



MELBA FLATS RL 05/2009

**ANNUAL REPORT
FOR THE PERIOD ENDING 28th October 2011**

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1. SUMMARY

EL 43/1992 is a 6 sq km Exploration Licence surrounding a 269 ha Retention Lease, RL 05/2009 which was initially acquired to facilitate development of the small scale resources identified at Melba Flats. In January 2010, an application transfer ML 2M/2007 to Retention License RL05/ 2009 was granted.

During 2009, MMG geologists worked on the reinterpretation of the Melba Flats geology and geophysical characteristics aiming to generate and define deeper drilling targets. To assist in this, an academic technical report covering on the nature of the sulfides – Ni, Cu and PGM's at Melba Flats as well as the age and overall genesis of the deposits was instigated during the year. It was hoped that the academic study would also shed light on to whether the mineralization at Melba Flats was of magmatic or hydrothermal origin.

There was no work undertaken on RL5/ 2009. This report will summarize the work done on tenement EL 43 / 1992 in the twelve-month period to March 2010.

ASX Announcements and Annual Reports of Allegiance Mining cite a drill defined open-cutable resource of 95,000 tonnes averaging 0.8% Ni and 1.0% Cu in the North Cuni-Genets area and an initial modest inferred mineral resource of 30,000 tonnes at 3% Ni based on seven shallow drill holes at Nickel Reward.

It is the intention of MMG to follow up on and attempt to add significantly to these resources during 2010 by focussing on the areas potential to host a large Ni / Cu sulphide deposit.

2. INTRODUCTION

The Melba Flats area is located 17km west of Rosebery and is 9km NE of Zeehan on the Murchison Hwy in Western Tasmania (Figure 1). Access to the project area is via tracks established by Forestry Tasmania in the course of clear felling the area.

Previous reports on EL 43/1992 and RL 05/2009 (ML 2/2007), as referenced, describe campaigns of geological mapping, airborne and ground geophysics, geochemical sampling and drilling up to drill hole MF 93. The previous annual report, for the first year of retention, describes the magnetic data inversion compiled in 2009. This data manipulation was aimed at better defining the magnetic image so as to more accurately target deeper drilling planned to be included within the 2010 program. Subsequent staffing and funding discrepancies has resulted in deferral of the 2010 work program until 2011.

Prior to their takeover by Zinifex Pty. Ltd. in 2008 (with the subsequent Zinifex/Oxiana merger to form OZ Minerals also in 2008) Allegiance Mining had been exploring and evaluating the Melba Flats area since 1997. Prior to 1997 Rio Tinto Exploration (CRA Exploration) had been exploring the area since 1993. Annual Reports written by Rio Tinto provide comprehensive summaries of any work completed in the area prior to their period of tenure. Allegiance Mining compiled the regional drill hole database from information provided in the Rio Tinto Reports.

