NAVIGATOR RESOURCES LIMITED

QUARTERLY REPORT: DECEMBER 2011

Navigator Resources Limited
ABN: 82 063 366 487

Registered Address:
Ground Floor, 45 Richardson Street
WEST PERTH WA 6005

PO Box 276
WEST PERTH WA 6872

Phone: (08) 9226 5311
Fax: (08) 9226 5411

Email: navigator@navigatorresources.com.au
Website: www.navigatorresources.com.au

Board of Directors:

Allan Trench	Chairman
David Hatch	Managing Director
Ian Macpherson	Non-Executive Director
John Shipp	Non-Executive Director
Gerry Kaczmarek	Company Secretary

Share Registry:
Advanced Share Registry Services
150 Stirling Highway
NEDLANDS WA 6009

PO Box 1156
NEDLANDS WA 6909

Phone: (08) 9389 8033
Fax: (08) 9389 7871

Email: admin@advancedshare.com.au
Website: www.advancedshare.com.au

ASX: NAV

KEY POINTS

During the December 2011 quarter the Company continued its progress towards achieving full ore supply from the Cockburn Pit, with ore mined in December matching mill capacity for the first time in a year. The overall grade of ore mined and milled was however lower than forecast due to a depletion zone affecting the oxide and transition material on the eastern cutback. Ore grade is forecast to improve during the March 2012 quarter as mining progresses into the primary rock with an associated increase in gold production.

Although December quarter gold production was higher, the influence of the depletion zone as well as lower than forecast mining equipment availability resulted in a higher unit cash cost/oz of gold, thus delaying the forecast transition to positive cashflow by 2-3 months. In light of this, the Company successfully negotiated a non-equity financing facility with existing royalty holder Franco-Nevada. The Company granted an additional 1% royalty over future Bronzewing gold production in return for $4.5 million.

To assist in improving equipment availability, new haul trucks are being mobilised to site in late January 2012.

Bronzewing Operations

- Quarterly gold production of 13,858oz
- Mining operations remain focussed on the Cockburn Pit cutbacks and the associated build up of ore supply to the mill
- Gold production forecast to further increase in March quarter
- Four new haul trucks to be mobilised in late January
- Decision on mining contract expected in February

Bronzewing Exploration

- BLEG soil sampling anomalies at Bower-Harrier further extended
- Further sampling required to close off anomalies prior to aircore drill program

Leonora

- Internal update of the Leonora 2009 PFS commenced and expected to deliver significantly enhanced project economics
- PCF Capital appointed to consider strategic alternatives for project advancement

Corporate

- Gold sales revenue of $20.7 million for the quarter, with an average selling price of $1,666 per ounce

OPERATIONS REPORT

BRONZEWING

Project Overview

The Bronzewing Gold Project (BGP) is located 80km northeast of Leinster in Western Australia and comprises the Bronzewing and McClure group of mines within a semi-contiguous landholding of approximately 1,000km^2. Open pit mineral resources at BGP (as at 30 June 2011) total 18.42Mt @ 1.6g/t for 940,000oz of contained gold (which comprises 13.42Mt @1.6g/t for 698,000oz in the Indicated category and 5.00Mt @1.5g/t for 242,000oz in the Inferred category).

The main life-of-mine ore source at the BGP, the Cockburn Pit, is now established in ore after nine months of mostly waste pre-stripping. Navigator is confident that, with the Cockburn Pit now established in ore, the waste:ore stripping ratio decreasing and a projected increase in ore grade with depth, it is well positioned for significant cash flow generation from its operation in the next two to three years. In the short term (ie. the March 2012 quarter), the Company's working capital cash reserves remain tight and this is an area of significant ongoing Board and management focus.

Operations Update

Gold production for the December 2011 quarter increased to 13,858oz, with December monthly production of 5,467oz being the best gold production month since April 2011. These results were achieved despite the influence of a depletion zone affecting the grade of ore generated from the Cockburn Pit eastern cutback and ongoing mining equipment availability issues. Lower than budgeted mining fleet availability has impacted upon total material movement and subsequently on timely access to higher grade ore.

