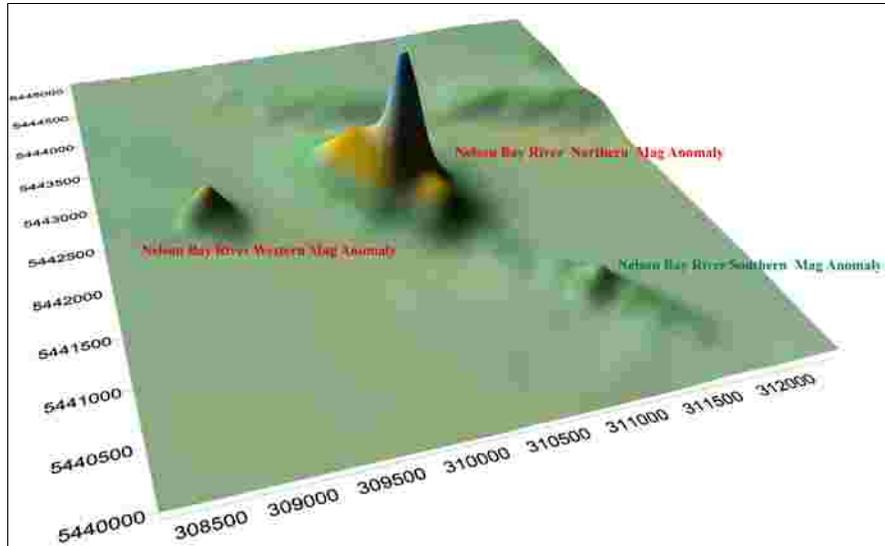


SHREE MINERALS LIMITED
ACN 130 618 683

EL41/2004 - NELSON BAY RIVER
ANNUAL REPORT FOR THE PERIOD 1.03.2012 to 28.02.2013



28 January 2012

Author : M. Pal
Shree Minerals Limited
ACN 130 618 683
Unit 4, Pine Business Centre, 86 Forrest Street
Cottesloe WA 6011

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SUMMARY

The Nelson Bay River tenement (EL41/2004) covers an area of 50 km² and is located about 5 km east of the town of Temma and about 70 km southwest of Smithton, in North West Tasmania. The tenement is 100 % held and operated by Shree Minerals Limited (Shree or the Company).

On 17/02/2011, Shree lodged an application with the Mineral Resources Tasmania, Department of Infrastructure Energy and Resources for the grant of a Mining Lease over a 778 ha (s) area for mining Direct Shipping Iron Ore (DSO) and magnetite from its Nelson Bay River tenement, which was granted on 13 September 2012.

During the report period the Company resources were engaged both in getting the exploration work done as well as in obtaining necessary approvals from various government agencies for developing a DSO mine at the Nelson Bay Iron Ore Project. Now with all approvals in place, the Company is actively engaged in preparation for developing a "First DSO Mine" in Tasmania.

A Maiden Reserve estimation to support a Mine Plan for two years DSO production at the Nelson Bay River Iron Project was made. Additionally to help in refining drilling program to improve DSO resources in category and quantity a 3D magnetic modelling of the NBR and environs was carried out. The 3D Magnetic modelling suggests continuity of the magnetite bearing dike from north to south.

A drilling program of 3000 m RC and 500m HQ diamond was planned. The RC is to upgrade iron resources both in category and quantity. The diamond drilling is planned for geotechnical work in the area. However, due to non availability of drilling contractor in time, the RC drilling scheduled for November 2012 commenced on 3 January 2013. As at 22 January 670 m of percussion drilling along 12 holes was achieved.

The diamond drilling will commence drilling on 23 January.

With all approvals for developing mine at NBR at hand, the Company is planning a comprehensive exploration strategy to extend DSO resources at the NBR project and environs. In addition efforts will be made to locate "iron detrital resources" in the area. Further exploration will involve ground and airborne geophysical work, geological mapping, more 3D magnetic modelling and drilling of new targets and areas where ore is open both along and across strike at depth.

The reported exploration work covers the whole tenement area. However, the drilling confines to the Mining Lease area only.

1. INTRODUCTION

The Nelson Bay River Project tenement (EL41/2004) has been explored since 1968 by various explorers for base metals, gold and iron. Serious exploration for iron commenced in 2006 when the licence holder, Gujarat NRE Resources NL estimated iron resources of 4 Mt @ 40% Fe, capable of producing magnetite concentrates for use in pig iron making and coal washeries.

Since then a great deal of exploration along with various studies for the tenement have been undertaken, and reported in Annual Reports.

On 17/02/2011, Shree lodged an application with the Mineral Resources Tasmania, Department of Infrastructure Energy and Resources for the grant of a Mining Lease over a 778 ha (s) area for mining Direct Shipping Iron Ore (DSO) and magnetite from its Nelson Bay River tenement, which was granted on 13 September 2012.

This report summaries work performed from 1 March 2012 to 28 February 2013. The reported exploration work covers the whole tenement area. However, the drilling confines to the Mining Lease area only. Details on the work performed are given in Appendices II to III.

2. AIM

To explore for iron (goethitic-hematite and magnetite) resources and subsequently mine the discovered resources

3. LOCATION AND ACCESS

The Nelson Bay River tenement (EL41/2004) cover an area of 50 km² and is located about 5 km east of the town of Temma and about 0 km southwest of Smithton, in North West Tasmania (Figure 1).

Access to the tenements is via the Temma and Heemskirk sealed road and thereon via nicely maintained forestry tracks.

4. TENEMENT STATUS

The tenement EL41/2004 (Figures 1) was granted to Zinico NL on 1 March 2005 for 5 years with expiry on 28 February 2010 for exploring all Category 1 Minerals. On 22 November 2005 Zinico NL changed its name to Zelos Resources NL (Zelos), and on 23 November 2006, to reflect the major shareholding, the Zelos name was changed to Gujarat NRE Resources NL. Shree Minerals Limited in May 2008 acquired the tenement from Gujarat NRE Resources NL.