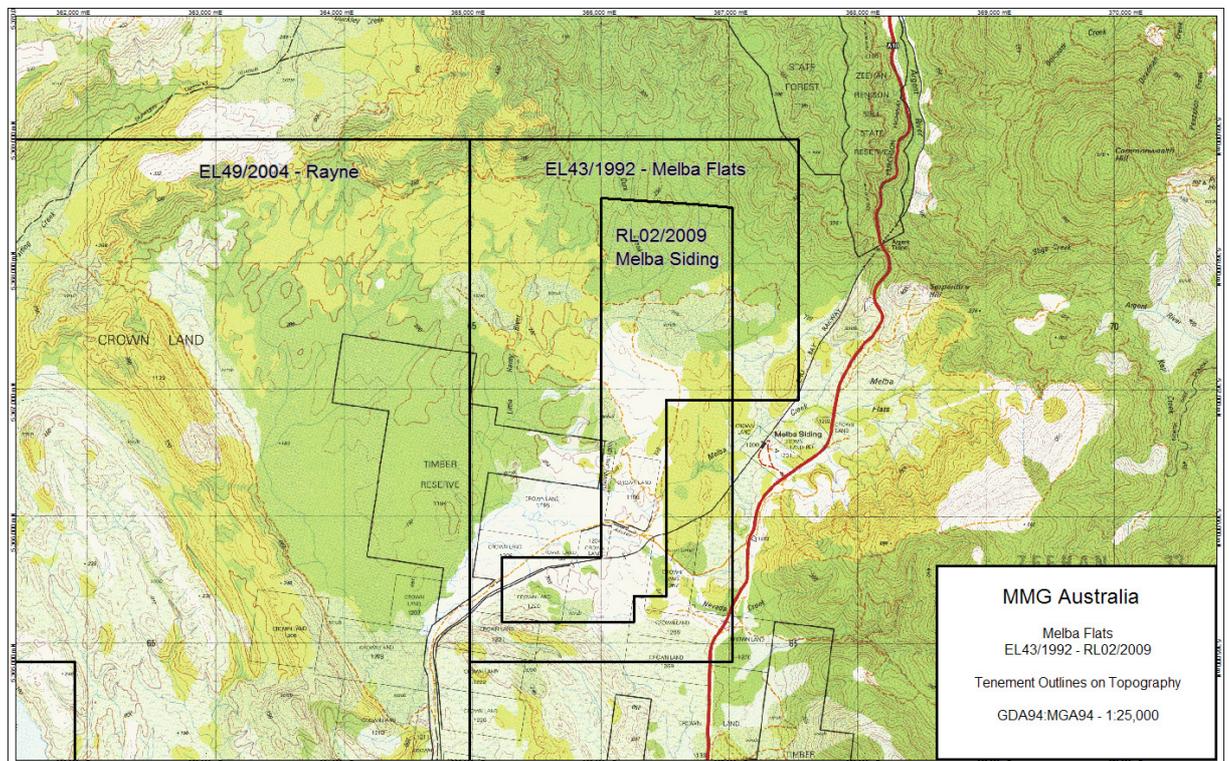


Figure 1: MMG Tenements EL43/1992 & RL02/2009 Location Map

3. LAND TENURE

EL 43/1992 is a 6 sq km Exploration Licence surrounding a 3 sq km former mining lease, RL 05/2009. These areas were acquired to facilitate development of identified resources at Melba Flats. Mining and Metals Group Limited (MMG) hold both licences.

Retention Licence 05/2009 was formerly Mining Lease 2M/2007 which was granted on 22 August 2007 for a 10-year period. Due to the prevailing economic conditions in 2009 and the current size of the resource at Melba Flats MMG converted ML 02/2007 into a Retention Licence – RL05/2009.

EL43/1992 and RL 05/2009 are coincident with a Forestry Tasmania managed Informal State Forest Reserve. Timber plantations occur over most of the licensed areas which have provided secure access to the area and reasonable track access.

4. GEOLOGY

The Melba Flats area consists of Cambrian sediments intruded by a number of gabbro dykes. The dykes are thought to be genetically associated with the Serpentine Hill and Razorback Ultramafic bodies east of the tenements, although an association with the Henty Dyke Swarm is also considered possible. The sediments dip to the east and generally strike north/south. District folding and common small-scale faulting commonly cause local variations to this trend.

The gabbro dykes are intrusive, often with chilled and/or brecciated margins, and are both concordant and discordant with the enclosing sediments. The dykes, sediments and ultramafics are pervasively silicified or carbonate altered with varying intensity. Carbonate and carbonate-talc alteration of the gabbro dykes is typically accompanied by late stage carbonate veining.

The Melba Flats Ni-Cu mineralisation is typically disseminated throughout a gabbro dyke host, but more concentrated (massive in places) on the footwall of the dike. Mineralisation is principally pentlandite-millerite-chalcopyrite-pyrite. Significant cobalt, gold and PGE are associated with either (or both) nickel and copper sulphides. Late-stage carbonate alteration and veining is also accompanied by coarse galena-sphalerite-chalcopyrite. The body of existing petrologic data suggests the Melba Flats sulphides are hydrothermal replacement deposits, derived from a larger magmatic source.