In October 2011, Navigator announced that it was putting its mining contract out to tender, especially in consideration of the potentially larger Cockburn Pit design based upon a $1,700/oz gold price. This process is progressing with further announcements expected in the coming weeks. In the meantime, Navigator has committed to a rental agreement with SMS Rental (WA) Pty Ltd for the mobilisation of four new Caterpillar 777F 100 tonne haul trucks. Navigator has committed to rental of this equipment to complement the EMECO truck fleet whilst it completes its mining tender process.

Photo 1: MD David Hatch, COO Craig Bradshaw and CFO Gerry Kaczmarek with new Caterpillar 100t trucks

Navigator has made considerable progress in establishing the Cockburn Pit in ore since waste stripping commenced there in late January 2011, with it now the Company's sole source of ore. A substantial amount of waste stripping was required initially to gain access to the top of the orebody, which was 40-50 metres below surface.

First ore was mined from the eastern cutback in June 2011, with the initial results being very encouraging. Inferred blocks of ore in the geological model converted to actual ore blocks with RC grade control drilling and although the tonnages were small, there was a positive trend for contained ounces. Mining then progressed into a depletion zone in the December quarter, which resulted in lower mined grades during that period. Grade control drilling indicates that the overall grade tenor of drill assays is improving with depth, which is expected to translate into higher grade ore presentation to the mill in coming months.

Mining of the western cutback commenced following the establishment of the eastern cutback in ore. By definition, the waste:ore stripping ratio on the later stage western cutback in the initial months was therefore higher than the more advanced eastern cutback. First ore was mined from the western cutback in September 2011, with RC grade control drilling again producing positive trends compared to the geological resource model.

Photo 2: Cockburn Pit looking north, with western cutback on the left

Ore from the western cutback is projected to be higher grade than ore from the eastern cutback but the waste:ore stripping ratio is currently higher. Over the past quarter, mining fleet availability has delayed progress of the western cutback and access to higher grade ore, thereby delaying Navigator Resources' transition to positive cashflow by two to three months.

Rock mass geology of the western cutback is different to that of the eastern cutback and the Company's geologists estimate that any depletion effect in the western cutback oxide material will be significantly less than experienced on the eastern cutback.

Navigator's year-to-date total operating costs are tracking within 0.5% of its budgeted estimates. Accordingly, there is a high degree of confidence in the operating cost profile. At the current gold price, Navigator needs to produce 5,500-6,000 oz of gold per month to cover its monthly operating costs at Bronzewing. Gold production is forecast to increase in the March 2012 quarter to 15,000-20,000oz, followed by a further increase in the three months to June 2012.

Safety and Training

Three lost time injuries (LTIs) were recorded during the December quarter, all of which occurred in October. At the time of writing, the Company's safety record continues to improve, with the BGP achieving 90 days of LTI free operation.

The Company continues to invest significantly into safety and training, with cultural improvements now becoming evident under the new management team.

Mining

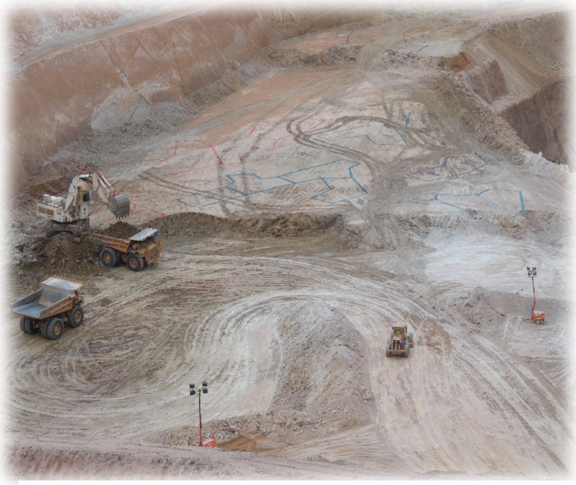

Photo 3: Mining operations on the eastern cutback of the Cockburn Pit

Quarterly material movement of 2.581 million BCMs was 85% of budget and impacted by mining equipment availability.

Ore production of 425,000t was 93% of budget, however the grade of ore mined at 0.94g/t Au was lower than budgeted, due primarily to the influences of the eastern cutback depletion zone and delayed access to higher grade ore from the western cutback due to lower than forecast equipment availability.

The four new Caterpillar 777F 100 tonne haul trucks are due to arrive at Bronzewing on 25 January and commence work by 27 January.

