27 October 2009

The Manager Companies
ASX Limited
20 Bridge Street
SYDNEY NSW 2000 (4 pages by email)

Dear Madam,

COMMENCEMENT OF DRILLING AT CURNAMONA URANIUM PROJECT

Callabonna Uranium Limited ('the Company' or 'Callabonna Uranium') is pleased to announce that drilling has commenced on its 100% owned Curnamona Uranium Project in the Frome Embayment, South Australia.

The Frome Embayment (or Callabonna Sub-Basin), is one of Australia's premier uranium provinces and host to the Beverley Uranium Mine and the 4 Mile, Oban, Honeymoon and Gould's Dam Deposits. The Company is the largest single lease holder in the Frome Embayment area with over 7,000km² of leases.

A 48 hole, 5,000 to 6,000 metre drill program is planned, targeting previously defined sandstone channels in the Curnamona North leases. In late 2007 a very detailed Airborne EM (AEM) survey was completed and subsequent interpretation of this data has generated numerous channel targets for drill testing.

The drilling will be mud rotary drilling with most holes being between 100 to 120 metres. All holes will be gamma probed and selectively assayed based on the results of gamma probe readings. It is anticipated the drill program will continue until mid-December with first results available a short time after that.

Yours sincerely

Stephen McCaughey
Managing Director

Callabonna Uranium Limited
ABN 71 099 247 408
Registered Office
Level 2, 66 Hunter Street
Sydney NSW 2000
T: +61 2 9300 3366
F: +61 2 9221 6333
E: Redwards@callabonna.com.au

Technical Office
6 Powlett Street
East Melbourne Vic 3002
T: +61 3 9417 2920
F: +61 3 9417 2728

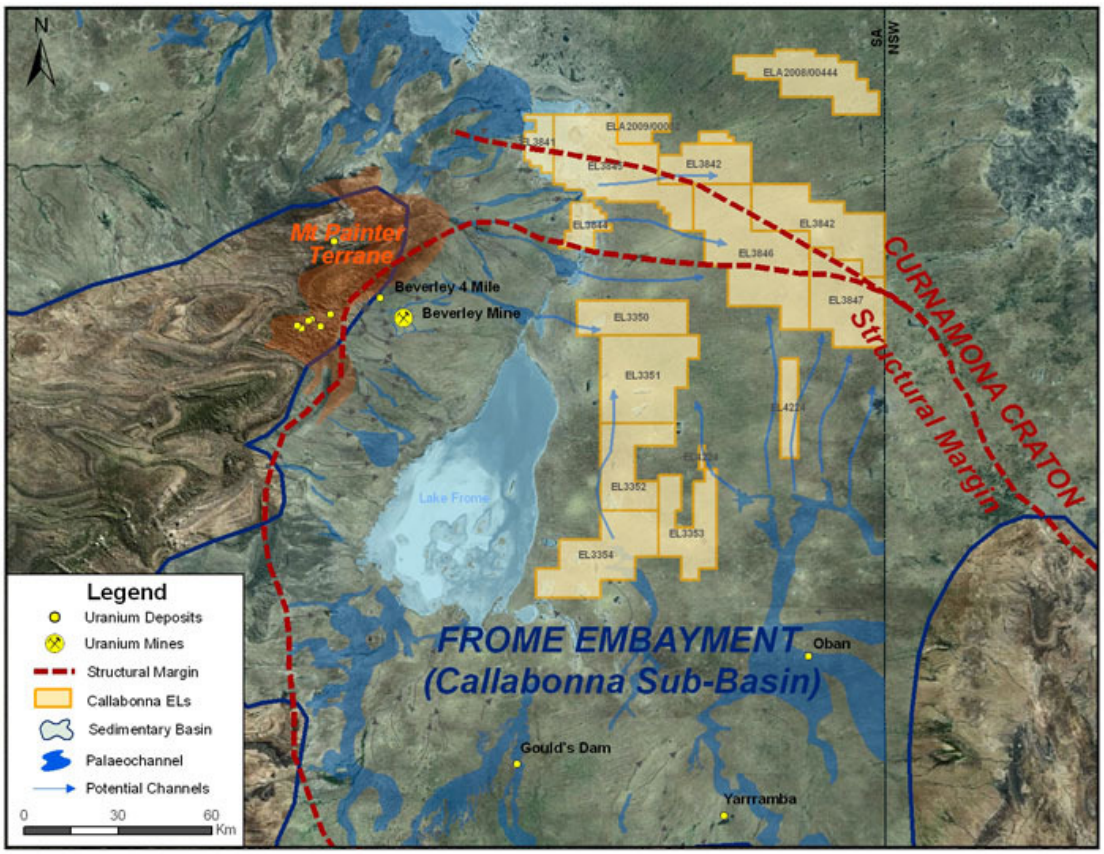
BACKGROUND

The Curnamona Project is 100% owned by Callabonna Uranium and comprises two largely contiguous areas of exploration licenses covering a total of 7,051km^2 making Callabonna Uranium the largest single license holder in the Frome Embayment.

