

CALA RESOURCES PTY LTD

MATHINNA – TASMANIA

Tenement - RL 2/2008

ANNUAL REPORT

2nd February 2013 – 1st February 2014

Tenement Holder & Manager

Cala Resources Pty Ltd

Registered Office:

C-/ Ruddicks Chartered Accountants,
102 Tamar Street, Launceston, Tasmania, 7250.

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Author:

Rod Holden,
Managing Director,
Cala Resources Pty Ltd

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Cala Resources Pty Ltd

NOTE: All figures, grids and contained data are according to the GDA/MGA94 grid system

ABSTRACT

The sole objective of Cala Resources Pty Ltd is to develop the mineral resources located within its wholly owned retention licence, RL 2/2008, and attract capital and/or partners to achieve its objective.

The tenement was subject to a Joint Venture Agreement - Heads of Agreement (HOA) to develop the tailings resource through the establishment of a new processing plant in NE Tasmania. The potential JV partner, Silver City Mining Company Ltd (SCMCL), withdrew from the HOA due to its proprietary processing technology not achieving acceptable recoveries.

Work completed during the reporting period consisted of a 49 hole RC drilling program on the tailings with each hole twinned to provide duplicate samples for each party, bulk density sampling via three small pits, metallurgical test work undertaken by SCMCL on its samples, resurvey of the tenement and shaft collars and a new resource statement for the tailings project.

A new statement on the tailings dump states a resource of 343,664 tonnes at 1.1 g/t for 12,172 ounces of gold.

Cala considers the tailings resource to be marginal at the current level of understanding of recoveries and a process design. As the company has retained a full set of samples from the SCMCL drill program it may complete a new round of metallurgical test work in an attempt to determine a feasible process design.

A substantial DD/RC drilling program to test the current hard rock Exploration Target is required for the development of the current underground gold resources. This work will remain the focus of the company in the immediate future.

The cost of trucking ore to Beaconsfield is prohibitive, but a new processing plant being established at Mangana may provide a toll treating alternative to establishing a stand-alone plant at Mathinna.

Cala aims to continue pursuing development options for its gold resources within this tenement and is currently raising capital to fund further on-ground work.

Contents	Page
Introduction	4
Work completed during the reporting period	4
Location	6
Geology	7
Exploration rationale	9
Review of previous work	9
Historical mining	9
Exploration	10
Current work	11
Conclusion	11

List of Figures

Figure 1 RL 2/2008 location	6
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Appendices

Mathinna Drill hole locations
Drill hole survey details
Intertek Fire Assays – Report 1
Intertek Fire Assays – Report 2
Intertek Fire Assays – Report 3
ALS T0890 compaction test results
Mathinna Pit sample - weighbridge data
Mathinna drill logs
Mathinna Pit samples - ALS moisture data

Tailings Resource – Data Package on disc

1. Draft Project Report - Mathinna Resource Modelling.pdf
2. FINAL ASSAYS.xlsx
3. QAQC Analysis.xlsx
4. QAQC Sample - OREAS 22c.pdf
5. QAQC Sample - OREAS 201.pdf
6. QAQC Sample - OREAS 204.pdf
7. QAQC Sample - OREAS 206.pdf
8. Tailings.mdb
9. current_topography_1m.dtm
10. current_topography_1m.str
11. original_basement_surface.dtm
12. tailings_heap_solid.dtm
13. tailings_heap_solid.str
14. tailings_heap_volume0.not
15. tailings_residue_solid.dtm
16. tailings_residue_solid.str
17. tailings_slimes_solid.dtm
18. tailings_slimes_solid.str
19. tailings_slimes_volume0.not
20. tailings_solid.dtm
21. tailings_solid.str
22. tailings_volume0.not

INTRODUCTION

This report is a summary of the exploration activities conducted on the Mathinna retention licence RL2/2008, for the period of 2nd February 2013 to 1st February 2014. The area of the licence remains 0.267km².

The tenement encompasses the New Golden Gate and Tasman Consolidated mine workings and associated tailings. Second only to the Tasmania Reef at Beaconsfield, this was the most significant historical gold mine in NE Tasmania and produced 260,000oz at an average head grade of 26g/t Au. Drilling along strike of the historic mine lead to a discovery by Defiance Mining of narrow zones of mineralisation known as Dylan's and Sophie's reefs (totalling 25,500oz).

Cala believes that substantial potential exists for the discovery of further resources on the tenement. 3D structural modelling identified a Valmin compliant Exploration Target of 250,000 to 500,000 ounces grading 10 to 15 grams per tonne in the immediate vicinity of the historic workings.

WORK COMPLETED DURING THE REPORTING PERIOD

Immediately prior to the reporting period (20th December 2012) Cala entered into a Heads of Agreement (HOA) with Silver City Mining Company Ltd (SCMCL) with a view to completing a feasibility study on reprocessing the tailings resource on the tenement and potentially entering into a Joint Venture with SCMCL to develop this resource. This feasibility study was managed and sole funded by SCMCL.