Mine Planning

Navigator is currently mining to a Cockburn Pit design based upon a gold price of $1,350/oz. The economics of this design were concluded inclusive of the 8 million BCMs of mainly waste that has been already mined during the past year. With the majority of the waste pre-strip now completed and the Company selling its gold at around $1,600/oz, the economics for the next two to three years of mining from the Cockburn Pit are expected to be very robust. It is reasonable to expect therefore that, especially after mid-2012 when the size of the mining fleet will reduce, Navigator can look forward to significant cashflow generation.

Ore Processing

The BGP processing plant continues to perform well, with December 2011 quarter throughput of 486,000t at an average feed grade of 0.94g/t Au and mill recovery of 93.9%.

Whilst mill throughput increased substantially compared to the September 2011 quarter (486,000t cf 318,000t) the overall feed grade was lower due to a depletion zone influence of the ore mined from the eastern cutback of the Cockburn Pit.

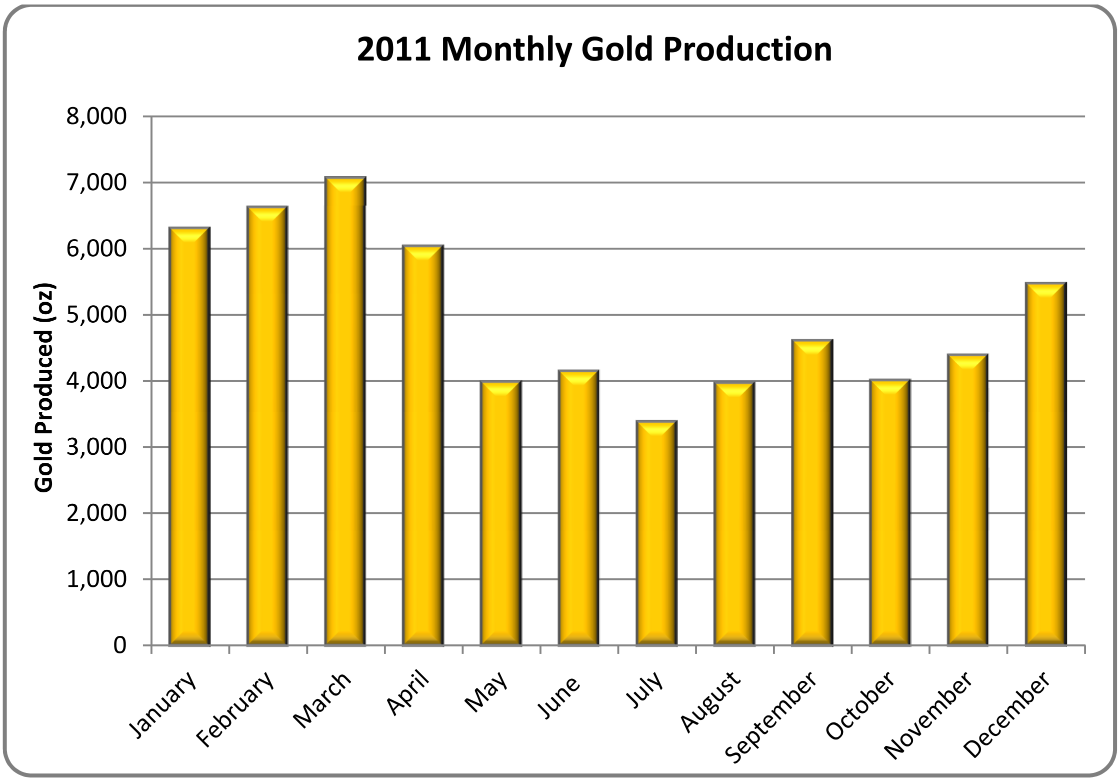

Figure 1: BGP gold production by month for the 2011 year

December was the first month in over a year where ROM ore mined from Cockburn Pit matched full mill capacity. Navigator announced on 1 November 2011 that it had achieved the 100,000 ounce production milestone since operation commenced in April 2010.

Overall Performance

Key performance indicators for the December 2011 quarter are shown below.