Historical production of 10,000t @ 9.5% Ni and 3.5% Cu to a maximum depth of 50m has been estimated for the Melba Flats field. Exploration to date by Allegiance has shown the Ni-Cu mineralisation to be more widespread and persistent to greater depths than previously thought. Drilling by Allegiance, complemented by surface exposure and former mine workings has identified modest shallow resources at Nickel Reward and North Cuni-Genets. The district is regarded as highly prospective for extensions of these resources and for more substantial bodies at depth associated with larger gabbro and ultramafic intrusives.

The overall strategy for Allegiance Mining at Melba Flats prior to its purchase by Zinifex/OZ Minerals was to commence production from several small pits and to access deeper resources by way of appropriately sized declines from within these pits. Reflecting this strategy, activity at Melba Flats under Allegiance Mining's management in the recent past has been undertaken with the objectives of:

- Expanding the shallow open-cuttible resources via step out drilling campaigns
- Exploring for depth extensions by drilling down dip of known mineralization
- Progressing development of the shallow resources towards production.

Although still investigating the former Allegiance model, MMG's exploration strategy is to assess if the Melba Flats area has the potential to host a large scale Ni / Cu +/- PGE sulphide deposit that will honour MMG's deposit size criteria.

5. CURRENT EXPLORATION

Work Completed in the 2010-2011 Period

No on-ground exploration was carried out on RL 05/2009 or EL43/1992 in the last year of tenure.

An aerial LIDAR (Light Detection and Ranging) survey was conducted by Fugro Spatial Solutions Pty. Ltd. over the total area of the licence during the reporting period. Flight lines were 1km apart with additional tie lines at the border of the relevant lease. Figure 2 and Table 1 contains the relevant information of the survey. The Melba Flats leases formed a small portion of the total survey area and expenses were proportioned accordingly.

Most work carried out with supporting expenditure has been of an administrative, data management and review nature.

As part of the revitalisation in the work programs in Tasmania the Rayne Option and Joint Venture was initiated 17 May, 2011, with Rubicon Min Tech Ventures Pty. Ltd. (subsidiary Stellar Resources), to assess a magnetic anomaly of significant intensity to the west of EL43/1992 on the adjacent EL49/2004. The drill program occurred during this reporting period which is evidence of MMG's continued commitment to exploring the Melba Flats area.

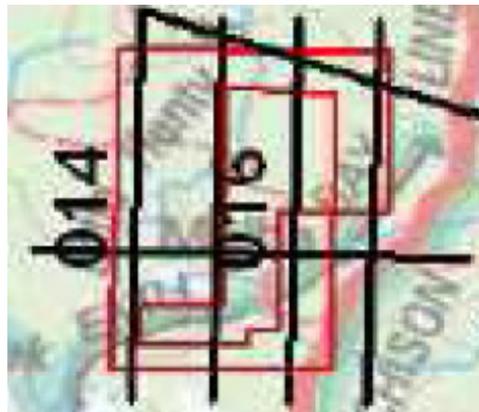


Figure 2: LIDAR Survey flight lines over RL05/2009 & EL43/1992

Product	Item	Format	Media	Projection
LIDAR				
Digital Terrain Model	Lidar ground model key points	ASCII	DVD	MGA94/55+AHD
Digital Elevation Model	2m Gridded DEM	ASCII	DVD	MGA94/55+AHD
Vertical Accuracy	+/- 0.20m at 1 σ			
Horizontal Accuracy	+/- 0.40m at 1 σ			
Contours	0.5m	DGN		MGA94/55+AHD
Report	Metadata	PDF		
IMAGERY option				
Orthoimage	0.25m GSD RGB	ECW	DVD	

Table 1: Key parameters and outputs for LIDAR survey over RL05/2009 & EL43/1992

6. PREVIOUS EXPLORATION

Once the take over of certain OZ Minerals assets by MMG took place in June 2009 and tenement allocations were finalized, MMG undertook a rigorous assessment of all of its exploration assets in order to properly define its goals and objectives for the short, medium and longer terms. Limited ground work occurred on EL43/1992 during this period with emphasis directed at desk top based assessment of the tenements and reinterpretation of geology and geophysical knowledge.