SCMCL reviewed the agreement between Cala and Pitt&Sherry and engaged Pitt&Sherry directly to take advantage of synergies from previous work undertaken by Pitt&Sherry. Pitt&Sherry was engaged to manage all environmental issues, audit the resource statement and to manage the approvals process for conversion of the tenement into a mining lease (NOI, DPEMP and DA) and to develop a closure plan post reprocessing the tailings.

SCMCL also engaged the Hatlar Group to oversee the feasibility study, including a metallurgical report audit, a process design sheet and financial modelling.

SCMCL engaged a geologist, Dr Scott Keeling, to manage the drilling and sampling program and to complete a JORC compliant resource statement on the tailings. The resource statement was only completed to 'preliminary' stage, but states a resource of 247,391 tonnes at 1.1 g/t for 12,172 ounces of gold.

Tasmanian Drilling Services Pty Ltd was engaged to conduct a RC drill program. A Drillmac 300 RC rig, mounted on a Positrack with a 350CFM x 150 psi air compressor was utilised. The drill program went ahead as planned with no drilling or recovery issues being encountered.

Samples were trucked to Intertek labs in Adelaide for drying, splitting and assay.

SCMCL received the remainder of the samples for metallurgical test work in their own labs.

SCMCL reported that the initial recoveries from 20kg of samples taken prior to entering into the HOA returned approximately 85% recoveries. SCMCL reported that these tests were repeated 4 times to ensure recoveries were consistent due to the small sample size.

SCMCL's final recoveries were around 35% in the final test work. Cala never received a copy of the final results when this was a requirement under the terms of the HOA. Cala sought legal advice on this after SCMCL withdrew from the HOA and it was determined the cost benefit of forcing SCMCL to comply with this and several other non-performance issues was unviable.

A copy of all assay results, survey, bulk density and what was provided by SCMCL is attached in appendix 1.

The company is currently in discussion with several interstate broking firms and sophisticated investors with a view to funding a 1100m drill program on the hard rock Exploration Target.

LOCATION

The tenement is located approximately 1.5 km SSE of the township of Mathinna, in eastern Tasmania (Figure 1). Access to the license area is via gravel road from the southern margin of the Mathinna township. Mathinna is located 26km NNW from Fingal and is accessed by sealed road.

The licence area can be found on the Mathinna (5640) 1:25,000 scale, and the Forester (8415) 1:100,000 scale; topographic map sheets.

