PROTO
RESOURCES & INVESTMENTS LTD

.

BARNES HILL PROJECT
TASMANIA
EL17/2006

ANNUAL REPORT
8TH AUGUST 2008 TO 7TH AUGUST 2009

Tenement Holder/Manager
Proto Resources & Investments Ltd

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On behalf of Proto Resources & Investments Ltd

Distribution: Mineral Resources Tasmania
Proto Resources & Investments Ltd

Note: All figures and grids are according to the GDA94 datum and MGA94 grid system.

SUMMARY

The Barnes Hill Project (EL17/2006) is located in northern Tasmania, 5km west of the township of Beaconsfield. The exploration licence covers an area of 79km^2.

The main focus of Proto Resources & Investments Ltd ("Proto" or "the Company") at the Barnes Hill Project is laterite nickel-cobalt mineralisation. The project area contains a 12.5Mt Australasian Joint Ore Reserves Committee (JORC) compliant indicated resource at 0.83% Ni & 0.07% Co (Douglas McKenna and Partners Pty Ltd, A. Jannink 2006). This resource is made up of three interconnected mineral deposits known as Barnes Hill, Mt Vulcan and Scott's Hill. The laterite resources are wholly covered by licence EL17/2006, owned and managed by Proto.

Since purchase of the project, Proto has reclassified the previously defined mineral resource to JORC indicated status, secured historical databases including drilling and geochemistry, purchased detailed Satellite imagery including ASTER multi channel and Quick-bird visual band (60cm cell) datasets, undertaken an aircore drilling program to validate historical drill results, commenced metallurgical testwork, completed a regional soil sampling program, completed a 75 aircore hole drilling program at the Barnes Hill deposit, undertaken flora & fauna studies, commenced Aboriginal heritage and European heritage surveys, been granted an adjoining exploration licence (EL53/2008) to the west of the Barnes Hill exploration licence, lodged a mining lease application (1872P/M) over the Barnes Hill nickel deposit and surrounding area and commenced studies for submission of a Development Proposal and Environmental Management Plan.

Work planned for the coming year will include continued metallurgical testing and upgrading of the Barnes Hill deposit nickel-cobalt resource to the measured category via a substantial resource drilling program due to commence in late 2009. The results of ongoing metallurgical testwork and resource re-estimation will be incorporated into a detailed feasibility study on the Barnes Hill Project. Environmental monitoring and heritage surveys have commenced and the company is hoping to have a mining lease granted and to have submitted a Notice of Intent (NOI) and hence the Development Proposal and Environmental Management Plan (DPEMP) for the Barnes Hill project in the coming 12 month period.

The Barnes Hill Project is the priority focus of Proto and joint venture partner Metals Finance Corporation. The partners aim to develop an open pit mining operation at Barnes Hill with processing and production of nickel metal on site.

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1 INTRODUCTION

The Barnes Hill Project is located in northern Tasmania and contains a 12.5 million tonne (Mt) Australasian Joint Ore Reserves Committee ("JORC") compliant indicated resource at 0.83% Nickel (Ni) and 0.07% Cobalt (Co). The resource is made up of three interconnected resources known as the Barnes Hill, Mt Vulcan and Scott's Hill deposits (Figure 1).

Recent advances in leaching techniques and the proximity to of the project to grid power, roads, water, port facilities and a work force make the Barnes Hill Project a valuable addition to Proto's asset register. The project comes with a clear development path focused on metallurgical testing of the ore to determine the most viable processing technique and an already defined area to begin detailed drilling to upgrade the current indicated resource to a measured resource. The project also has significant exploration upside both around the existing resource and in the region.

2 PROPERTY DESCRIPTION AND TENURE

The Barnes Hill tenement EL17/2006 covers an area of 79km^2 and was granted on 8th August 2006 for a period of five years.

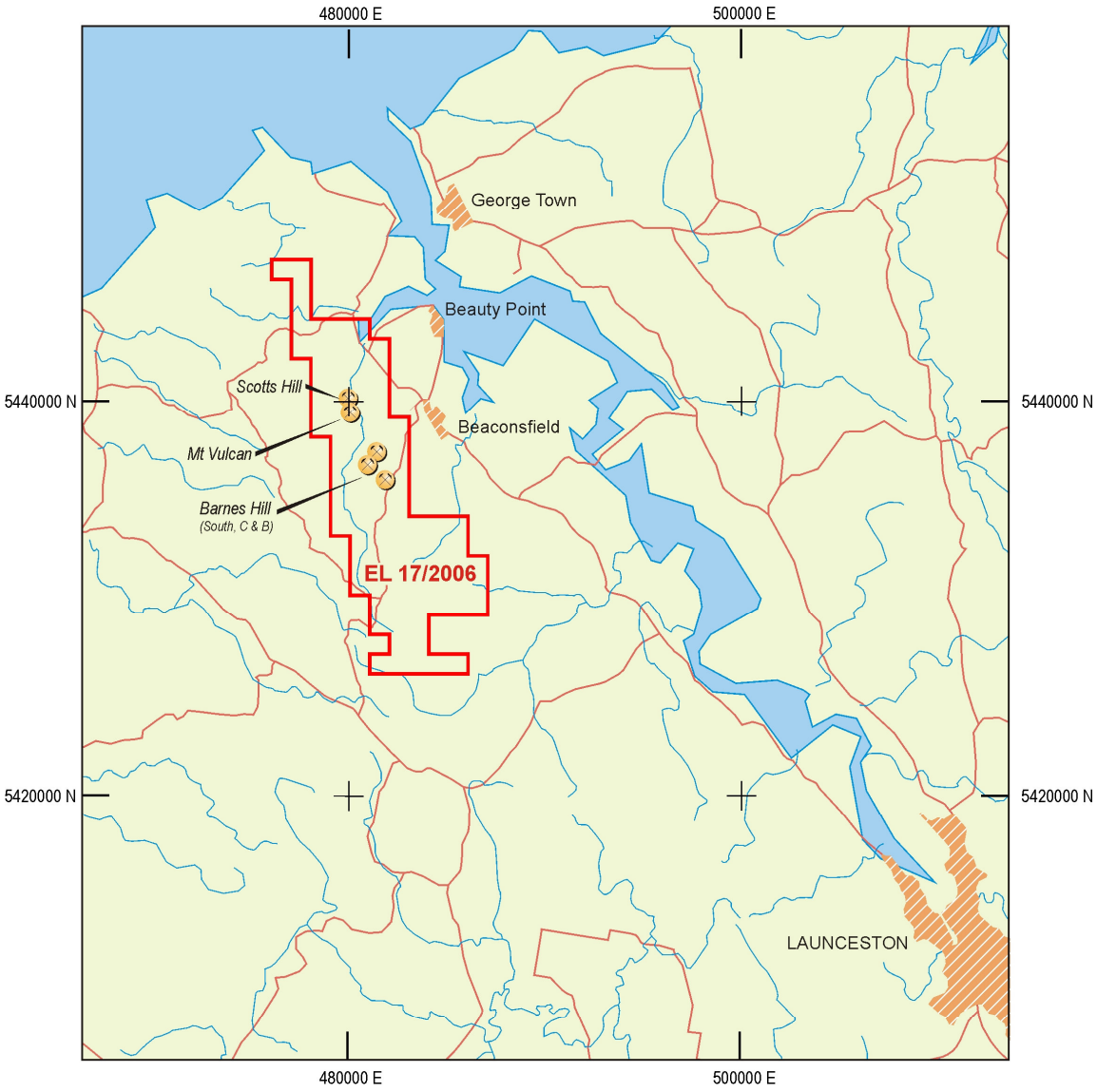
The land status plan shows EL17/2006 is covered by both Crown and Private Land. The Crown Land is variously classified. The main areas of private land relevant to the known Ni-Co resource areas are in the east and the north. Exploration and mining are permitted on Private Land but must be preceded by negotiation of an access and compensation agreement with the landowner. This agreement must be concluded in writing and lodged with Mineral Resources Tasmania (MRT).