Work during 2009 focused on interpreting data from the 2008 drilling program. Although upside potential was recognised, the potential for significant additions to the previously defined resources targeting the same generally narrow, near surface gabbro hosts, was considered to be low.

It was decided that a 3D magnetic data inversion would significantly assist in the targeting of deeper, potentially larger deposits beneath the currently defined resources.

Due to the economic situation during most of the year, coupled with the transition of ownership of the tenements from Oz Minerals to MMG, no drilling was undertaken during 2009. A drill program was planned to be undertaken within 2010 to target large scale Ni / Cu +/- PGE mineralization at depth defined by the newly re-interpreted magnetic data.

Magnetic Inversion Technical Summary

A 3D magnetic data inversion was made in the hope it would better define deeper drilling targets underneath the existing resources. The Tasmanian Mines Department West Coast TMI data set used for the inversion. This data was acquired from a fixed wing system at a 200m line spacing and a nominal 60m flying height. The data was manipulated into a UBC3D mag inversion using default settings on a 25 X 25 X 16.667m cells to create a 0.01 SI iso surface (figure 2).

One main anomaly has been recognised that covers an area of ~1km E/W and is continuous over ~2.5km in the N/S direction. 2d sectional slices have been produced (see figures 3 to 7). The strongest signature to the anomaly is at around 1000m RL. MMG plans to drill test this anomaly in 2010.

Academic Technical Report

A research team comprising of Reid R. Keays (Monash University) and Tony Crawford (University of Tasmania) were requested to undertake a study into the Melba Flats geology and mineralization system. The study focused on determining if the Ni, Cu and PGE sulfides are part of a major or minor mineralizing system and establish the genesis, either magmatic or hydrothermal of the mineralization. The scope of the study also

encompasses an attempt to age the gabbro dykes that host the mineralization and determine whether or not this intrusive suite is part of the 600 Ma Crimson Creek Fm. or alternatively associated with the 515Ma boninitic magmatism that produced the Heazlewood, Serpentine Hill and McIvor Hill complexes. The study will also look into the geochemical characteristics of the mineralized gabbros versus the un-mineralized gabbros to try to develop a geochemical discriminator able to assist in future exploration.

7. EXISTING RESOURCES

The source of Inferred and Indicated Mineral Resources at North Cuni-Genets and Nickel Reward is cited by Allegiance in open file is "*Allegiance Metals Pty Ltd, Melba Flats Nickel Project, Mineral Resource Report, October 2004*", by Michael V McKeown.

Only drill holes MF 27 – 64, drilled in 2004, were included in calculating resources. Therefore drill holes MF 65 – 107 have not been included in the resource figures used for either the Genets or Nickel Reward prospects at Melba Flats.

There have been significantly mineralised intervals reported for many of the holes drilled since this resource calculation and while these results may not be part of the resource calculation, they are included in ongoing geological interpretations.

Current estimated mineral resources in the North Cuni-Genets area are:

Indicated: 83,000 t @ 0.7% Ni, 0.6% Cu, 0.02% Co

Inferred: 12,000 t @ 1.2% Ni, 3.3% Cu, 0.04% Co

Including a massive sulfide zone estimated to contain: 1,600 t @ 9.2% Ni, 6.0% Cu, 0.2% Co,

Nickel Reward

Inferred Mineral Resource of 30,000 t @ 3% Ni.