Schedule

Land district: Russell vicinity of Nelson Bay River (5 km NE of Couta Rocks)

Municipality: Circular Head

Exploration Licence: 41/2004

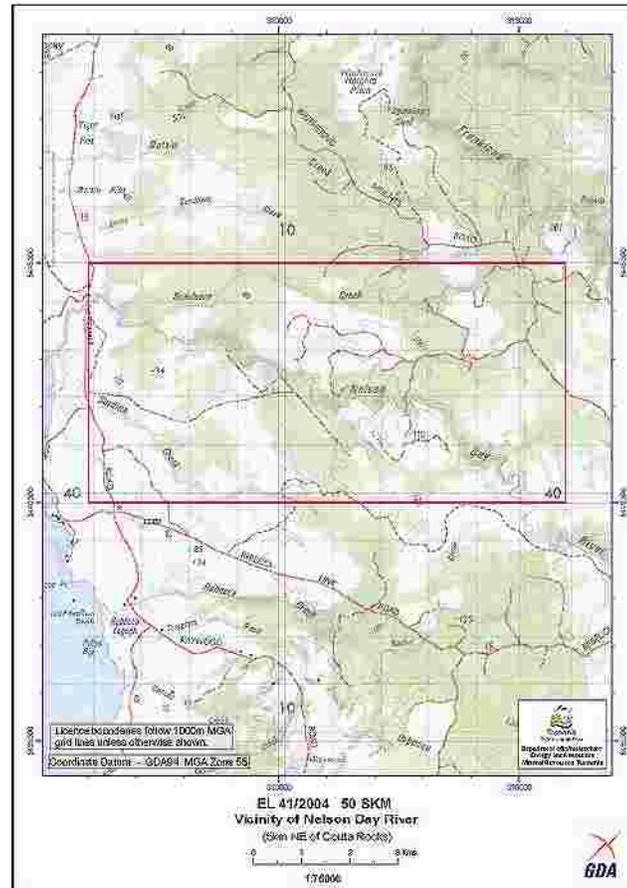
Area: 50 km²

Ownership: Shree Minerals 100%

Operator: Shree Minerals Ltd.

The coordinate datum for the licence is based on GDA1994, MGA Zone 55. Tenement boundary is shown in Figures 1 and 2.

Commencing at the southwest corner at grid coordinates 306 000 metres E 5 440 000 metres N thence grid north to 5 445 000 metres N -end east to 316 000 metres E grid south to 5 440 000 metres N aforesaid thence grid west to the point of commencement.



Source: MRT

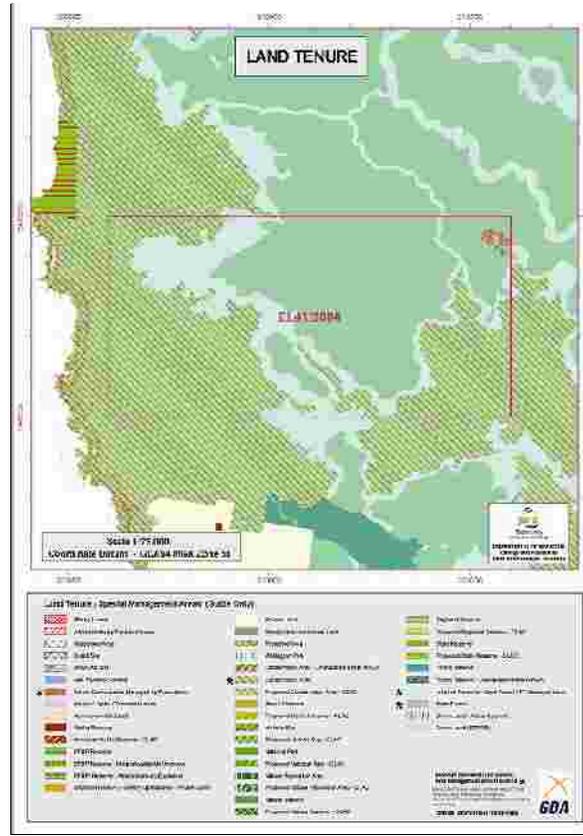
Figure 1: Tenement (EL41/2004) Location and Access Map

4.1. Land Tenure

The area comprises (Figure 2):

- Multiple use State Forest
- MDC Informal Reserves
- Arthur – Pieman Conservation Area

The licence area contains Forest Communities Managed by Prescription and areas which are listed (including listed on an interim basis) on the Register of the National Estate kept under the *Australian Heritage Commission Act 1975*.



Source: MRT

Figure 2: Nelson Bay River Project (EL41/2004) Land Tenure Map

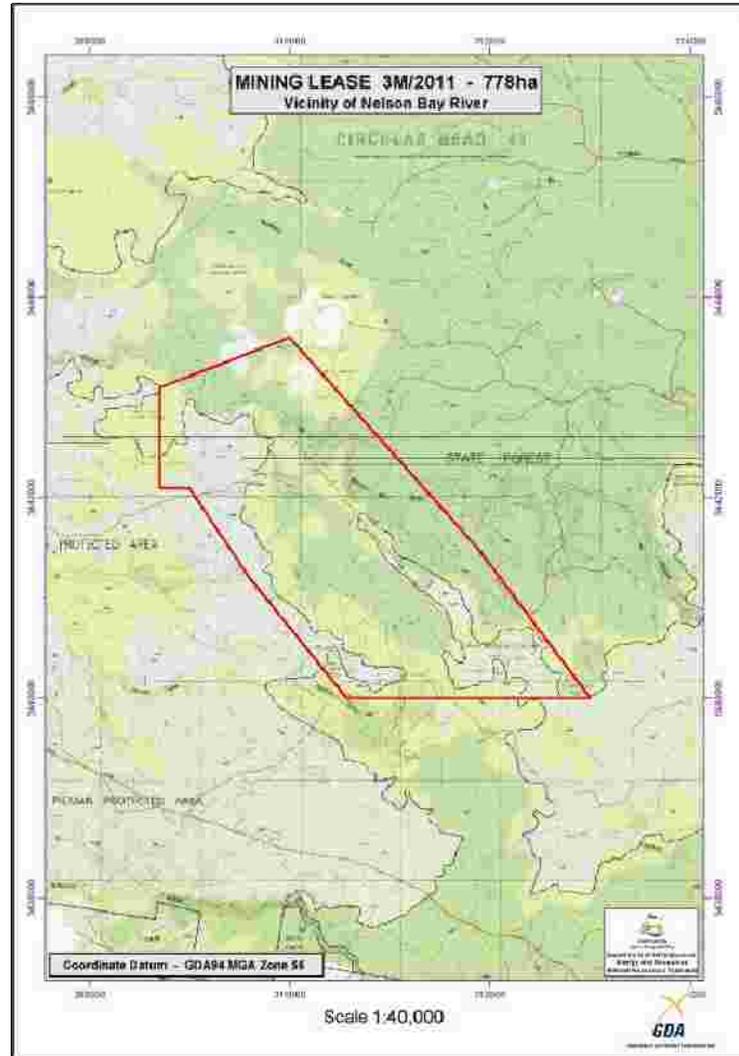
4.2. Exclusion

The exclusion areas are list below:

- Any land owned or leased by the Commonwealth of Australia.
- Crown reservations or other land set apart or dedicated for any public purposes such as public reserves, municipal reserves or roadways unless such areas have been brought under the provisions of the *Mineral Resources Development Act 1995*.
- Areas of private land which either have been, or are in the process of being, purchased by the Crown under the Regional Forest Agreement - Private Forests Reserves Program and / or private land over which the landowners have agreed, or are in the process of agreeing, to place a covenant or management agreement for conservation purposes under the Regional Forest Agreement - Private Forests Reserves Program.