Most of the Crown Land is classified either as Multiple Use Forest ("MUF") or Recommended Area for Protection ("RAP"), both administered by the Forestry Commission. Several reserves and mining tenements also exist within the area of EL17/2006.

Superimposed over much of the licence area is the Mt Vulcan - Simmonds Hill Australian Heritage Act ("AHA") Registered Entry. This AHA area covers both Private and Crown Land. Whilst AHA areas do affect some conditions of exploration access, this classification does not represent significant impediment to access. The prime reason for the AHA and Dans Hill Recommended Area for Protection ("RAP") areas is to protect two plant species: *Tetratheca gunni* and *Epacris virgata*.

Exploration on a RAP is possible, and has occurred during past exploration, but is subject to program approval and conditions. With good planning and supervision, a RAP should not be an impediment to exploration activities.

There are gravel reserves on EL 17/2006. Gravel Reserves may or may not be subject to the Mining Act. They are usually held by government authorities for road works and can generally be accessed for exploration by negotiation.



0 1 km

Exploration Lease
Resource
Major Town
Drainage
Road

BARNES HILL PROJECT
PROJECT LOCATION

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Prepared: AJ	Date: Dec. 2006
Drawn : PL	Drwg. No.: Proto 1

FIGURE 1

3 ACCESS AND INFRASTRUCTURE

The Barnes Hill EL17/2006 licence is located approximately 30km north of Launceston and 5km west of Beaconsfield near the Tamar River in northern Tasmania.

The Barnes Hill tenement can be accessed via a number of gazetted roads on the western side of the Tamar River. The Barnes Hill resource can be directly accessed using either Hinds or Tattersall's roads, just west of Beaconsfield.

A wide range of infrastructure and heavy industry occurs in the district including the nearby Beaconsfield Gold mining operation, the Bell Bay Power Station, the Temco Magnesium Refinery and the Bell Bay Alumina Refinery. The area also has deep water port facilities at Bell Bay and Beauty Point along with rail facilities. The regional City of Launceston has a population of over 90 thousand people and offers all the services of a major regional city including airport, university and advanced engineering facilities.

4 ENVIRONMENTAL CONSIDERATIONS

Allegiance Mining, Jervois Mining and Placeco Australia have all recognised and tabled the existence of endangered flora species in the Barnes Hill area, including *Tetratheca gunni* and *Epacris virgata*.

From existing work it seems *Tetratheca gunni* is present in only three known locations, none of these occurring over the Ni-Co resource areas. *Epacris virgata* is more widely distributed including parts of the Scott's Hill and Mt Vulcan Ni-Co resource areas.

Proto has engaged North Barker Ecosystem Services to assist with environmental assessment and requirements for exploration permitting. A "Botanical Survey and Fauna Habitat Assessment" report by North Barker on the three nickel-cobalt laterite deposit areas was included in the previous annual report for EL17/2006.

5 GEOLOGICAL SETTING

The Barnes Hill tenement sits in the Badger Head region of northern Tasmania, an important structural location, considered to be the area in which the Tamar Fracture System separates the western and eastern Tasmanian terrains. The area has a complex nature, a result of thrusting during the Devonian and later normal faulting in the Jurassic and Tertiary. The Precambrian Badger Head Block possibly overlies younger units of the Cambrian Port Sorell Block. The Andersons Creek Ultramafic Complex is considered to be a thrust slice caught up in this deformation. The magnetic data over the area is dominated by the response of the Anderson Creek Ultramafic Complex with much of the surrounding geology having only subtle responses (Figure 2). Gravity is also dominated by the considerable differences in density between the Precambrian, Cambrian and later Devonian and Permian units. The Devonian geology also contains granites of that age with stark density contrasts to surrounding units especially the ultramafics.

Further to the east Ordovician Cabbage Tree Formation is thrust over the Anderson Creek Complex (ACC), and further east again the Beaconsfield Gold field sits on the western side of the Tamar River in possibly a zone of Devonian aged Mathinna beds. The Beaconsfield gold mineralisation has a similar nature to Victorian quartz reef gold systems.