Table 1: 2011/12 Production Statistics

	Unit	Sept 2011 Quarter	Dec 2011 Quarter
Mining Physicals			
◆ BCMs	*BCM*	3,012,392	2,580,649
◆ Ore Mined	*t*	238,880	425,028
◆ Ore Grade	*g/t*	1.34	0.94
◆ Total Ounces Mined	*oz*	10,318	12,880
Processing Physicals			
◆ Ore Milled#	*dt*	318,399	486,179
◆ Grade Reconciled	*g/t*	1.24	0.94
◆ Recovery	*%*	94.2	93.9
◆ Gold Produced (incl. GIC)	*oz*	11,949	13,858
Costs			
◆ Unit Operating Cost*	*$/oz*	1,466	1,593

 # Note: Mine production was supplemented by the addition of low grade stockpiled ore.

** Cash costs represent the costs for mining, processing and site administration including accounting for movements in stockpile and gold-in-circuit. They do not include exploration, mine development or capital costs. They include by-product credits but do not include the cost of royalties, depreciation and amortisation.*

LEONORA

Project Overview

The 320km^2 Leonora Gold Project (LGP) is located 35km northeast of the town of Leonora, and approximately 250km north of Kalgoorlie, Western Australia. A pre-feasibility study was completed in March 2009 and these outcomes consolidated with an open pit ore mining and milling trial during the first half of 2010, during which a total of 114,000 tonnes of ore was processed. The last parcels of ore were milled in July 2010 and the trial successfully confirmed materials handling, grade and recovery aspects and generated net cashflow in excess of $2 million from gold sales.

Mineral resources at LGP (after depletion for the trial mining) total 12.3Mt at 1.9g/t for 745,000oz of contained gold (which comprises 8.16Mt @ 2.0g/t for 533,000oz in the Indicated category and 4.13Mt @ 1.6g/t for 212,000oz in the Inferred category).

Leonora Project Advancement

Navigator has commenced an internal update of the Leonora 2009 PFS, which was undertaken at a gold price of $1,250/oz. Recently appointed Chief Operating Officer Craig Bradshaw will oversee the review of the PFS, which previously indicated a six year mine life to produce approximately 320,000oz of gold. It is anticipated that the increased base case gold price of $1,550/oz will result in a significant enhancement of the project development economics for the LGP.

In parallel, Navigator has engaged PCF Capital in an advisory capacity to assist with investigating strategic alternatives for the LGP. Previously, PCF Capital advised Navigator in respect of the Cummins Range Rare Earth Project, which ultimately resulted in the $18.3 million IPO of Kimberley Rare Earths Limited in 2011.

PCF has invited a select number of companies to review the LGP with a view to its advancement. Navigator has advised PCF that one or more of joint venture development, project financing, a project sale and/or a separate LGP IPO will all be considered as strategic alternatives for the LGP. Additionally, Navigator has commenced discussions with other lease holders in the region to investigate the option of project consolidation around the LGP to optimise development economics.

The Company will advise further details as the respective processes mature.

EXPLORATION REPORT

BRONZEWING

The Company's primary exploration objective at the BGP is to increase mine life from five to 10 years through exploration activities aimed at discovering higher quality resource and reserve ounces. Field activities during the quarter consisted of collecting additional Bulk Leach Extractable Gold (BLEG) soil samples in the Bower North area and completing an RC drill program at Eagle.

BLEG Soil Sampling

During the quarter, an additional Bulk Leach Extractable Gold (BLEG) soil sampling program was conducted at the Bower North prospect as part of a program of extending previously identified open-ended anomalous zones. At Bower and Harrier, the Company has now received results from a total of 2,843 BLEG soil samples which were collected on either a 100m or 200m by 25m grid pattern. The highest assay result in the recent program of 344 samples at Bower North was 99ppb Au. This area is developing into a group of closely spaced anomalies following NNE and NNW structural trends in the area (see figure below).

The Bower – Harrier anomalies now stretch over a 6km strike length generally over widths of up to 250m with the width in the Bower North area being up to 1km with an as yet open-ended strike length. Bower and Bower North host the better anomalies with all +50ppb Au samples being located within these prospects. All prospects contain a roughly even spread of anomalous values in the 10-50ppb Au range, whilst Bower North contains roughly 50% of the 5-10ppb Au values with the remainder of these values being evenly spread between Bower and Harrier.

Further sampling is required to determine the full extent of these anomalies.