4.3. Mining Lease

On 17/02/2011, Shree lodged an application with the Mineral Resources Tasmania, Department of Infrastructure Energy and Resources for the grant of a Mining Lease over a 778 ha (s) area for mining Direct Shipping Iron Ore (DSO) and magnetite from its Nelson Bay River tenement, which was granted on 13 September, 2012 (Figure 3).



Source: MRT

Figure 3: Nelson Bay River Iron Project Mining Lease Land Tenure Map

5. PHYSIOGRAPHY & VEGETATION

The west of the property lies within a peneplained hinterland to the coast with fossil sand dunes locally. In the east the terrain becomes more undulating with incision by creeks. There are major rivers draining east to west, close to or through the property, including Sundown Creek, Sardine Creek and the Nelson Bay River (Figure 1).

Climate is temperate with substantial annual rainfall typical of Western Tasmania. Temperature ranges from just above freezing in winter to a likely maximum of 30°C in summer.

Vegetation cover is a mixture of low level heath (Plate 1) in the west of the licence and forestry plantation (Plate 2) in the east of the area.



Plate1: Low Heath Peneplain



Plate2: Forestry Plantation

6. GEOLOGICAL SETTING

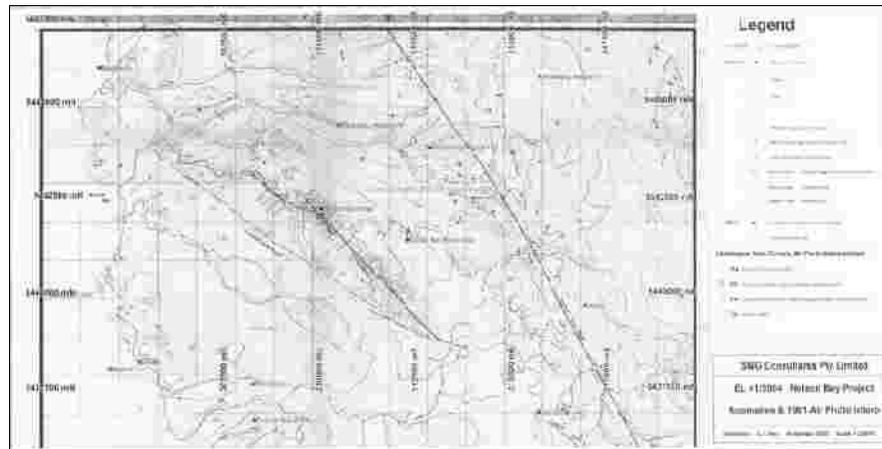
6.1. Regional Geology

The geology of the Nelson Bay River tenement consists of gneisses, sandstones, and carbonaceous mudstones of the Cowrie Siltstone, part of the Rocky Cape Stratotectonic Element. This element consists of Early Neoproterozoic autochthonous marine shelf clastic sequences, relatively unmetamorphosed to lower greenschist facies, overlain (outside the licence area) unconformably by various suites of younger Neoproterozoic rocks.

6.2. Local Geology

Rocks in the Nelson Bay area comprise finely laminated, psammo-pelitic, Proterozoic-aged siltstones with medium-grained sandstones/quartzites. The quartzites are clean, well sorted, and massive to bedded and up to 200 m thick. Variable siltstones include finely laminated units to 'pyjama' siltstones, chloritic siltstones/schists and carbonaceous siltstones - similar to the rocks seen at Balfour. The rocks strike northwest and generally dip and face to the east between 55° and 65°.

Carey's 1981 air photo interpretation divides the licence area into two sections using the Lagoon River Fault (Figure 3). Southwest of the fault, he interprets finely bedded slates and silty greywackes with only minor amounts of quartzite (the Epsilon Unit). He has equated this unit to the Balfour Slates and the Interview Group. Northeast of the fault and much higher in the Proterozoic sequence lies the Phi and Sigma Units, the former has a lot of carbonate/dolomite within it, whilst the latter comprises a mixed sequence of dolomite, chert, volcanics and basalts, however, Tear (2005) does not support this view. Carey's structural interpretation implies multiple fold hinges of varying orientations and suggests that the Balfour Deep Fault passes through the northeast corner of the tenement EL41/2004. However, Tear based on work reported by Tear 1996 and Tear & Russell 1998 believes that the Balfour line lies further to the east (Tear 2005).