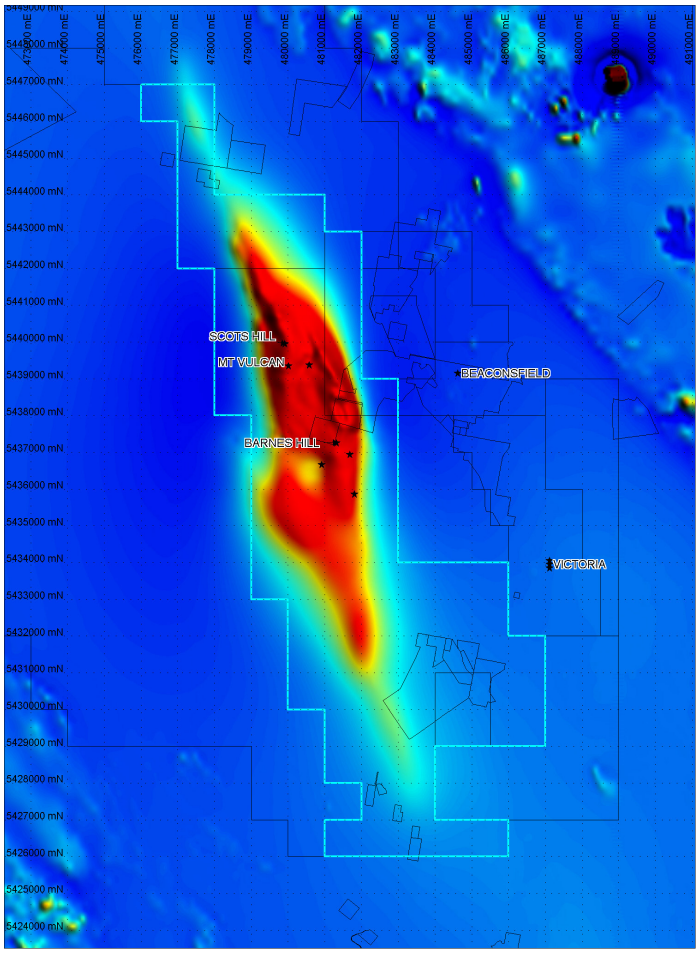

Figure 2 **Barnes Hill EL17/2006 with total magnetic intensity as background clearly showing extent of the Andersons Creek Complex**

5.1 Tenement Geology / Nickel Laterite Geology

Precambrian metamorphosed graywackes and sub-graywackes outcrop along the western extremities of EL 17/2006.

Cambrian aged schist's and micaceous sandstone are found faulted against the Precambrian Badger Head stratigraphy and Andersons Creek Ultramafic Complex to the east. These units are considered similar to the Sorell Block characterised by sandstones, graywackes, siltstones and slates.

The Andersons Creek Complex (ACC) is a layered wedge of Cambrian mafic and ultramafic stratigraphy consisting mainly of serpentinite, pyroxenite and gabbro. It has been thrust into a sequence of Cambrian sediments lying on the eastern margin of the Badger Head Precambrian Block. The Andersons Creek Complex is probably Early Cambrian in age (neo-Cambrian) and one of 15 discrete ultramafic/mafic complexes found mainly on the north west and west coasts of Tasmania.

Upper Palaeozoic tectonism has resulted in Ordovician Cabbage Tree Formation sediments being thrust over the eastern margin of the ultramafics.

Aero-magnetics show the ACC as being a NNW trending lozenge shaped body approximately 20 km long and up to 3 km wide (Figure 2). It outcrops over a NNW length of 6.5 km, a width of 1.5 km, and plunges to the north and south beneath Permian sediments.

The ACC has been extensively and variably altered. Serpentinisation is pervasive, and probably reflects alteration of peridotites and gabbros. In the Scott's Hill area, a pyroxenite has been described as having been replaced by amphibole and then altered to talc, magnetite and calcite.

In the Barnes Hill South area, a rock called rodingite has been formed as the result of lime metasomatism of coarse hornblende gabbro prior to serpentinisation.

Various weathering profiles with differing mineral assemblages and metal concentrations are developed on the ultramafic complex. An appreciation of the ultramafic weathering profile is important because they contain most of the higher grade Ni-Co mineralisation. In the Barnes Hill-Mt Vulcan area, the weathering profile consists of an upper zone of secondary iron oxides (goethite, hematite, limonite) overlying a clay rich zone dominated by smectite, weathered serpentinite and chlorite, which in turn overlies fresh serpentinite (Table 1). Meteoric waters periodically leached soluble ions from the surface (lateritic) zone and enriched these ions (Ni) in the clay zone at the base of the weathering profile. A typical weathering profile is listed in Table 1.

Table 1 Idealised Barnes Hill Laterite Profile

Laterites	Pisolitic Zone	Hard ironstone with red clay matrix
	Ferruginous Red Zone	Soft red clay, pisolitic grains and black ironstone
	Limonitic Yellow Zone	Soft yellow-orange clay with some red clay
	Mottled Zone	Soft bright red, brown, yellow, purple clay with black and white specks
Clays	Transition Zone	Soft decomposed green serpentinite with minor red clay
	Bleached Zone	Soft, pale yellow green serpentinite with some magnetite.
Serpentinite	Fresh Zone	Moderately hard dark green serpentinite

Most of the Ni > 1% occurs in the Transition Zone and to a slightly lesser extent in the Mottled and Bleached Zones. The Ni is largely contained in clay (smectite), serpentinite and chlorite.

In the Scott's Hill area, the pyroxenite has been extensively replaced by amphibole, then altered to talc, magnesite and calcite which has then weathered to clay and chlorite. Ni is contained in talc, chlorite and serpentinite.

In the Barnes Hill South area, work completed in the late 1950s by Enterprise Exploration suggests the Ni (up to 3%) is concentrated in weathered serpentinite adjacent to rodingite dykes in this area. Rodingite formed as a result of lime metasomatism of coarse hornblende-gabbro dykes, prior to pervasive serpentinisation. Garnierite (hydrous nickel silicate) was developed as colloform growth layers often associated with opal. Secondary enrichment of Ni was highly variable and was deepest adjacent to rodingite dykes because of the high relative permeability in these contact zones.

