MELBA FLATS EL 43/1992

ANNUAL REPORT
FOR THE PERIOD ENDING 30th April 2012

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1. SUMMARY

Little field work was conducted during the current term of tenure. Investigations were more focussed on attaining results from the drilling program on EL49/2004, and applying those results on EL43/1992. Rehabilitation of drill collars and drill pads was initiated during the period and will be finalised in the coming term of tenure.

2. INTRODUCTION

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

EL 43/1992 is a 6 sq. km Exploration Licence surrounding former mining lease, ML 2/2007, now RL02/2009 with an area of 3 sq. km. These areas were acquired to facilitate development of identified resources at Melba Flats. Minerals and Metals Group Limited (MMG) hold both licences.

Mining Lease 2M/2007 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, during 2009, MMG gained approval for conversion of ML 2/2007 into a Retention Licence – RL5 / 2009.

Prior to its takeover by Zinifex in 2008 (and the subsequent Zinifex/Oxiana transaction that resulted in formation of OZ Minerals 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 their regional drill hole database from information provided in the Rio Tinto Reports.

Previous reports on EL 43/1992 and ML 2/2007 (see References) describe campaigns of geological mapping, airborne and ground geophysics, geochemical sampling and drilling up to drill hole MF 93. This report describes the geochemical investigation which is ongoing, and a portion of the results gained from drilling on EL49/2004.

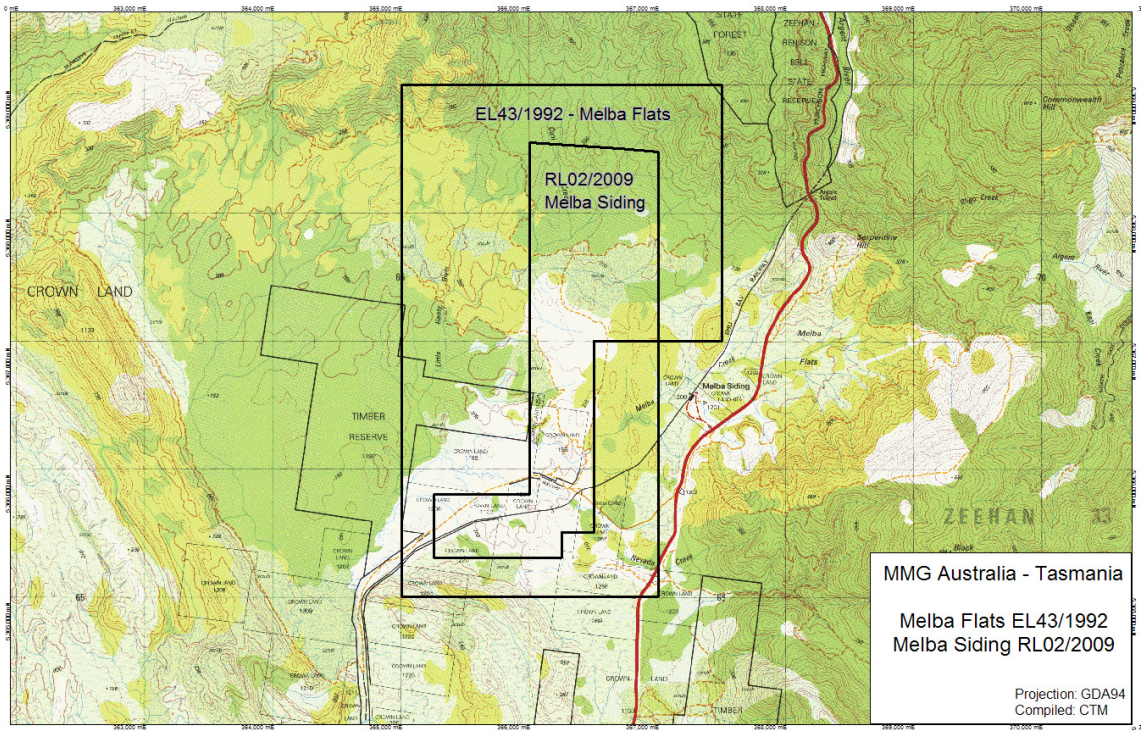

Figure 1: EL43/1992 location on 1:250K topographic map

3. LAND TENURE

EL43/1992 is coincident with state forest under management of Forestry Tasmania and administered under the Forestry Act (45 of 1998).