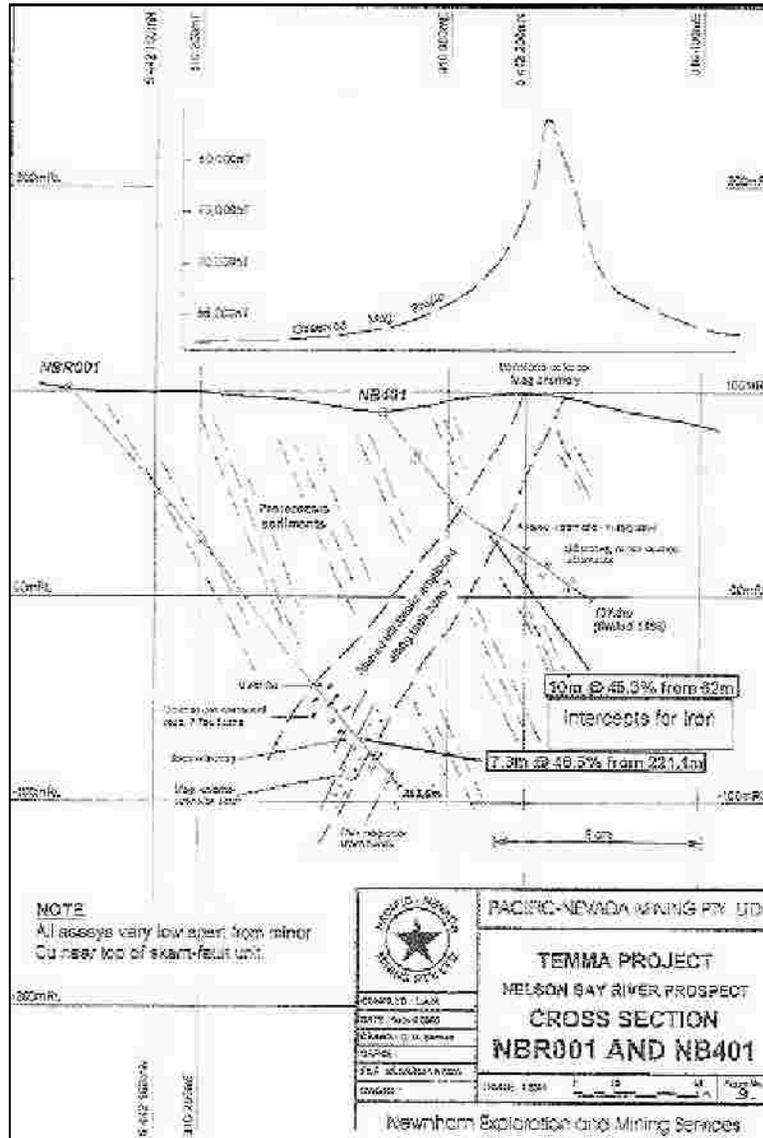


Source: Tear 2005

Figure 4: NBR Project – 1981 Carey Photo Interpretation

Prospect scale mapping of the Nelson River area by Australian & NZ Exploration Co (Brandt 1973) records a series of clean quartzites units on the south west side of the iron feature. Whilst the Gepeko mapping is confined to the magnetic grid, it details a series of interbedded quartzite and siltstone units. The Pacific Nevada drilling results (NBR1 and NBR2) confirm the northeast dip of the beds (Figure 4). The Gepeko work also indicates the oblique cross cutting nature of the magnetite bearing ultramafic dyke, whilst the Pacific Nevada data confirms the steep (>60°)

dip of the intrusive to the southwest (Tear 2005). An interpreted geology map of the tenement by consultant (Tear 2005) is given below(Figure 5)



Source: Newnham 2000
 Figure 5: NBR Project – Cross Section

7. PREVIOUS EXPLORATION

In the area of Nelson Bay River the main target has been the iron occurrence (magnetite & goethitic hematite) commonly known as Nelson Bay River Magnetite. Other areas of interest include the Sundown Chert anomaly and other untested magnetic features highlighted by the WTMRP airborne magnetic-radiometric survey data.

Below is a very brief outline of previous explorers' activities:

7.1. Pickands Mather - 1966 to 1972 - (EL16/68)

Pickands Mather International was the first to carry out exploration in the tenement area (held as EL 16/68). The exploration activities included identification and geological mapping of the magnetite dike area, and drilling of NB401 for 137.6 m. Drilling intersected 10 m of magnetite @ 45.3% Fe. Additionally, a weakly anomalous zone of lead, zinc, silver, copper, and arsenic was also noted with the magnetite lode.

The company also carried out some soil sampling.

7.2. Australian & NZ Exploration Co – 1972 to 1973 - (EL8/72)

The Australian & New Zealand Exploration Company provided details of the Pickands Mather exploration work at the Nelson River prospect (Brandt 1973). Their main area of interest was the nearby clean quartzites for the potential production of silica.

7.3. CRAE Pty Limited – 1977 to 1984 - (EL1/77)

CRAE Pty Ltd. in 1978 undertook exploration beginning with a major regional stream sediment and rock chip sampling programme (Weir 1981). This work was reported to have delineated a five anomalous value cluster for the Nelson River iron feature with peak rock chip values of 105 ppm Pb, 475 ppm Cu, 130 ppm Zn and 170 ppm As. However, an inspection of maps with the creeks and anomalies marked on seems to indicate that the anomalous creeks are not draining the main drill tested anomaly but appear to come from the southern magnetic anomaly area. No further work was undertaken by CRAE. Not all of the CRAE stream sediment sites are in the MRT stream sediment database.

7.4. CRAE & Geopeko – 1981 to 1982 – (EL1/77)

Geopeko (Herrmann & Sumpton, 1982) repeated the Pickands Mather work at Nelson River, by re-establishing the baseline and the grid. They then completed a ground magnetic survey that separated the airborne anomaly into two distinct anomalies, a southern and a northern one. In addition, a geochemical survey was completed by collecting C-horizon soil samples. This work produced a very distinct soil anomaly over the northern magnetic feature with Cu to 350 ppm and Pb to 725 ppm. There was no anomaly over the southern magnetic feature but it may be a function of overburden thickness and type. Geopeko also re-assayed the Pickands Mather drillhole N401 recording 0.42% Cu over 1.22m from 85.2m. Gold assays indicated presence of only low levels.

CRAE undertook further mapping in 1983 (Weir 1984) for an area around Sundown Creek in the north of the current licence and just beyond. "The Company identified a mixed sequence of northwest striking quartzites, black siltstones with cherts, chloritic siltstones (possibly tuffs) and black shales. Thin section work suggested that a pyrite-chalcedonic rock was a volcanic sinter hosted within the chloritic tuff units. Locally there are varying quantities of pyrite within the sediments and pyritic quartz veins developed in fault zones were observed." A black carbonaceous chert was found in Sundown Creek with anomalous levels of lead and arsenic. This package of rocks is very similar to rock sequences mapped by CRAE at Balfour in 1996 (Tear & Russell, 1998) although no volcanics have been confirmed at Balfour. Interestingly this unit appears to be along strike from the Nelson River iron occurrence; although the geology map indicates a possible truncation of the chert unit by an ENE fault.

7.5. Bach Holdings - 1986 to 1990 – (EL33/86)

Bach Holdings, auger tested various Quaternary sand deposits in EL33/86 for heavy minerals.

7.6. Aureole Resources – 1989 to 1990

During 1989/1990, David Leaman, for the Aureole Resources produced a set of regional structural interpretations from geophysical data for a large area of northwest Tasmania. He identified a northwest trending 'anticlinal' residual Bouguer gravity anomaly roughly centred on the Nelson River iron feature. He deduced a possible conjugate set of structures striking east north east and northwest. He also proposed that the Proterozoic sequence was thrust over the Cambrian sequence with the contact depth between 0.5 to 1 km. A shallowing of this feature was thought to exist in the Nelson River area.