Ni in the Barnes Hill South area was therefore thought to occur as garnierite, in serpentinite, chlorite and hydrated iron oxides. Thus, in the three areas, Scott's Hill, Barnes Hill-Mt Vulcan, and Barnes Hill South, Ni possibly occurs as different species, concentrated in different hosts in the weathering profiles of different ultramafic areas. However, whilst there is mineralogical and host variation, a common feature is that the greatest concentration of Ni occurs in thick clay within partly decomposed serpentinite zones towards the base of the weathering profile. Substantial tonnages of this favorable zone are only likely to exist beneath the protective cover of either laterites, or Tertiary gravels, either of which may be concealed beneath Quaternary sediments.

Ordovician Junee Group consists of sandstone, siltstone, slate, limestone, quartzites and quartz conglomerates. Locally the tenement covers the Blyth's Creek Formation and Cabbage Tree Conglomerate, Caroline Creek Sandstone and Gordon Limestone all of the Junee Group.

Permian Sediments are reasonably abundant in the tenement area lying unconformably over older stratigraphy. Units include the Quamby, Golden Valley, Mersey, Woodbridge and Ferntree groups and Cygnet Coal measures.

Tertiary Sediments consist mainly of sandy clays and sandstones and north of Beaconsfield white quartz gravels. The laterite formed over the Andersons Creek Complex Ultramafics was formed in the Tertiary.

Igneous Rocks other than the Anderson Creek Complex, include minor Jurassic dolerite and Tertiary Basalt. Tertiary basalt overlies Tertiary sediments in most cases. Both dolerite and basalt form magnetic features in the regional magnetic data, however their responses are much less significant than the major ACC response.

6 EXPLORATION HISTORY

Substantial exploration has been carried out over the last 50 years. A summary table below has been compiled by assessing old reports and specifically compilations made by Lindsay Newham (1997). King Island Scheelite (KIS), Allegiance Mining and Jervois Mining completed most of the recent work on the Barnes Hill Ni-Co Laterite.

Table 2 Summary of historic exploration activities

Company	Start	Finish	Focus	Work Completed	Results	Conclusion	Report/EL
Jervois Mining	2001	2004	Ni, Co	Re-assaying, campsite sampling for met work	12.5 Mt at 1.07%Ni combined (Ni Co)	spending and budget pressure meant area dropped to focus on other projects	ETA 504
Allegiance	1996	2000	Ni, Co	Historical data compilation, Shallow drilling, Resource calculation environmental studies, metallurgical studies, 116 air core and 8 diamond holes		Low Ni prices and restricted tenement meant re focus on other projects	97_4013
CRA Exploration	1994	1995	NiS	Rock Chip surveys and IP survey	Rock chip sample 1.7% Ni in Serpentinite	not considered economic.	EL35/92
Placeco Australia	1988	1988	PGM, Au	Rock Chips composite sand samples	Failed to detect economic quantities of target minerals	No sampling of Laterite	EL 18/87
Northern Chromite	1969	1981	Cr	Cr production on western flank of Barnes hill, drilling at Rifle Range south	660,000t at 12% Cr defined at Rifle Range and Barnes Hill	Mined Cr no Ni production	
Department of Mines	1979	1980	Cr	16 percussion holes, serpentinite clays intersected but not tested		Reconnaissance Cr drilling	
Allstate Exploration	1971	1972	Ashb	15 Core holes and trenching	tope weathered section (Laterite not sampled)	No Ni Focus	
King Island Scheelite	1968	1969	Ni, Co, Cr	37 Holes , metallurgy test work resource calculation, environmental studies	6.014 long tonnes @1.04%ni and 0.06% Co	sub economic in terms of size	69_544
BHP Minerals	1965	1967	Fe, Ni, Cu Zn, Mb, Cr, limestone	Stream sediment sampling, aero magnetic survey, Drilling, trenching, 99 - 3m deep pits	Drilling intersected magnetite bearing serpentinite. (CRA re-sampling gave 3m at 1g/t)	Sub economic mineral grades in all elements tested.	67_465
Consolidated Zinc	1957	1958	Ni	Series of auger samples at 100ft and 200ft intervals focused on previous work by Ben Lomond mining intervals resulting in	Intersected Ni grades between 1.2 to 1.8%	Didn't meet expected grade of 2.5%Ni considered economic at time.	58_0195

Ben Lomond Mining	1955	1956	Ni	Reconnaissance Sampling	Results showed Ni rich clays developed on Mafics/serpentinites were more wide spread than previously known.	JV sort with Consolidated Zinc.	
Department of Mines	1929	1929	Ni	13 holes - location information sketchy	Difficulty in locating holes	Reconnaissance Ni laterite drilling	

6.1 Barnes Hill Nickel Laterite Resource

Previous explorers of the Barnes Hill laterite have drilled 161 holes including 37 diamond drill holes for approximately 580 meters in the late 1960's. More recently, Allegiance Mining drilled 1178.4 meters in 116 aircore holes along with eight diamond drill holes in 1997. The laterites have been drilled at a density of 100 to 150 meter centres.

The nickel laterite is developed above serpentinites of the Andersons Creek Ultramafic Complex. Three separate deposits are known in the area, Barnes Hill, Mt Vulcan and Scott's Hill.