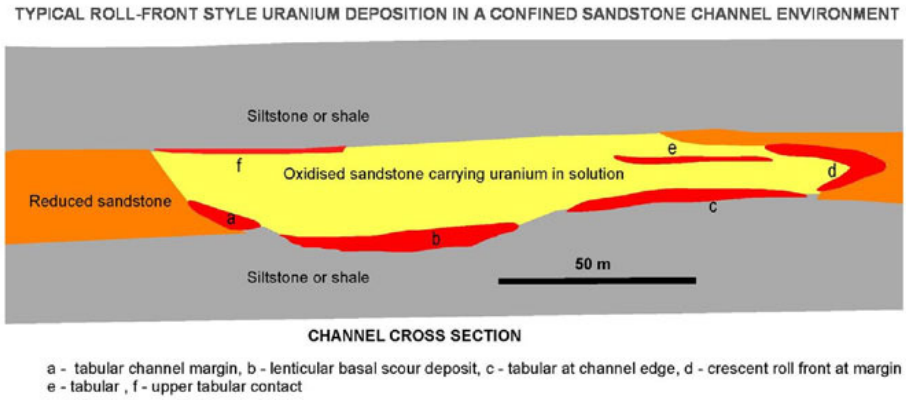
Curnamona North comprises nine exploration licenses totalling 4,514km^2 in area. Curnamona South currently consists of six exploration licenses covering 2,537km^2 in area.

The Curnamona Projects are located in the Frome Embayment on the structural margin of the Curnamona Craton in South Australia about 50 to 100km northeast of the Beverley Mine. At the Curnamona North Project, Callabonna Uranium is one of the first to systematically explore the Frome Embayment where it overlaps the northeast tectonic margin of the Curnamona Craton in faulted contact with the interpreted undercover extension of Mt Painter Inlier. This is a geological setting comparable to the Beverley uranium mine and Beverley Four Mile. The company is primarily exploring for sandstone “roll-front” style uranium deposits in Tertiary palaeochannels of the Callabonna Sub-Basin in the Frome Embayment.

The project areas cover large untested areas of comparable geology to all other Frome Embayment sedimentary style uranium deposits including the Beverly Mine, Beverley Four Mile, Honeymoon, Oban, East Kalkaroo and Gould’s Dam deposits. Important strata layers include the Tertiary Eyre and Namba Formations which are correlated throughout the Callabonna Sub-basin and are also found at the Curnamona North and South Projects.

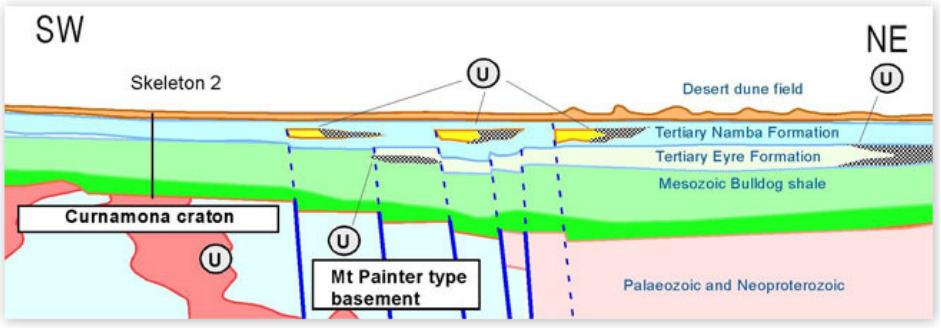


Other suitable conditions apparent at Curnamona include a local source of uranium, buried depositional channels, reduced marginal host sediments and an active tectonic margin. The basement rocks of the Curnamona Craton and Mt Painter Complex are relatively enriched in primary uranium and over time oxidised groundwater dissolved the uranium and carried it down ancient drainage channels into the Frome Embayment with other erosional sediments. Soluble uranium in the groundwater continued to flow through the permeable sands until mixing with reduced materials. At this reduced-oxidised interface the mobile uranium was chemically precipitated and deposited as a secondary uranium mineral in “roll-front” style deposits. Regional faulting may also have enhanced roll-front mineralisation by redirecting and trapping palaeochannels forming further enriched redox zones.



Sediment-hosted uranium deposit model as it applies to the Callabonna Sub-basin. (after De Voto 1978 and Bravo 2007 personal communication).

Conceptual Cross Section - Callabonna Uranium's Tenements



Conceptual cross section of the margin through Callabonna Uranium's tenements. Potential sites for the accumulation of uranium in the cover and the basement are shown as circles with the letter U.

Callabonna Uranium has completed a high-resolution airborne Electro-Magnetic (REPTEM) survey over the Curnamona North Project (3,400 line kilometres) to identify buried palaeo-channels. This survey successfully delineated what are interpreted to be well developed palaeo-channels that have not previously been tested.

Following on the success of the initial Airborne Electro-Magnetic (AEM) survey over Curnamona North, it is intended that Curnamona South will also be covered by a large AEM Survey to delineate palaeo-channels for drill testing.