8. ENVIRONMENTAL

No environmental activities have been conducted during the reporting period.

9. CONCLUSIONS AND RECOMMENDATIONS

Assessments are ongoing with the Rayne JV results and will be formally released in the coming reporting period. Previous recommendations from 2010 will be brought forward with minor amendments, as listed below:

Nickel Reward

Nickel Reward hosts a very small but high grade Ni resource. Further interpretation on the prospect area is warranted during 2012. The structurally complex geology is not well understood and would significantly benefit from further resource modelling and estimation. Drilling to date suggests that high grade Ni and Cu mineralisation may be confined to smallish pods developed at the intersection of gabbros and faults.

Resource modelling will be conducted in the coming reporting period to better define mineralisation setting and exploration upside potential.

North Cuni

Interpretation on the current results on EL49/2004 may show further drilling is warranted however that work will be conducted in the coming reporting period dependent on results.

Genets

The drilling program carried out around the Genets prospect in 2008 was relatively successful and may warrant additional investigation. Mineralization is open along strike to the NE and at depth to the East but by all indications additional drilling is likely to result in similar short intervals and low grades.

Although no immediate work is planned for Genets during 2012 as the potential for a large tonnage deposit of sufficient Ni and Cu grade appears low, a cursory look into the data will be undertaken.

South Genets

There remains little encouragement for the potential of South Cuni to host a large mineralizing system. There are however large gaps in the drilling which will be investigated to see if additional drilling is warranted.

Devereaux

Devereaux has been subject to a small-scale mining operation where a mineralized gabbro dyke has been exploited at surface. Previous recent work has attempted to interpret the dip and strike of the mineralized dyke without success.

10. EXPENDITURE

Expenditure during this reporting period has been minimal due to the nature of work being conducted, i.e. desktop studies and administration, however expenditure to the immediate west of the leases has been considerable (to be reported separately). This is evidence of MMG Exploration's commitment to the Melba Flats area currently, and leading into the future.

EL43/1992

Cost elements	Total Actual
602999 Salaries Recharge	12293.86
603999 Oncost Recharge	1719.05
610800 Office & Admin Supp	
610830 S'ware - Tax Dep'ble	
615000 Electricity	
630180 Tel Line Lease/Rentl	323.58
630210 Aircraft/Helicopter	4362.5
630305 Tenement Fees	408
630310 Tenement Rentals	244.8
635220 Office Cleaning	87.36
635590 Cont Field Labour	500
644000 Rep & Mtce MV	3002.7
644010 Rep & Mtce Bldngs	237
660030 Taxi fares	351.88
660060 Car Hire	29.29
660070 Airfares (Domestic)	997.58
660080 Accom (Aust Travel)	2815.28
660190 Meals (Travel Emp)	370.53
660200 Meals (Clnt/Contr)TM	106.59
660230 Accom & Meals	0
665030 Meals Emp Offsite	0
665031 Off-site Meals (Fam)	68.36
670295 Data Sets	0
672000 Training - Courses	645.46
Total	28,563.82

RL02/2009

Cost elements	Total Actual
602000 Salaries - Normal	1,205.88
602999 Salaries Recharge	3,070.60
603000 Oncost - Salaries	132.61
603999 Oncost Recharge	391.18
630210 Aircraft/Helicopter	4,362.50
660030 Taxi fares	135.01
660060 Car Hire	29.24
660080 Accommod (Aust Travel)	109.09
609100 Tel Subs Bus Calls	
610800 Office & Admin Supp	
610830 S'ware - Tax Dep'ble	
630310 Tenement Rentals	4,488.00
635220 Office Cleaning	
640995 Consultants Costs	
644000 Rep & Mtce MV	
660190 Meals (Travel Emp)	
660190 Meals (Travel Emp)	25.46
672000 Training - Courses	
665040 Seminar Meals & Ent	35.64
* *	13985.21

Total Combined Expenditure for the period is approximately **\$42,549.00**

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