Resources have been calculated using both King Island Scheelite and Allegiance Mining assay data. The lithologies are based on re-logging of the Allegiance Mining chip trays. A summary of the resources is given below:

Table 3 Combined Resources for the Barnes Hill, Mt Vulcan and Scott's Hill Deposits

Lithology	Ni %	Co %	Tonnes	%Ni Equivalent	Percentage Tonnes	Ni	Co
Hematite	0.63	0.12	167,657	1.05	1.3%	1.0%	2.3%
Limonite	0.39	0.12	794,699	0.81	6.4%	3.0%	11.3%
Saprolite	0.88	0.07	9,213,728	1.13	73.8%	77.7%	75.9%
Weathered Serpentinite	0.82	0.04	2,301,870	0.96	18.5%	18.3%	10.5%
Totals	**0.83**	**0.07**	**12,477,955**	**1.07**			

The parameters used in the calculations were:

Area	Plan Polygonal Blocks
Volume	Area x drill thickness
Density	1.8
Minimum Thickness	2m
Cut-off Grade	0.6% Ni Equivalent (=%Ni + 3.5 x %Co)
Assay Grade	Averaged per drill hole
Minimum Overburden	1m
Overburden Ratio	0.9:1

From the calculations above it can be extrapolated that 96% of the nickel and 86.4% of the cobalt occur in the saprolite and weathered serpentinite lithologies. Furthermore, the Barnes Hill saprolite and weathered serpentinite holds 8.3 million tonnes (66.8% of total tonnage) containing 72.5% of the nickel and 57.4% of the cobalt. (Douglas McKenna & Partners Pty Ltd)

6.2 Barnes Hill Metallurgy

Allegiance Mining submitted nine composite samples to Amdel Laboratories for high pressure acid leach metallurgical testing (two from Scott's Hill, three from Mt Vulcan and four from Barnes Hill). The samples averaged 1.16% nickel oxide (0.91% nickel) and 920ppm cobalt. Lithologically this composition is fairly close to the resources calculated above, although the nickel and cobalt grades are slightly higher.

The results of the High Pressure Acid Leach ("HPAL") testing were good (especially when considered as preliminary testwork) with high recoveries and low acid consumption. Tests were done at 2400°C and 2600°C producing the following average recoveries after two hours of leaching:

Table 4 HPAL Testwork Results for the Barnes Hill, Mt Vulcan and Scott's Hill Deposits

Temperature	Recovered Ni	Recovered Co	Acid Consumption (kg/t)
2400 °C	89%	83%	397
2600 °C	92%	93%	326

6.3 Previous Exploration By Proto Resources & Investments Ltd

Exploration completed by Proto since grant of EL17/2006 has included:

- completion of a high level review of the Barnes Hill Project and drillhole database by Snowden Mining Industry Consultants,
- an aircore drilling program (17 holes for 202m) completed to validate historic drilling results and to provide samples for metallurgical testwork,
- planning of a resource drilling program at Barnes Hill,
- detailed flora and fauna assessment of the resource areas by North Barker Ecosystem Services,
- cutting and assaying of some historic diamond core holes held at the MRT Rockstore in Mornington and
- ongoing metallurgical testwork at HRL Testing in Brisbane.

For a more detailed description of Proto's previous exploration activities at the Barnes Hill EL17/2006 project the reader is referred to previous annual reports by the company.

7 EXPLORATION COMPLETED DURING THE PERIOD

Exploration completed during the reporting period has included a regional soil sampling program, an aircore drilling program at the Barnes Hill deposit, further flora and fauna assessment of the resource areas by North Barker Ecosystem Services, commencement of Aboriginal & European heritage surveys and completion of metallurgical testwork at HRL Testing in Brisbane.

7.1 Regional Soil Sampling Program

A regional soil sampling program of 429 samples was completed in late 2008 along twenty-three 400m spaced east-west oriented lines (Figure 3). The program was designed to cover the full area of known outcrop of the Cambrian Andersons Creek Ultramafic Complex which is host to the Barnes Hill, Scott's Hill & Mt Vulcan laterite nickel deposits.

The program was designed to not only aid in exploration for further laterite nickel mineralization but to also test for potential indicators of nickel sulphide mineralization, other base metal mineralization and gold.

Samples were taken along uncleared east-west traverse lines with co-ordinates obtained from a handheld GPS unit. A pit between 10-30cm deep was dug and a sample, sieved using a 1mm sieve, was taken. All samples were dispatched to ALS Chemex for analysis of a multi-element suite of elements including Au, Cu, Pb, Zn, Ni, Co, Pt & Pd. Assay data is given in Appendix A.

Peak values of 5590ppm nickel, 2350ppm cobalt, 61ppb platinum, 26ppb palladium & 17ppb gold returned. Elevated chromium values of +1000ppm effectively map the outcropping extent of ultramafic rock units as do elevated levels of cobalt (+100ppm) & nickel (+500ppm).

The highest platinum & palladium levels occur at Mt Vulcan & Scott's Hill associated with elevated cobalt and higher copper. These Pt & Pd levels may be enrichment within the surface laterite unit.

The currently defined nickel laterite resource areas of Barnes Hill, Mt Vulcan & Scott's Hill are marked by comparatively lower levels of nickel in soils due possibly to nickel depletion in the iron-rich laterite which caps these nickel deposits.

The soil data indicates several areas outside of the current nickel laterite resource areas that can be targeted for potential further laterite discoveries.