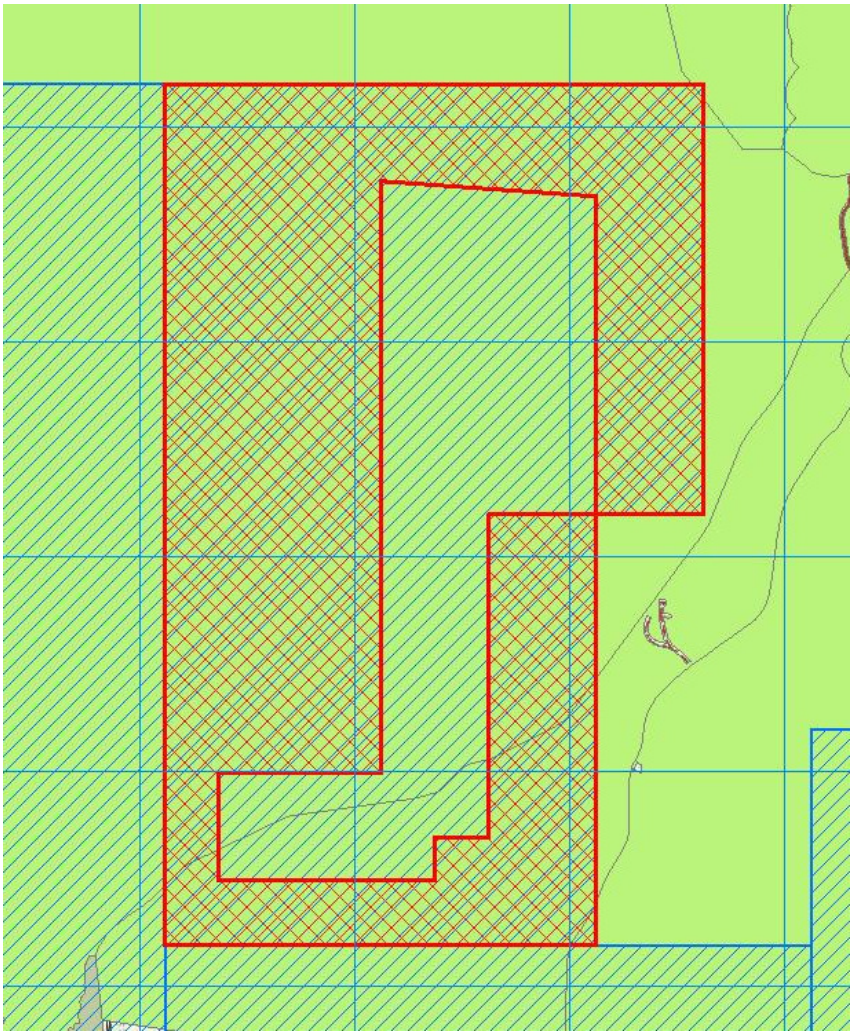

Figure 2: EL43/1992 overlain on Public Land Classification/Cadastral Classification

4. GEOLOGY

The Melba Flats area consists of Cambrian Crimson Creek Formation sediments intruded by a number of gabbro dykes of unknown age. The dykes are considered as genetically associated with the Serpentine Hill and Razorback Ultramafic bodies east of the area of interest. It is possible the dykes are alternatively associated with the Henty Dyke Swarm. Turbiditic 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, brecciated margins, and are both concordant and discordant to sediments. The dykes, proximal sediments and ultramafics are pervasively carbonate and carbonate-talc altered with ubiquitous late stage carbonate veining.

The Melba Flats Ni-Cu mineralisation is typically disseminated throughout the gabbro dyke hostrock, and more concentrated on footwall contact positions. 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 occurrences. 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 and MMG 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 was undertaken with the objectives of:

- Expanding the shallow open-cuttable 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 recently established deposit size criteria. This has been enacted by evaluating the large magnetic anomaly to the west, on EL49/2004, under Joint

Venture with Stellar Resources. This work provides a comparative assessment of gabbros and results are included within.