7.7. Pacific Nevada – 1998 to 2000 – (EL15/97)

From 1998-2000 Pacific Nevada used a Tennant Creek model for gold and base metal mineralisation on the Nelson River iron occurrence. Their work involved completing a magnetic re-interpretation of the pre-WTMRP, AGSO airborne magnetic data that confirmed that the strong anomaly at Nelson River was due to a large amount of magnetite (Turner, 1999). Re-logging and re-sampling of the Pickands Mather drillhole N401 was undertaken followed by diamond drilling, NBR1 and NBR2 (Newnham 2000). The drilling covered 200 m of strike length of the main airborne magnetic anomaly and confirmed the geological nature of the anomaly i.e. a magnetite body dipping 60° west hosted by an ultramafic dyke within a fault zone. NBR1 recorded two main mineralised zones, 43 m wide in total, consisting of upper quartz - magnetite-pyrite unit with brecciated sediments and a lower magnetite-chlorite-amphibole unit. The best base metal result from drilling was 5.5 m @ 0.4% Cu from 19 m but this zone was characterised by poor recoveries. NBR2 was drilled 200 m to the south of the first hole. It encountered a breakup of the main ultramafic zone into two 9 m wide dykes with 22 m of sediments in between. The

second of these magnetite dykes is a high-grade zone that appears to be present in the footwall of the magnetite/ultramafic body in NBR1 and N401. No resource figures were reported for the iron grades and nickel values for the ultramafic dyke were low, often below detection of 10 ppm.

7.8. Zelos Resources NL NL. 2005 – 2006

Literature review and an estimation of resource based on drilling done until 2000 were carried out by SMG Consultants Pty Ltd. The exercise resulted in an Inferred Resource of 4 million tonnes @ 40% Fe.

Additionally, 4 core samples from drill hole NBR1 were petrographically studied at AMDEL and 4 diamond drillholes (3 angled and 1 vertical, numbered NBR 3 to 6) for 597.9 m were drilled into the NBR anomaly. The petrographic study confirmed magnetite as the predominant mineral contributing to Fe values.

NBR3 was collared at 10 000 m E/10 100 m N (local grid) inclined at -45° azimuth 050, drilled to 225.6 m depth and intersected 19 m of iron zone from 148-167 m.

NBR4 was collared at 10 000 m E/10 200 m N (local grid) inclined at -45°, azimuth 050, drilled to 187.4 m depth and intersected 20 m of iron zone from 157.7 to 177.7 m.

NBR5 was collared at 2 m west of the baseline 10 000 m E and 10 m north of cross line 9800 m N. The hole was inclined to -45°, azimuth 065, and drilled to 151.4 m depth and only intersected the top dyke wall skarn zone from 114-115.5 m.

NBR6 was collared at 9 350 m N/9 994 m E. The hole was drilled to 33.50 m depth and intersected 14.20 m of goethitic-hematite from 13.5-27.7 m.

7.9. Gujarat NRE Resources NL - 2006 to 2008

Gujarat NRE Resources NL (the Company or Gujarat) commissioned Minserv Pty Ltd to carry out a conceptual mining study of 4 Mt of magnetite resource estimated by previous holder at the Nelson Bay River Magnetite project and to provide an indicative estimate of capital cost to produce saleable products for use in pig iron making and coal washeries.

The study concluded that with open cut mining ore could be mined to 225 m depth and the production of magnetite concentrates for coal washing purposes is the highest value market for the NBR product. In addition, it pointed out that the Australian mines supplying this product are few and supply only 50 000 - 100 000 tonnes per annum, whereas market demand is for more. This finding was highly encouraging for Gujarat NRE Resources NL.

Resource Estimation

Following this the Company re-commissioned SMG Consultants to carry out a new resource estimate incorporating additional drilling (NBR3 to NBR6) done by Zelos Resources NL in 2006. A new estimate of 6.9 Mt of Inferred Resources (as per JORC classification) @ 38.2 % Fe Magnetite with magnetite content of 2.63 Mt was estimated. The magnetite resources were estimated using a 20% magnetite cut off. The new resource figure was about 72% increase over the 2005 estimate.

Metallurgical Study

The DTR analysis was undertaken on samples from earlier diamond drillholes from the tenement. Results are given below in Tables 1&2

Table 1: DTR Results of Drill Core Samples

Hole ID	Sample Interval (m)		DTR (%)
	From	To	Magnetite
NBR1	51.0	70.5	52.2
NBR2	58.9	61.9	32.5
NBR3	44.2	70.6	65.6
NBR4	47.0	69.7	59.5

A composite sample of the above intervals gave following results (Table 2).

Table 2: Recovery & Grades of Magnetite Fraction at Different Mesh

Sample particle size (dry magnetic separation)	Sample particle size (DTR)	Magnetic fraction recovery (%)	Grade (%)				
			Fe	SiO ₂	Al ₂ O ₃	S	P
-3.35 mm	95%-75μ	57.0	69.9	1.58	0.05	0.08	0.00
-2.0 mm	95%-75μ	61.3	70.1	1.57	0.06	0.10	0.00
-0.5 mm	95%-75μ	61.1	70.4	1.49	0.05	0.08	0.00

The test work indicated that a recoverable magnetite concentrate by weight should be in the range 57% – 61% with Fe grade greater than 69.0% and SiO₂ less than 1.6%, Al₂O₃ less than 0.05%, S less than 0.1% and P less than 0.01%.

From the above results it is apparent that impurities overall are a small percentage of the ore and would be removable by beneficiation to produce a suitable product for sale. This implies that more than 96% of the magnetic material is magnetite.

Further, the results indicated that material from the Nelson Bay River deposit should be suitable to produce a marketable magnetite concentrate for either heavy media markets or pellet production.

7.10. Shree Minerals – 2008 to 2010

In May 2008 Shree Minerals Ltd acquired 100% interest in the tenement (EL41/2004) from the Gujarat NRE Resources NL and exploration was rejuvenated with fervour.

The 1980 Geopeko grid of 4 km was re-cut and a Consulting Botanist was commissioned to carry out a botanical survey of the tenement area. No rare plant species were found. Subsequently, using a Geometrics G859 Cesium magnetometer, a ground magnetic survey of the main NBR magnetic anomaly was carried out. Survey data was processed, which confirmed the strike length of the NBR magnetic anomaly.

Geoscientists associated with the Company management anticipated presence of an oxidised zone (goethitic-hematite) over the magnetic anomaly. To confirm this view, following the ground magnetic survey, 26 samples (rock chip/channel) were collected and analysed for iron industry standard suite elements.

Assay results confirmed the presence of oxidised zone (goethitic-hematite) in the tenement. The highest and lowest iron grades were of 65.1 and 22.9% Fe respectively; most of the samples assayed were in the 60 - 65% Fe range. The two lowest Fe results were from sandstones.

Following this, the access tracks were up-graded, 12 drill pads were prepared, drilling operation related logistics were organised and a total of 501.8 m for 10 diamond drill holes (NBR 7 to NBR 16) were drilled, geologically logged, mineralised intervals were sampled at 1m intervals and analysed for iron industry standard suite of elements and DTR of magnetite.