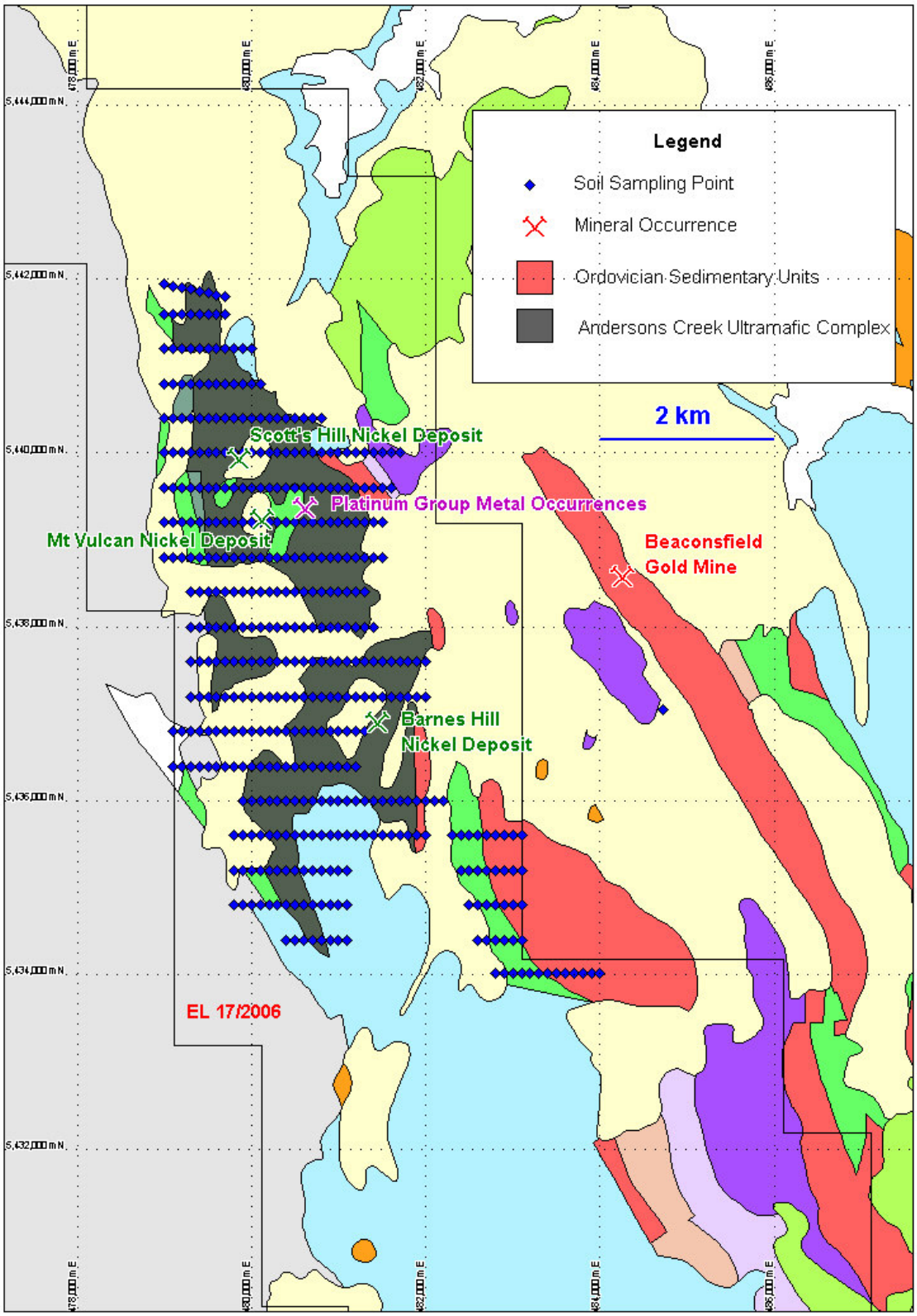

Figure 3 **Regional soil sampling coverage of EL17/2006 with geology and nickel laterite deposits shown.**

7.2 Aircore Drilling Program

During the reporting period Proto completed an aircore drilling program consisting of 75 drill holes for a total of 1,080m. The hole numbers completed were BHA001 through to BHA075. The drilling program was completed by Tasmanian Drilling Services of Hobart using a truck mounted drill rig. The holes were all completed at the Barnes Hill nickel laterite deposit. Drilling was undertaken to infill areas of the currently known resource to improve confidence in the distribution of nickel and cobalt and to provide details for further metallurgical testwork. All holes were drilled vertically.

A plan showing drill hole locations is given as Figure 4 while best intercepts are tabulated below. A table with collar locations and assay results is included as Appendix B. One metre grab samples were taken from each metre of drilling and sent to ALS Chemex for assay.

Encouraging nickel and cobalt intercepts were returned from drilling as expected. Also encouraging iron intercepts from within the iron-rich laterite were also returned. Best results are tabulated below in Table 5 (nickel & cobalt) and Table 6 (iron). All drill hole collars were plugged and any rubbish was removed from the drill site areas.

7.3 Flora & Fauna Surveys

A detailed flora and fauna assessment of the resource areas has been completed by North Barker Ecosystem Services to allow the drilling program to be approved. The survey by North Barker has formed the basis of a Forest Practices Plan that was certified during the reporting period.

All private land owners as well as Forestry Tasmania and Department of Tourism, Arts & the Environment have signed the Forest Practices Plan.

A copy of the Forest Practices Plan is included as Appendix C.

Table 5 Best Nickel & Cobalt Aircore Drill Hole Intercepts – Proto 2008

Hole ID	Northing	Easting	Dip (°)	Max Depth	Depth From	Depth To	Width (m)	Ni %	Co %
BHA001	5437473	481574	-90	12	2	9	7	0.67	0.16
BHA002	5437495	481625	-90	20	5	11	6	0.87	0.07
BHA003	5437502	481677	-90	8	1	6	5	0.63	0.03
BHA008	5437455	481745	-90	22	1	7	6	0.90	0.05
BHA011	5437443	481587	-90	12	6	11	5	0.65	0.04
BHA012	5437459	481544	-90	37	14	22	8	0.72	0.08
					29	34	5	0.67	0.02
BHA014	5437395	481578	-90	19	10	19	9	1.10	0.04
BHA018	5437396	481759	-90	12	4	11	7	1.06	0.06
BHA025	5437356	481694	-90	14	8	14	6	1.03	0.06
BHA029	5437308	481525	-90	24	8	18	10	1.01	0.04
BHA035	5437230	481705	-90	10	5	10	5	1.04	0.05
BHA036	5437247	481654	-90	15	7	15	8	0.90	0.04
BHA037	5437265	481590	-90	22	15	22	7	1.07	0.06
BHA038	5437344	481462	-90	24	8	24	16	1.05	0.06
BHA040	5437361	481501	-90	33	24	33	9	0.96	0.04
BHA042	5437397	481424	-90	19	7	19	12	0.84	0.05
BHA045	5437302	481370	-90	14	8	14	6	0.95	0.09
BHA047	5437219	481460	-90	32	13	30	17	1.16	0.09
BHA049	5437204	481375	-90	24	13	24	11	1.27	0.04
BHA050	5437251	481495	-90	13	7	12	5	1.06	0.09
BHA051	5437251	481533	-90	19	14	19	5	1.16	0.04
BHA053	5437253	481405	-90	34	22	34	12	0.78	0.18
BHA054	5437256	481350	-90	18	13	18	5	0.82	0.03
BHA056	5437299	481669	-90	15	6	15	9	0.60	0.07
BHA059	5437498	481521	-90	11	5	11	6	0.98	0.08
BHA060	5437501	481472	-90	16	4	15	11	0.97	0.06
BHA061	5437505	481424	-90	7	2	8	6	0.71	0.03
BHA062	5437423	481500	-90	29	7	23	16	1.34	0.05
BHA065	5437203	481327	-90	19	11	18	7	0.79	0.05
BHA066	5437209	481267	-90	17	10	17	7	0.81	0.08
BHA069	5437354	481348	-90	19	12	19	7	1.17	0.08
BHA071	5437338	481250	-90	11	5	11	6	0.88	0.07
BHA072	5437347	481206	-90	7	1	6	5	0.76	0.10
BHA074	5437297	481228	-90	13	4	13	9	1.70	0.07
BHA075	5437305	481184	-90	8	3	8	5	1.06	0.08