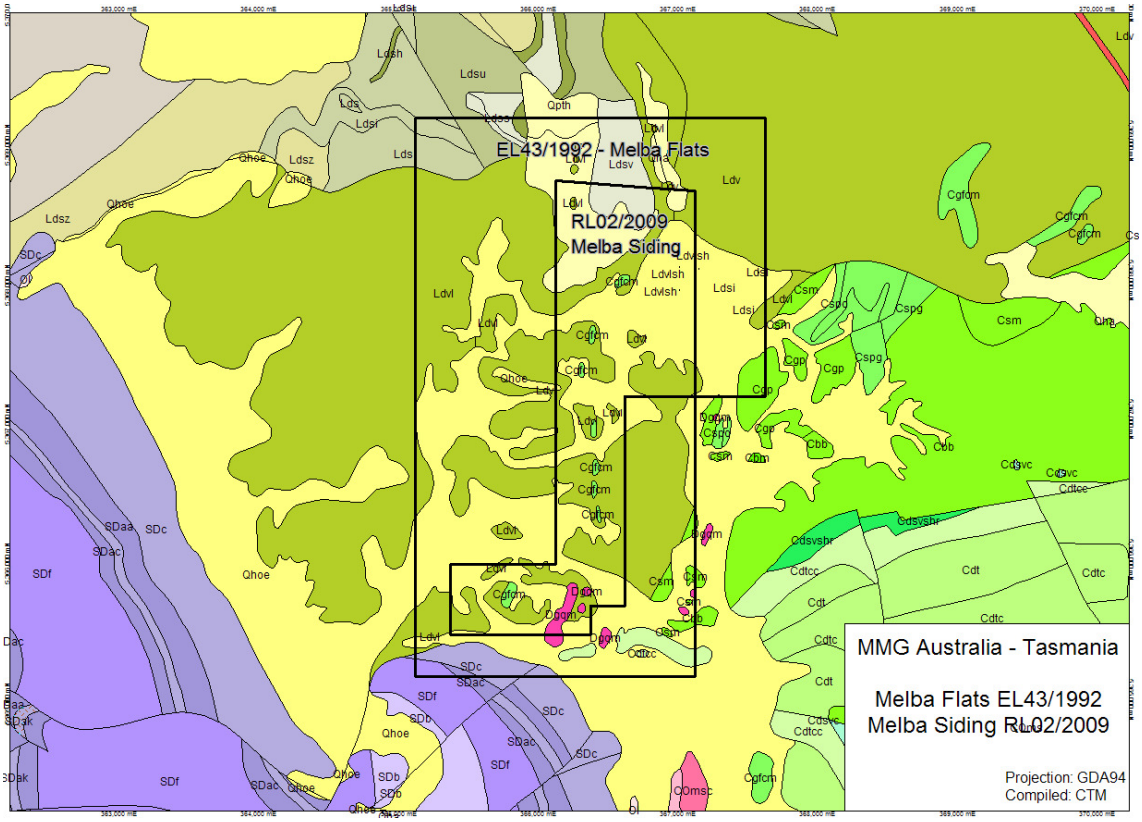

Figure 3: MRT 1:250K Geology with tenement location

5. CURRENT EXPLORATION

Work Completed in the 2011-2012 Period

Little field work has occurred during the current term of tenure. Work programs were focussed on assessment of the Rayne Program on EL49/2004 under a Joint Venture agreement with Stellar Resources.

Results from drilling, and subsequent comparison with gabbros from Melba Flats indicated a clear differentiation between gabbro occurrences and associated mineralisation. Rayne-Type gabbros (through dolerite to basalt), have a higher degree of fractionation, to a magnetite-phyric tholeiitic end member, and are LREE enriched resembling an E-MORB composition, compared to Melba Type gabbros tending more towards an N-MORB composition (Figure 4). Melba-Type gabbros have a greater intensity of alteration associated with intrusion and greater degree of nickel sulphide mineralisation (Figure 6). Samples within the Melba Flats area, within EL43/1992, range between N-MORB and E-MORB compositions and will provide a means for differentiating intrusions, and focussing exploration in the coming year of tenure.