Drill holes NBR 9 & 16 intersected goethitic-hematite mineralisation assaying greater than 60% Fe, with low deleterious elements (Al_2O_3 , SiO_2 , P etc.). This confirmed management's belief that the NBR project has two types of iron mineralisation, i. e. goethitic-hematite of greater than 60% Fe capable of producing Direct Shipping (Iron) Ore (DSO) and magnetite ore which on beneficiation can produce concentrates for pig iron making and coal washeries.

With these encouraging results the Company planned a further drilling program of 7 holes to delineate further resources in the tenement. Additionally, environmental, Aboriginal Heritage assessment, engineering, etc., studies were initiated.

7.11. Shree Minerals – 2010 to 2011

During 2010/11 report period about 820 m diamond drilling to upgrade the existing Inferred magnetite resource to an Indicated Category and define further goethitic-hematite direct shipping ore (DSO) resource was undertaken.

Based on drilling information from inception to 2010 (2,512.96 metres along 24 diamond holes) the following resource type, category and grades were estimated (Tables 3 to 5):

Table 3: Iron Resource Estimates at Nelson Bay River Iron Project

Resource Category	Mass (Mt)	Fe %
Indicated	1.8	38.6
Inferred	10.8	35.6
Total	12.6	36.1
<i>Note: The resource estimate includes the magnetite resource material and is estimated using a 30% Fe cut off and with an average density of 3.5 m³</i>		

Table 4: Magnetite Resources at Nelson Bay River Iron Project

Resource Category	Mass (Mt)	Mag% (DTR)	Contained Magnetite (Mt)
Indicated	1.7	38.5	0.7
Inferred	6.1	38.2	2.3
Total	7.8	38.3	3.0

Table 5: Goethite-Hematite Inferred Resources at Nelson Bay River Iron Project

Resource Category	Mass (Mt)	Grade (%)							Remarks
		Fe	SiO ₂	Al ₂ O ₃	P	S	LOI	Fe (Cal)	
Inferred	0.5	57.8	8.8	1.4	0.06	0.03	6.3	61.7	DSO
Inferred	0.7	46.8	23.7	2.7	0.02	0.07	4.7	49.1	Beneficiable material
Total	1.2	51.0	18.0	2.2	0.04	0.05	5.3	53.9	

In addition, some ground magnetics, petrography, metallurgical and geophysical studies were carried out.

7.12. Shree Minerals – 2011 to 2012

During the 2011/12 field season, the Company carried out 1568 m drilling (1259 m RC along 23 holes for resource delineation, 236 m RC along 6 holes for ground water studies and ~73 m PQ diamond drilling for metallurgical studies) along 32 holes and collected and analysed 280 samples.

The drilling principally aimed to better define the goethitic-hematite resource with the view to commence mining of Direct Shipping Ore (DSO) some time in 2012.

Additionally, logging of drill cuttings, magnetic susceptibility reading, sampling, assaying for resources, sampling of 31 core intervals from various diamond drill holes (Table 7) and analysis for “Acid Rock Drainage Investigation,” metallurgical study of Beneficiable Feed Ore (BFO), some geological mapping, upgrading of access tracks and preparation of drill sites and rehabilitation was undertaken.

8. WORK PERFORMED

During the 2012/13 reporting period a big part of the Company resources was devoted towards getting approvals from various government agencies for developing mine at the Nelson Bay River Iron Project. Now all necessary approvals are in place. The reported exploration work covers the whole tenement area. However, the drilling confines to the Mining Lease area only.

Along with the work involved in seeking approvals, the following activities were carried:

8.1. 3D Aeromagnetic Inversion Study

A 3D Magnetic Inversion study was carried out by Cowan Geodata Services - Geophysical Consultants with the aim to assist in better planning of the coming drilling program as well as to get a better understanding on the likely continuity of the main magnetic anomaly from north to south at the tenement. The study was based on all available magnetic data from MRT on the area.

The 3D magnetic inversion model suggests continuity between the Main Body (Northern Anomaly) and the South Anomaly (Figure 6), but with in-between areas of non-magnetic material that could be inferred to be oxide mineralisation. Scattered detrital gossan fragments were noticed during recent reconnaissance in the Southern Anomaly area.