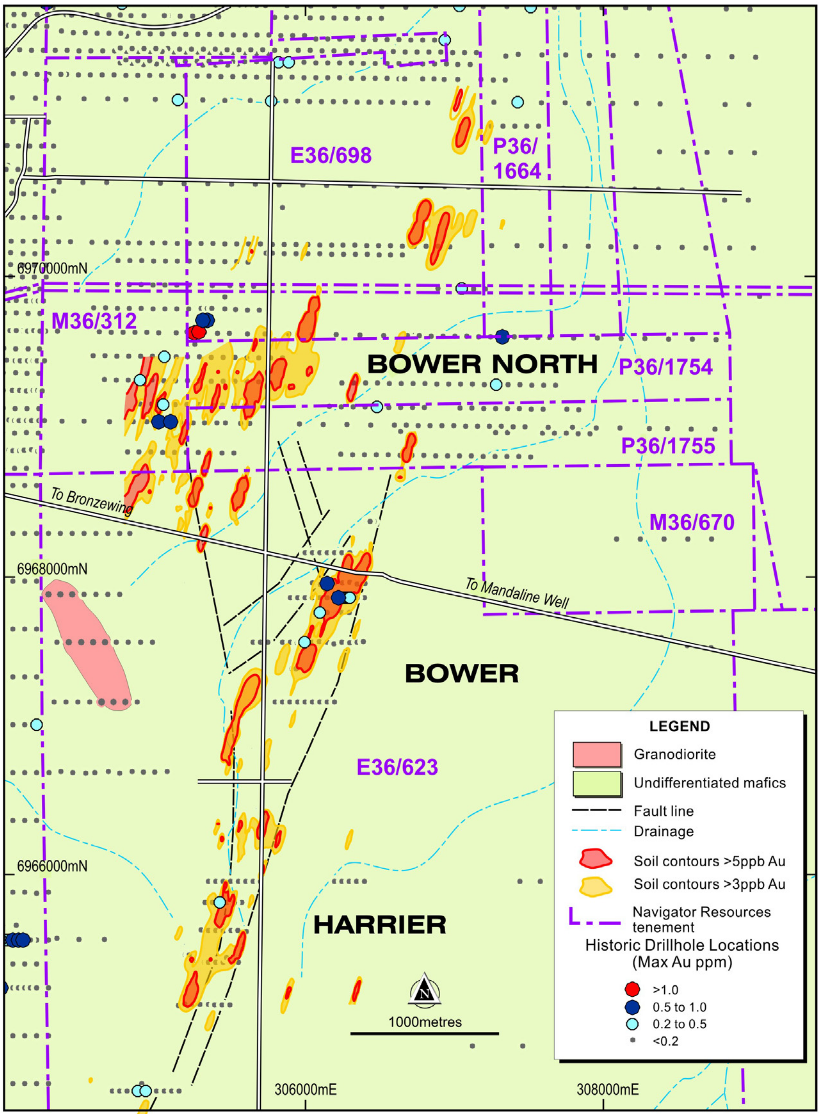

Figure 2: Bower-Harrier BLEG Soil Sampling

Eagle RC Drilling

A program of 35 RC holes for 3,980m was completed at the Eagle South and Eagle North prospects following up on previous good intersections of up to 4m @ 66.6g/t Au from 28m at Eagle South and 9m @ 4.8g/t Au from 78m at Eagle North. Results received from this new program overall were disappointing with a best intersection of 2m @ 3.21g/t Au from 73m in NERC037. No further drilling is planned for Eagle in the short to medium term.

Short Term Planned Drilling

A previously planned 7,500m aircore drill program for Bower-Harrier has been postponed pending completion of the additional sampling required to fully outline the still developing Bower North soil anomalies. The 1,000m aircore program over an untested anomaly at Eagle East is consequently also on hold. Heritage surveys will be required for both these areas before drilling can commence.

Prospect Evaluations

In-house evaluations are in progress for various prospects where previous drilling has indicated significant mineralisation is present. These include the Mt Joel group of prospects, Anomaly 45, the Dragon-Venus open pit area and the deeper mineralisation in the Lotus – Cockburn area. Lotus was previously a successful underground mining operation with average grades of about 6-7g/t Au. These prospects have the potential to add incrementally to the resources and reserves base for the Bronzewing operation.

LEONORA

No field work was conducted at the LGP during the quarter. A Programme of Work application regarding further RC drilling at the Hobby prospect has been approved by the Department of Mines and Petroleum (DMP) and a heritage clearance is pending.