Table 6 Best Iron Aircore Drill Hole Intercepts – Proto 2008

Hole ID	Northing	Easting	Dip (°)	Max Depth	Depth From	Depth To	Width (m)	Fe %	SiO2 %	Al2O3 %	P2O5 %
BHA012	5437459	481544	-90	37	3	18	15	39.2	14.1	13.3	0.014
BHA015	5437407	481623	-90	17	2	9	7	38.9	11.6	14.3	0.017
BHA027	5437349	481599	-90	16	7	14	7	45.0	12.0	9.57	0.011
BHA029	5437308	481525	-90	24	5	10	5	39.6	14.1	15.1	0.015
BHA037	5437265	481590	-90	22	0	19	19	38.7	14.5	11.3	0.025
BHA038	5437344	481462	-90	24	0	11	11	43.5	9.91	8.77	0.032
BHA039	5437348	481398	-90	17	3	12	9	39.4	12.9	11.1	0.016
BHA042	5437397	481424	-90	19	0	7	7	40.6	10.7	12.6	0.034
BHA043	5437275	481476	-90	13	2	11	9	41.1	8.94	11.6	0.031
BHA044	5437283	481428	-90	17	2	16	14	41.9	9.76	11.0	0.036
BHA045	5437302	481370	-90	14	1	8	7	36.7	12.3	15.9	0.030
BHA046	5437302	481329	-90	16	1	14	13	43.1	8.57	12.1	0.027
BHA047	5437219	481460	-90	32	0	8	8	40.0	9.30	11.3	0.037
BHA049	5437204	481375	-90	24	1	13	12	41.5	10.9	11.0	0.043
BHA052	5437248	481451	-90	10	1	8	7	43.5	8.38	10.7	0.030
BHA053	5437253	481405	-90	34	2	17	15	39.9	8.49	14.6	0.018
BHA054	5437256	481350	-90	18	0	10	10	39.2	7.97	17.5	0.020
BHA057	5437291	481621	-90	14	8	14	6	43.5	9.6	8.81	0.02
BHA058	5437294	481566	-90	19	0	18	18	35.8	12.7	17.1	0.022
BHA064	5437437	481399	-90	10	1	7	6	37.6	11.4	13.9	0.027
BHA065	5437203	481327	-90	19	2	11	9	40.3	10.2	13.3	0.023
BHA068	5437248	481299	-90	14	0	6	6	37.6	10.8	15.9	0.034
BHA069	5437354	481348	-90	19	1	6	5	42.4	7.4	13.6	0.038
BHA070	5437344	481315	-90	12	0	10	10	42.1	6.93	12	0.036
BHA073	5437299	481274	-90	17	0	16	16	43.1	10.8	10.2	0.019