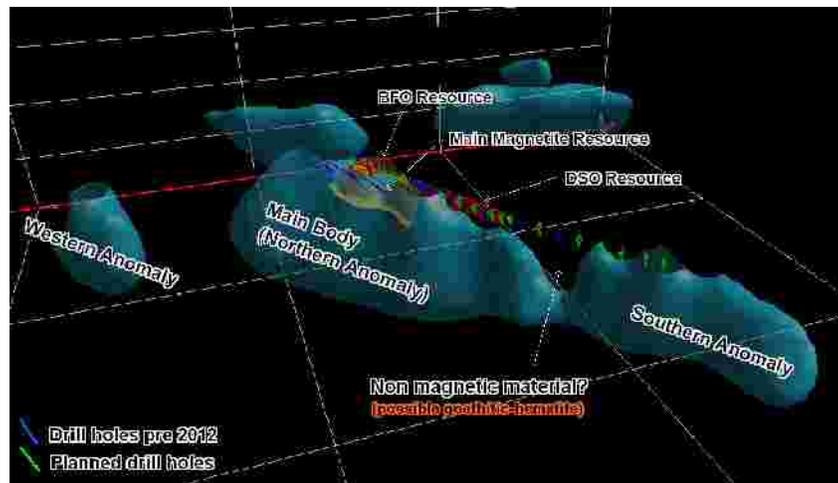
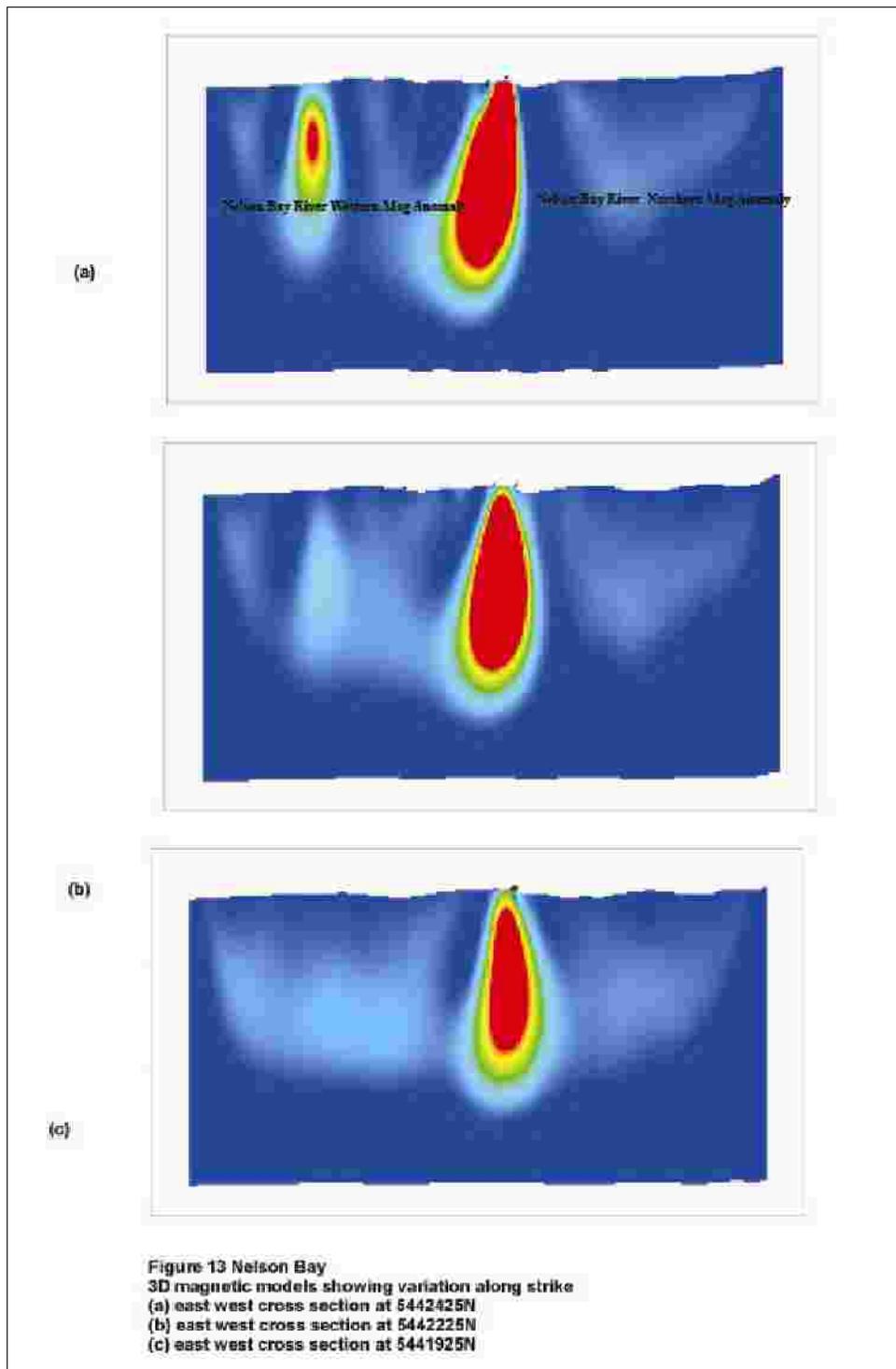


Figure 7: NBR 3D magnetic model with all drill holes - viewed from southwest (Data modified from consultants H & S and Cowan).

The modelling indicates substantial continuation at depth of the magnetite-bearing ultramafic dyke (Figures 6 and 7). Study details are given in Appendix-I.



Source: Cowan Geodata

Figure 8: NBR 3D magnetic models showing depth variation along strike

8.2. Drilling

The Company plans to mine the DSO resources from the Nelson Bay River Project first, followed by BFO material, and then the magnetite resource. To achieve this a drilling program of ~3500 m (3000 m RC and 500 m HQ diamond) was planned (Figure 8)