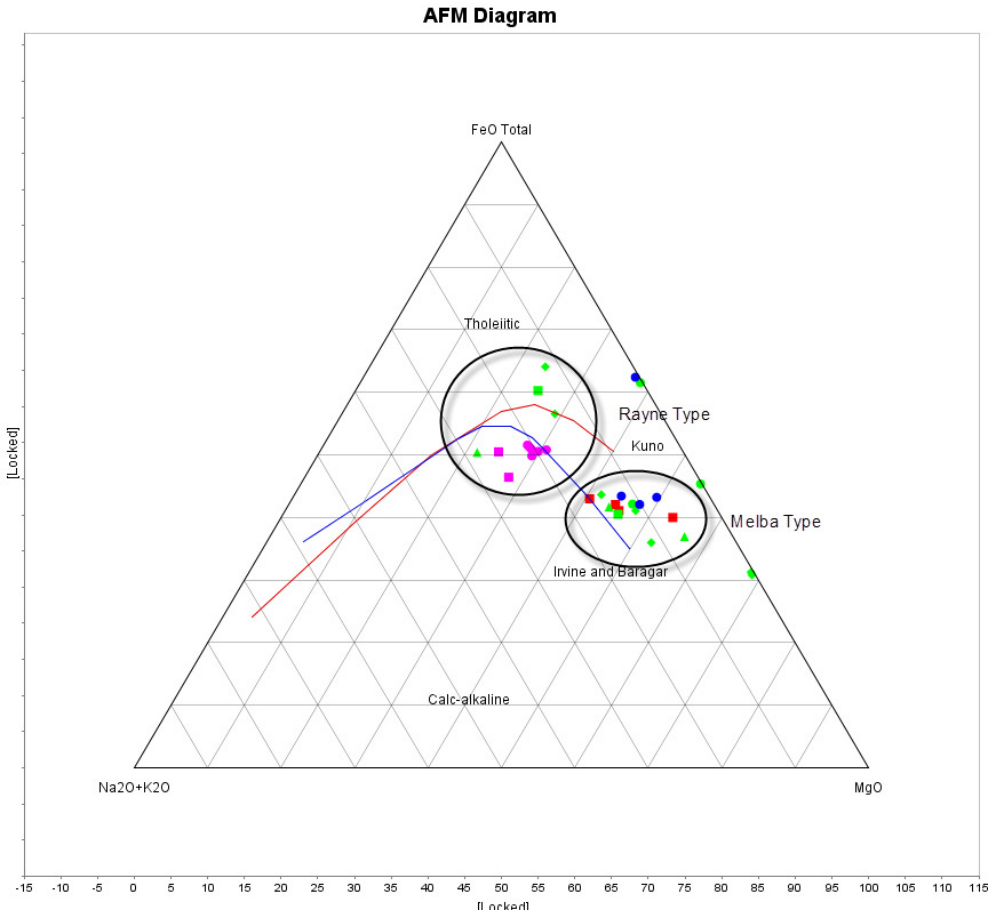

Figure 4: AFM Diagram of Melba Flats Gabbros compared to Rayne Gabbros

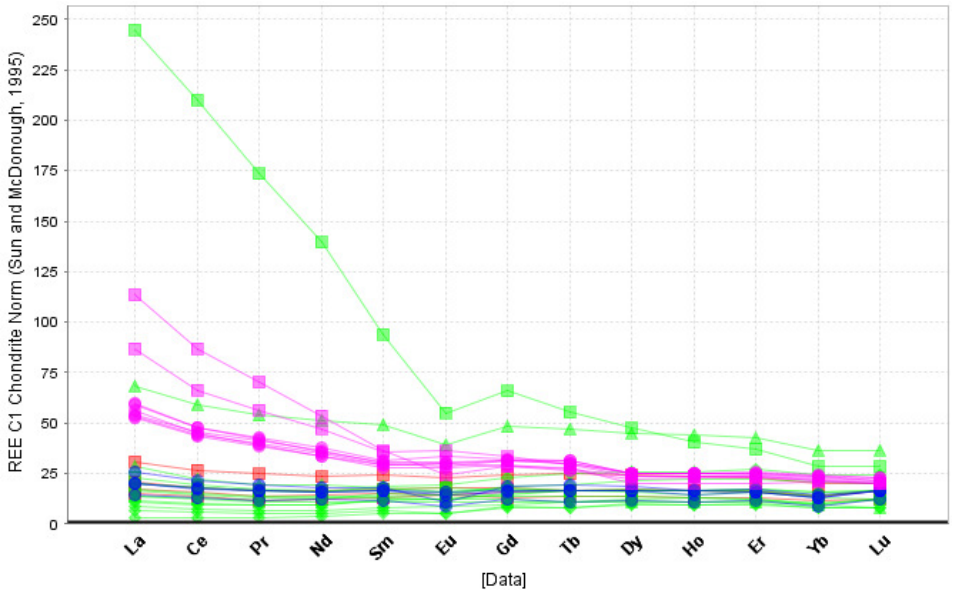

Figure 5: REE C1 Chondrite Normalised Spider Plot of Rayne Samples (Pink), and various Melba Flats Samples (Blue, Green, Red) from existing drilling.

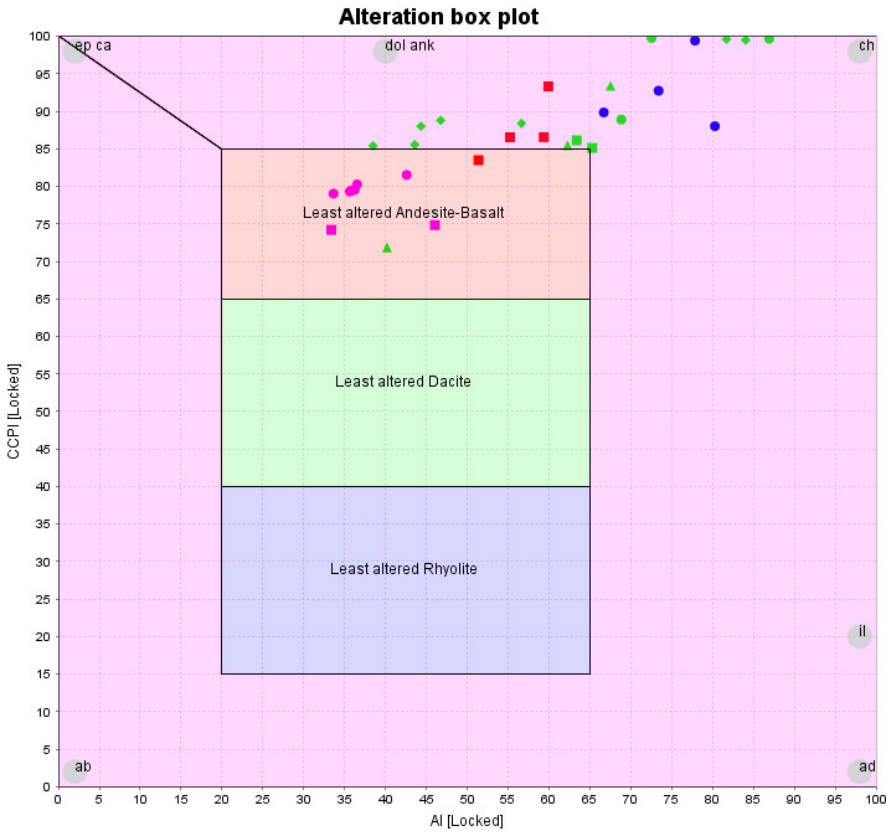

Figure 6: Alteration Box Plot of Melba Flats Gabbro samples and Rayne Gabbro Samples.

6. PREVIOUS EXPLORATION

A 3D magnetic data inversion was developed to better define deeper drilling targets beneath existing known resources which led to progressive talks with Stellar Resources to access EL49/2004. The Tasmanian Mines Department West Coast TMI data set was re-processed which was acquired from a fixed wing system at 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 Sl iso surface (refer previous reports).