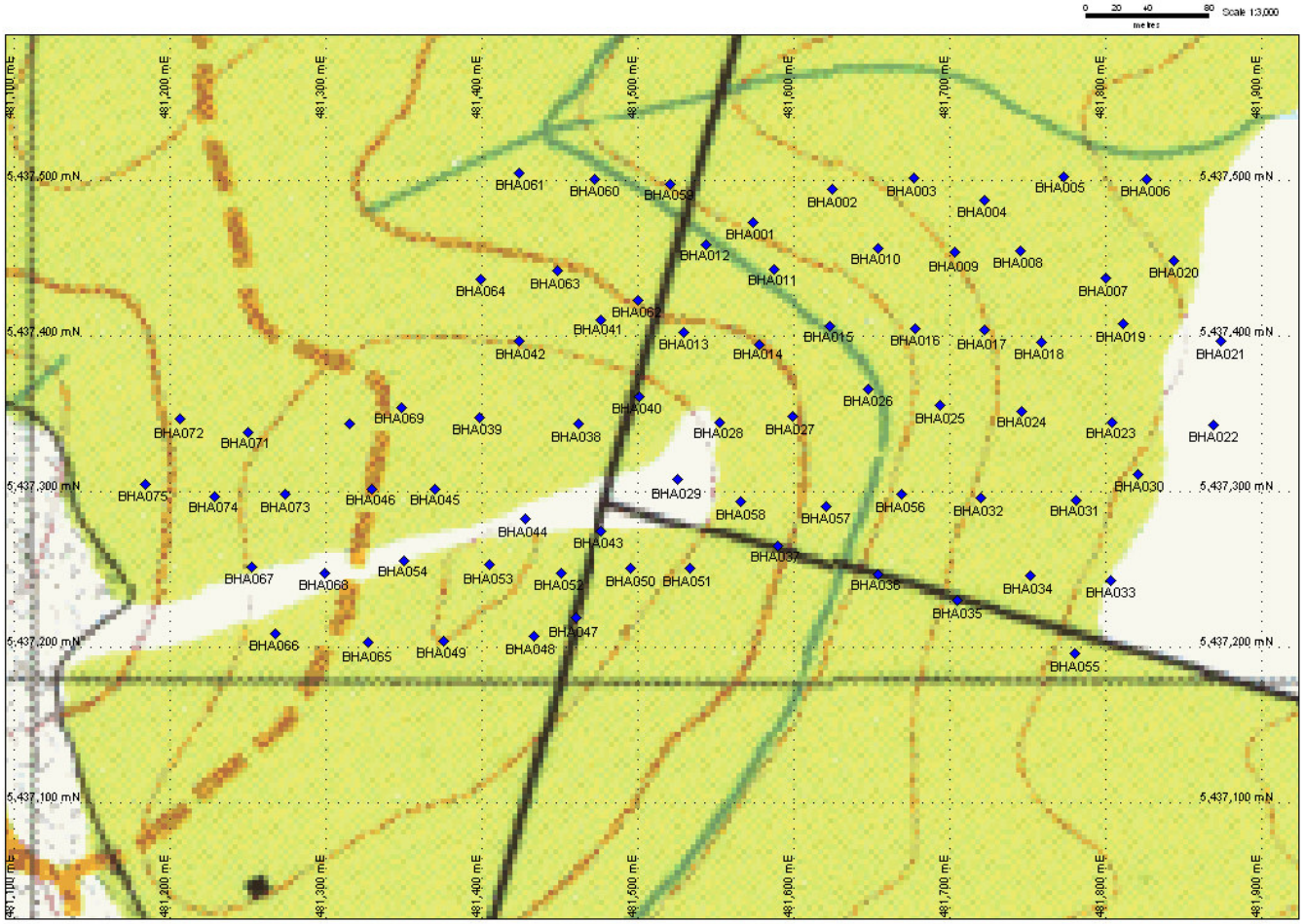

Figure 4 **Detailed location of aircore drill holes completed at Barnes Hill during the reporting period.**

7.4 Aboriginal & European Heritage Surveys

During the reporting period surveys of Aboriginal Heritage and European Heritage commenced within EL17/2006. These surveys were halted due to the global financial crisis and the fall in the nickel price.

A desktop Aboriginal Heritage survey was completed by Steve Stanton of Aboriginal Heritage Consultancy and is included as Appendix D of this report. More detailed field studies are due to commence in late 2009.

A desktop European Heritage survey was completed by Austral Archaeology Pty Ltd and is included in Appendix D of this report. More detailed field surveys of European heritage are due to commence in late 2009.

These surveys were initiated to form part of the Development Proposal and Environmental Management Plan to gain approval to mine at Barnes Hill.

7.5 Metallurgical Testwork

Five bulk samples were composited from separate aircore drillholes drilled by Proto in 2007. The drill holes composited were 31, 32, 39, 65 and 74. Assay testing of the samples indicated that 74 had only low grade Ni and this sample was discarded from further testwork.

The four samples have undergone numerous tests at HRL Testing in Brisbane of which column leach testwork reported in the last annual report has now been completed. Other testwork includes acid consumption, bulk density, ore density, moisture content and head grade analysis The final HRL report is given in Appendix E.

Column leach testwork results have indicated relatively high recoveries at low acid consumption levels.

Samples from the aircore drilling completed in late 2008 have now been submitted to Australian Bio Refining for further testwork with results pending.

The aims of these further tests are:

1. Leachability of the ore
    - Ni recovery over time
    - Co recovery over time
    - Fe recovery over time
    - Mg recovery over time
    - Physical characteristics of ore after leaching
    - Start state head grade
    - End state head grade
    - bulk density of the samples before and after leaching

2. Acid/water consumption
    - total Kg of acid per tonne of ore
    - acid consumption over time
    - water consumption

3. Makeup of PLS
   - Daily narrow analysis (Ni, Co, Fe, Mg, free acid)
   - Broad spectrum analysis weekly (Ni, Co, Fe, Mg, Al, As, Ca, Cl, Cr, Cu, K, Mn, Mo, Na, P, Pb, S, Si, Ti, V, Zn, free acid)

4. Parameters
   - 80-90% Ni recovery from ore
   - max 60 day leach
   - an average of about 50 GPL H2SO4 as the leach solution
   - vat leaching - liquor introduced at the bottom and percolating up.
   - 3 vats in isolation with different ore head grades in each
   - PLS bled at about 5 GPL tenor
   - Storage of bulk PLS @ 5 GPL Ni for further testing - the PLS from the 3 vats to be stored seperately.

It is anticipated that results of these test will be reported in the next EL17/2006 annual report.

8 EXPENDITURE

Expenditure from 8th August 2008 to 7th August 2009 is tabulated below for the Barnes Hill EL17/2006 licence.

Table 9 Expenditure 8 August 2008 to 7 August 2009.

	Aug-08 to Aug-09
Administration	$24,000
Geology - Personnel/Equipment	$99,399
Gridding	$1,037
Geochemistry	$10,235
Geophysics	-
Drilling	$56,231
Feasibility Studies	$141,123
Land Access Costs	$21,278
Rehabilitation	$182
Safety	$124
Other – Rental Fees, Drafting	$27,111
TOTAL - ELIGIBLE	**$380,720**

9 PROPOSED EXPLORATION

A variety of activities are proposed to be undertaken at the Barnes Hill Project in the coming term including:

- Resource drilling program and resource re-estimation to upgrade the nickel-cobalt resource at the Barnes Hill deposit
- Continued metallurgical testwork
- Completion of Aboriginal Heritage & European Heritage surveys

10 KEY REFERENCES

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Appendix A
Regional Soil Sampling Assay Data

Appendix B

Aircore Drilling Collar Locations & Assay Results

a. **Collar Locations**

b. **Geological Logging Data**

c. **Assay Results**

Appendix C
Forest Practices Plan

Appendix D

a. Desktop Aboriginal Heritage Survey

b. Desktop European Heritage Survey

Appendix E
Metallurgical Testwork Report