with general health advice and consultations as well as first aid treatments and mines rescue training. A total of three Lost Time Injuries occurred during the second half of the year. Prior to these incidents, a record 665 days free of Lost Time Injury had been achieved.

The Royal Flying Doctor Service (RFDS) was again used where appropriate and provides an invaluable service for Challenger.



*Shift Change Aircraft Landing At Challenger Air Strip*

## Environment

Due to the arid climate and environment surrounding the Challenger Project, there is limited vegetation growth on the rehabilitated external slopes of the waste and tailings dams. However, annual Ecological Function Analysis surveys have determined that the rehabilitated areas on the slopes have become fairly stable environments for developing ecosystems, with some vegetation cover increasing even in below average rainfall years.

Annual flora surveys have found that vegetation conditions are not influenced by the proximity to the mine site, but rather by climate and landform type found in the region.

The key resource of saline water from a nearby paleo-channel from 150 to 200 metres depth was monitored and a fourth bore was drilled and equipped in order to rest and allow more maintenance of the existing three wells, which supply the 45,000-58,000TDS water for the processing plant.

The monitoring bores around the tailings and waste storage areas were monitored with no adverse contaminants or effects on local water regimes. Future seepage flows, if any, will gravitate towards the open pit. Three new monitoring wells have been constructed around the new tailings dam (TSF2) to ensure that the monitoring program encompasses all aquifers likely to be affected by the dams.

Full details of the considerable monitoring around the mine and a detailed review of all environmental issues are contained within Dominion's Annual Environmental Report, which is available at PIRSA's (Primary Industry and Resources Department of the South Australian Government) website under [www.pir.sa.gov.au](http://www.pir.sa.gov.au) and can be found using the search keyword "Challenger".

## Social and Community Relations

The Company continues to support local indigenous groups and offers the opportunity of employment at Challenger. Support for other local communities was provided by sponsoring sporting and other community events.

Dominion provides three bursaries for second and third year geology and engineering students from Adelaide University.

In addition a number of other geology and engineering students are also able to obtain hands on vacation and periodic weekend work experience. This not only gives them exposure as a mining professional, but also provides them with the opportunity to determine if mining in particular at small, remote, underground, fly-in/fly-out sites is a career option that suits them.



*Students Preparing For Visit Underground.*

### The Future

The focus at Challenger continues to be on minimizing operating costs and maximizing the long term value of the operation.

Having confirmed the viability of the M2 shoot during the last two years, the decision to expand the operation to 530,000 tonnes per annum will offer economies of scale within both underground mining and processing. Further business plan options will also be considered to maximize the long term value of the Challenger Gold Mine, including varying the processing plant throughput and extracting ore from various mixes of the principal ore shoots.

The intersections within the M3 Shoot and Challenger West and Shadow zone areas demonstrate that other higher grade shoots can be discovered and brought into development schedules. Other intersections (as outlined in the Exploration Report) show the potential to increase the reserve of high grade shoots.

Although costs are carefully monitored, minimizing risks and interruptions to production is also a priority at Challenger. Insurance spares have now been extended for underground and treatment plant operations. Following completion of the expansion project, the two identical diameter ball mills located side by side, with conveyor feeders to both, will enable production downtime to be minimized while resulting in increased gold recoveries.

The ability each year to continue to define resources and reserves to underpin an extended Project mine life augurs well for future success.



*Underground Survey*



*Underground Diamond Core Sample*