A small aircore drilling program is planned for early 2012 in the Cardinia area to follow up on areas of previously intersected mineralisation. A Programme of Work has been approved by the DMP and all drilling is located within an area previously given heritage clearance for the proposed mining operation.

CUMMINS RANGE

(Navigator 75%, KRE 25%)

Navigator (75%) has a joint venture arrangement in place with Kimberley Rare Earths Limited (KRE) (25%) over the Cummins Range Rare Earths Project where KRE has the ability to earn an additional 30% in the project by expending $10 million over four years. KRE is the JV manager and responsible for all exploration activities.

Results were received during the quarter from the previously completed 77 hole, 4230mm RC drill program with the best infill drill hole intersection, within the previously defined resource area, of 41m @ 3.85% TREO (total rare earth oxides) from 11m in KRC112 and the best extension hole yielding 30m @ 2.93% TREO from 37m in KRC101.

Three of five recently defined aeromagnetic targets within the Cummins Range pipe returned positive results with the best intersection being 10m @ 3.04% TRE) from 25m in KRC130 in Target 1.

Further information regarding KRE is available on their website at www.kimberleyrareearths.com.au.

LAURA RIVER

(Magma 70%, Navigator 30% free carried to decision to mine)

No field activity was undertaken on the Laura River Project during the quarter.

CORPORATE REPORT

FINANCIALS

Cash Position

As at 31 December 2011, Navigator held $1.06 million in free cash, $1.70 million of gold in transit and $6.92 million in environmental bonds.

At the time of writing, Navigator held $7.76 million in free cash, together with $7.08 million in environmental bonds.

Gold Sales

Gold sales from the BGP for the quarter were 12,424oz at an average sale price of $1,666/oz for total revenue of $20.7 million.

The cash operating cost for the quarter was $1,593/oz.

Hedging

Navigator currently has no hedging in place.

Expenditure

During the quarter, exploration expenditure incurred was $934,000, of which $663,000 was expended on the BGP and $271,000 on LGP.

Capital expenditure during the quarter was $273,000.

Debt

Navigator is debt free.

Placement

Navigator announced on 21 November 2011 that it had completed a share placement to AU Mining and long term supporter Mr Mark Creasy at an issue price of 2.5 cents to raise $3.15 million. This placement was made after shareholders rejected the issue of underwriter options (from the July/August rights issue), thereby necessitating that Navigator pay $2.88 million to the underwriters in cash.

Following the placement, and the exercise and expiry of options during the quarter, the Company's capital structure as at 31 December 2011 comprised 2,222,216,576 fully paid ordinary shares, 835,096,124 NAVOB listed options and 63,519,578 unlisted options.

Royalty – Non-Equity Financing

During the quarter, Navigator negotiated with existing royalty holder Franco-Nevada for an additional royalty over future gold produced for a $4.5 million cash consideration. The BGP gold royalties are as follows:

- 2.5% Government of WA
- 2.0% Franco-Nevada
- 1.0% Mark Creasy

Navigator received the Franco-Nevada royalty funds on 12 January 2012.

OTHER

Navigator advises that it recruited two highly regarded professionals during the quarter.

Mr Craig Bradshaw commenced work on 16 January 2012 as the Company's Chief Operating Officer. Mr Bradshaw was previously engaged as Operations Manager at St Ives in charge of four underground and three open pit mines as well as a +7.0Mtpa combined processing stream consisting of heap leach and CIP with gold production of 400,000-500,000oz per annum.

Mr Bill Wasley joined Navigator in November 2011 as the Safety and Training Manager at Bronzewing after an extended period in an executive safety and human resources role for Harmony International, including the Hidden Valley Project in the Papua New Guinea highlands.

On 18 November 2011 Non-Executive Director Mr Matt Healy advised the Company that, due to increased work commitments, he would not be seeking re-election to the Board at the Annual General Meeting. The AGM was held on Wednesday, 23 November 2011.

D. J. Hatch.

David Hatch
Managing Director
NAVIGATOR RESOURCES LIMITED

All $ amounts noted in this report are Australian dollars, unless otherwise stated.

Sections of information contained within this report that relate to Mineral Resources and Exploration Results are based on information reviewed or compiled by Bernie Kirkpatrick who is a full-time employee of Navigator Resources Ltd and is a Member of the Australasian Institute of Mining and Metallurgy. Bernie Kirkpatrick has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Bernie Kirkpatrick consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.