One main anomaly was recognised that covered an area of ~1km E/W and ~2.5km N/S. The strongest signature in the anomaly is at approximately 1000m RL.

A research team comprising of Reid R. Keays (Monash University) and Tony Crawford (University of Tasmania) undertook a study into the Melba Flats geology and mineralization system with a focus on whether Ni, Cu and PGE sulfides are part of a major or minor mineralizing system. Other key elements of the study included genetic relationships of the intrusions, the age of the gabbro dykes that host the mineralization and whether or not the intrusive suite is contemporaneous with deposition of the 600 Ma Crimson Creek Fm. or the 515Ma boninitic magmatism that produced the Heazlewood, Serpentine Hill and McIvor Hill complexes.

Results indicated a number of scenarios for Nickel sulphide concentration and mineralisation which no distinct scenario recommended. Further work was proposed to better define the mineralisation at Melba Flats.

7. ENVIRONMENTAL

Minor track refurbishments occurred during the year of tenure in association with the Rayne JV with Stellar Resources on EL49/2004. Approval was given by Forestry Tasmania, and MRT, for use of dry, coarse material for track upgrade from a borrow pit near the north Cuni-Genets Shaft location.

Correspondence was received from John Pemberton, MRT Environmental Officer, regarding an environmental legacy issue at Melba Flats that was inherited by Allegiance Mining. None of the drillholes conducted by Allegiance Mining had been rehabilitated to standards outlined in the Mineral Exploration Code of Practice and would require significant effort to remediate every site.

A field crew was mobilised late in 2011 to begin remediation and they reached approximately 50% of the sites before other work programs gained precedence. A commitment was given to John Pemberton that the remaining sites would be rehabilitated to standard by EOY 2012.

8. CONCLUSIONS AND RECOMMENDATIONS

Information gained from the Joint Venture with Stellar Resources on EL49/2004 has allowed for a re-assessment the existing strategy and re-vitalisation of work programs that were put on hold pending finalization of drilling.

A further, more comprehensive, geochemical assessment is required at Melba Flats to adequately assess intrusive signatures and the associated likelihood of economic nickel mineralization. A further work program would consist of a more widespread wholerock assay of existing drillcore with interpretive assessments to develop a 3D model for further manipulation and understanding. The current understanding is there are two distinct types of gabbros at Melba Flats with the Melba-Type only bearing nickel sulphide mineralization. This needs to be further investigated and tested in the coming term of tenure. If this approach is successful in it's application, drilling testing is warranted.

An assessment was made on the current resource estimate in the Melba Flats area which consisted of approximately 50% of existing drillholes. The geochemical investigation is likely to progress through to 3D modeling, where the remaining intersections of nickel mineralization can be added to the resource.

Each prospect area in EL43/1992, (Nickel Reward, North Cuni, Genets, South Cuni & Devereaux), will be included in the geochemical and subsequent 3D assessments.

9. EXPENDITURE

The expenditure covenant for EL43/1992 for the 2011/2012 term was $325,000.

The expenditure made by MMG Australia is significantly below that forecast for the following reasons:

- The Rayne J.V. (Stellar Resources) during the same period included expenditure of ~$250,000.
- Assessments on EL49/2004 were regarded as more timely and strategic in the short term to advance the exploration strategy at Melba Flats
- Truthing of geophysical analysis was required before further expenditure could be made which depended on that analysis

Cost elements	Total Actual
602999 Salaries Recharge	8,098.01
603999 Oncost Recharge	1,593.71
630180 Tel Line Lease/Rentl	140.00
630210 Aircraft/Helicopter	4,362.50
630305 Tenement Fees	408.00
630310 Tenement Rentals	244.80
635220 Office Cleaning	87.36
635590 Cont Field Labour	500.00
644000 Rep & Mtce MV	1,966.70
644010 Rep & Mtce Bldngs	237.00
660030 Taxi fares	285.78
660060 Car Hire	29.29
660070 Airfares (Domestic)	811.03
660080 Accomm (Aust Travel)	2,154.42
660190 Meals (Travel Emp)	323.49
610835 Software - Imm Dedn	4,738.50
660200 Meals(Clnt/Contr)Tvl	106.59
* *	**26,087.18**

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