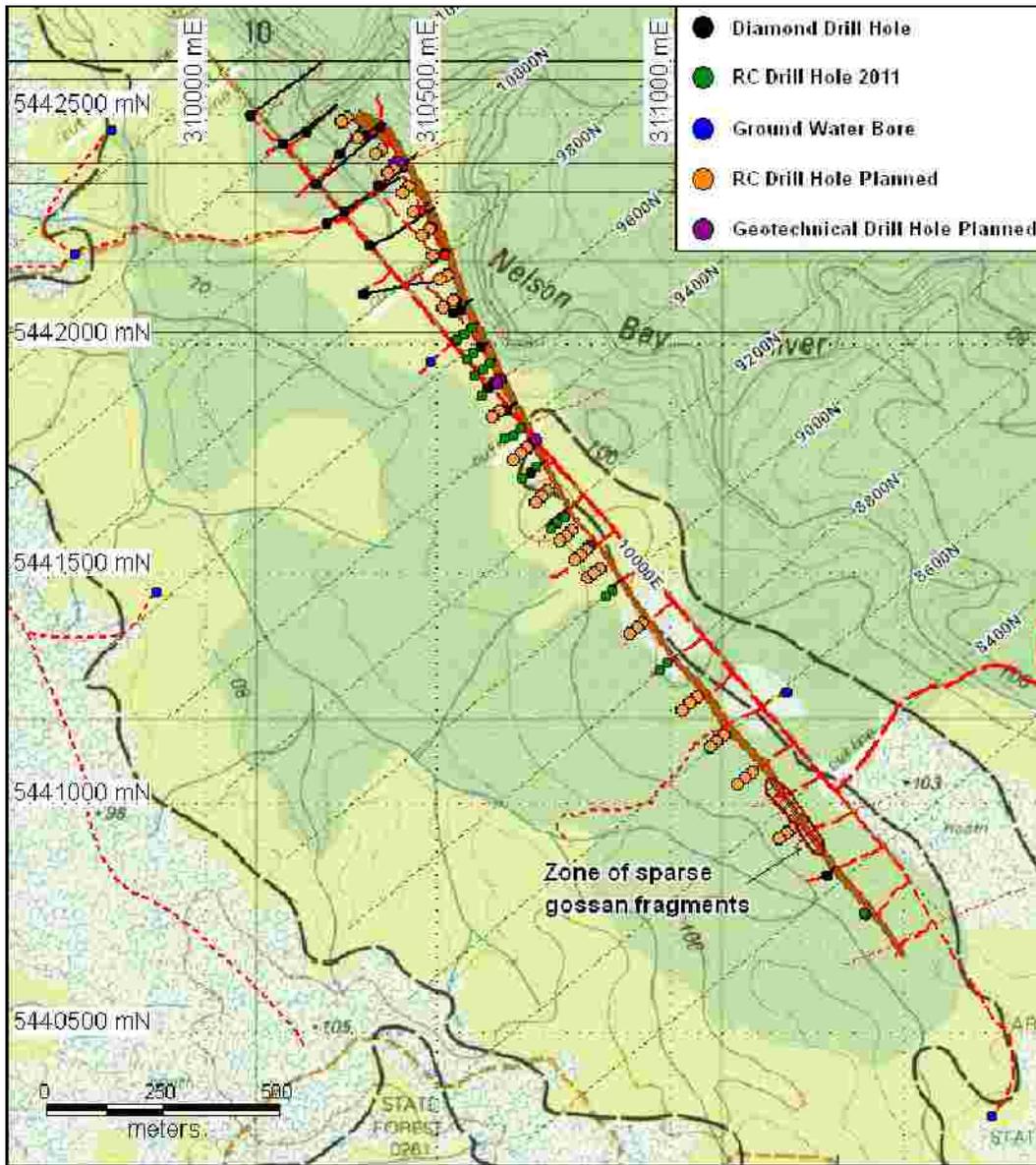


Figure 9: NBR 2012-13 planned drilling program

The RC drilling is mainly to improve resource category and further extension of resources/reserves to increase the extent of DSO resources to develop a mine plan for DSO beyond current production schedule of 2 years. The diamond drilling is to carry out geotechnical studies at the Project.

Drilling was scheduled for November 2012, but due to non-availability of drill rig, the drill mobilised on 2 January and commenced drilling on 3 January 2013. As at 22 January a total of 670 m along 12 holes was drilled. AS at 22 January 2013 drilling completed and iron mineralisation intersected are given in Table 6.

Table 6: NBR drilling progress as at 22 January 2013

Hole ID	Location (MG94)		RL	Total drilled depth (m)	Section (Local Grid)	Date		Intersection (m)		
	Easting	Northing				Start	Completion	From	To	Mineralised Intersection
NRC24	310635	5441843	91.366	58	9450	3/01/2013	7/01/2013	37	54	17
NRC25	310621	5441828	91.666	85	9450	7/01/2013	8/01/2013	53	71	18
NRC26	310693	5441781	96.187	37	9350	9/01/2013	9/01/2013	12	27	15
NRC27	310678	5441770	96.338	49	9350	10/01/2013	10/01/2013	31	46	15
NRC28	310664	5441749	96.488	73	9350	10/01/2013	11/01/2013	55	70	25
NRC29	310738	5441678	99.953	33	9250	14/01/2013	14/01/2013	7	28	21
NRC30	310710	5441651	100.104	82	9250	14/01/2013	15/01/2013	64	73	9
NRC31	310723	5441666	99.803	56	9250	16/01/2013	16/01/2013	34	53	19
NRC32	310791	5441583	99.953	40	9150	17/01/2013	17/01/2013	27	36	9
NRC33	310774	5441570	99.803	71	9150	17/01/2013	18/01/2013	62	66	4
NRC34	310829	5441552	100.104	31	9100	21/01/2013	21/01/2013	10	28	18
NRC35	310806	5441541	99.954	55	9100	21/01/2013	22/01/2013	44	61	17
Total				670						

(Note: All holes are drilled at 55° Azimuth and at -55° dip)

Diamond drilling for geotechnical work arrived at site on 22 January and is scheduled to commence drilling on 23 January. All diamond drill holes will be HQ in size.

8.3. DSO Maiden Reserves & Mine plan

Maiden DSO Reserves for the first two years of DSO mining at the Nelson Bay River Iron Project (NBR) were estimated and reported to ASX; details are given in Appendix- III

8.3.1. Reserves

Minserv Consultants as per the JORC code guidelines have carried out the estimation of Ore Reserves. Simon Tears of H&S Consultants Pty Ltd (H&S) has compiled the Resources used as the basis for these Reserves.

Under the JORC Code, only Measured and Indicated Ore Resources can be considered for conversion to Ore Reserves after consideration of the “Modifying Factors” including mining, processing, economic, environmental, social, and government factors. The Reserve Statement applies solely to JORC resources in the Indicated Resource category. The Southern pit DSO Iron Reserve Statement that conforms to the JORC Resources guidelines is shown in Table 7.

Table 7: Nelson Bay Iron Ore Project - DSO Reserves Statement

Resource Category	Mass (Mt)	Grade (%)					
		Fe	Al ₂ O ₃	P	S	SiO ₂	LOI
Proven							
Probable	0.33	57.4	1.3	0.075	0.035	9.2	6.4
Marketable	0.33	57.4	1.3	0.075	0.035	9.2	6.4
Total	0.33	57.4	1.3	0.075	0.035	9.2	6.4

Note: Average density 3t/m³; the use of significant figures does not imply precision; minor rounding errors. (DSO cut off based on a nominal 54% Fe)

8.3.2. Mine Plan for DSO Iron Ore

The production schedule for the first two years comprise of mining DSO iron ore. The DSO requires no further beneficiation to produce a marketable product. It only requires crushing and screening. Two separate DSO pits are planned in the first two years (comprising DSO South Pit and DSO North Pit, which is within the BFO resources) with following total resultant pit quantities:

The production schedule for the first two years comprise of mining DSO iron ore. The DSO requires no further beneficiation to produce a marketable product; it only requires crushing and screening. Two separate DSO pits are planned in the first two years (comprising DSO South Pit and DSO North Pit, which is within the BFO resources) with following total resultant pit quantities:

Ore Type	Tonnes (Mt)	Grade (Fe %)
DSO Ore	0.815	57.5

9. CONCLUSION AND RECOMMENDATIONS

With all necessary approvals for developing a DSO mine at the Nelson Bay River Iron Project in place, the Company would now divert its resources towards the development of an economical mine at NBR. Since the estimated reserves are for only two years, to expand its resource base further the Company will continue its exploration activities with the same vigour within the NBR mine premises and outside including the adjoining Rebecca Creek tenement.

In addition to explore for DSO resource associated with intrusive, efforts now will be made to search for "detrital iron ore" in the area.

The program will include ground magnetic and airborne magnetic/radiometric surveys and interpretation, geological mapping and drilling of targets, etc.

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APPENDIX I

List of appended digital data files

1. EL412004_201302_01_Digital_Files.txt
2. EL412004_201302_02_Annual_Report.pdf
3. EL412004_201302_03_Appendix II_Geophysical_Report.pdf
4. EL412004_201302_04_Appendix III_DSO Maiden Reserves & Mine plan

APPENDIX II

Nelson Bay, Rebecca Creek Projects. 3D Aeromagnetic Inversion

By:

Cowan Geodata Services

Dated August 2012

APPENDIX III

DSO Maiden Reserves & Mine plan

**By
Consultants
H&S Consultants Pty Ltd &
Minserve consultants**