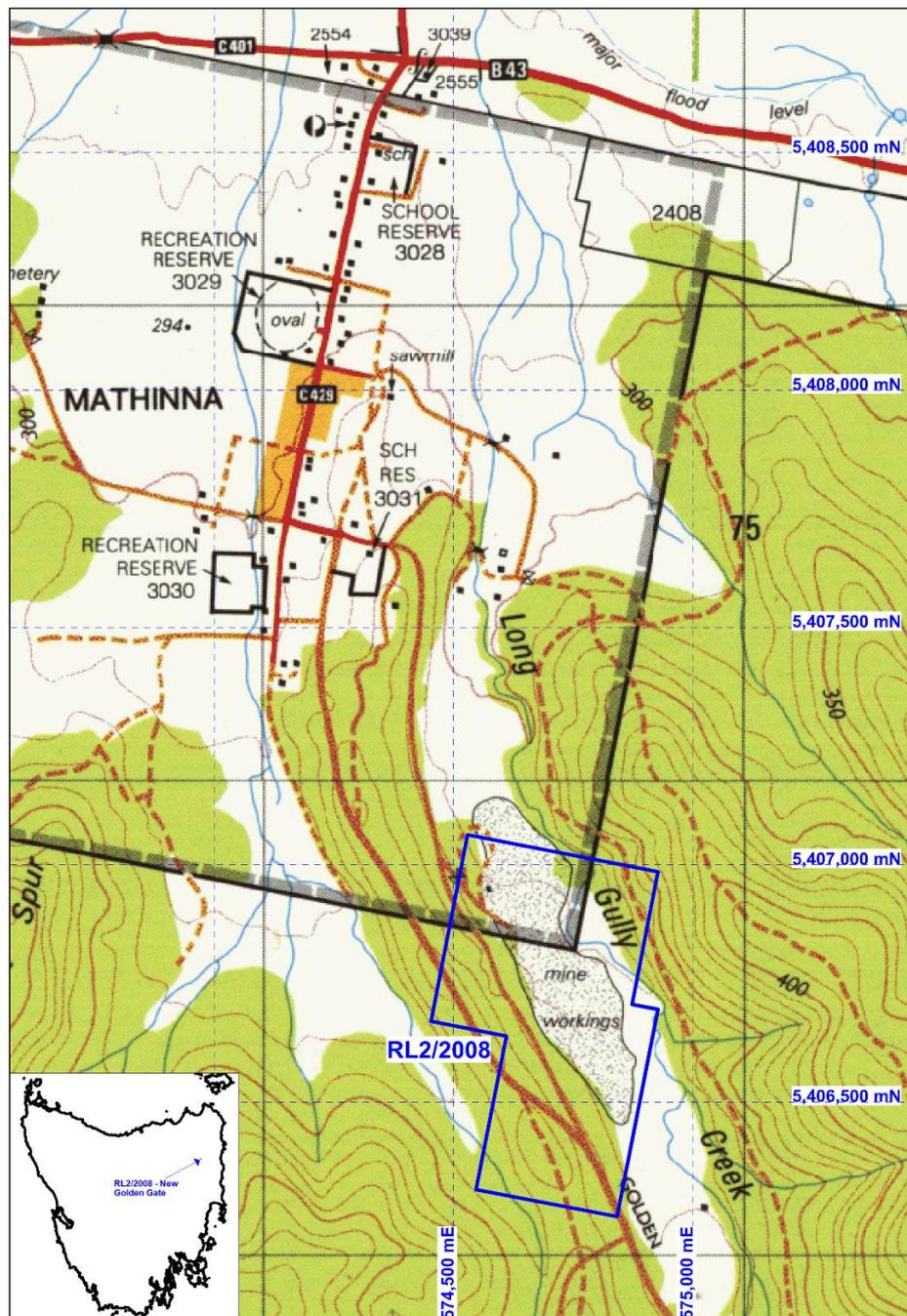


Figure 1. New Golden Gate Retention Licence (RL2/2008) is located in north-eastern Tasmania and proximal to the township of Mathinna.

GEOLOGY

Stratigraphy

The tenement comprises sub- and outcropping Mathinna Supergroup siltstones, sandstones, and subordinate shales. Revision of the internal stratigraphy of the Mathinna Supergroup as detailed in Seymour et al. (2011) and summarized in Table 1 below,

Group	Formation	Member	Age	Brief description
Panama Group	Sideling Sandstone		Early Devonian (plant fossils)	Dominantly fine-grained sandstone, some interbedded siltstone
	Lone Star Siltstone		Late Silurian (graptolites)	Dominantly thin-bedded siltstone with interbedded fine-grained sandstone increasing towards the top
	Retreat Formation		Silurian?	Interbedded turbiditic medium to very fine-grained sandstone and subordinate siltstone-mudstone
	Yarrow Creek Mudstone		Silurian?	Dominantly thin-bedded mudstone, with subordinate cross-laminated siltstone
Inferred faulted unconformable contact				
Tippogoree Group	Turquoise Bluff Slate		Early-Middle Ordovician (graptolites)	Phyllitic dark grey-black slate; recumbent folds and cleavage
		Industry Road Member	Ordovician?	Interbedded phyllitic slate and foliated very fine-grained sandstone; ridge-forming recumbent folds and cleavage
	Stony Head Sandstone		Ordovician?	Graded thick-bedded fine-grained turbiditic sandstone with minor interbedded pelite; large-scale recumbent folds and cleavage

Table 1. Revised Stratigraphy of the Mathinna Supergroup

The New Golden Gate and associated vein deposits are hosted within the Lone Star Siltstone formation (pers. comm M. Vicary 2011). The Lone Star Siltstone Formation comprises basal bioturbated marine siltstone/shale/mudstone which is laminated to thinly bedded (Seymour et al., 2011). Minor black shale occurs and is commonly pyritic. The Lone Star Siltstone Formation grades upward with quartz-rich thick-bedded sandstone becoming more common toward the boundary with the overlying Sideling Sandstone Formation (Seymour et al., 2011).

The regional geology (Figure 2) is dominated by Mathinna Supergroup rocks and granitoids. Note that the granitoids are interpreted to be at a depth of approximately 4km below the New Golden Gate gold system (Leaman D.E. & Richardson R.G., 1992).

Mineralisation

The gold deposits occur as auriferous quartz reefs, hosted in the Mathinna Beds, a folded sequence of Silurian-Ordovician age sediments. The Mathinna beds are intruded by younger, Devonian-Carboniferous age granites and are in part overlain by Permo-Triassic glacial marine sediments, Jurassic dolerites and Tertiary basalts.

The gold bearing veins are structurally controlled and occur in a range of orientations and forms within zones of shearing and tectonic deformation. Typical vein features are:

Width	0.1-1.0m	up to 10m
Length	10-100m	up to 350m
Depth	<100m	up to 580m
Grade	15-30g/t	cut off 10g/t
Strike	variable	NW to NE dominant
Dip	typically steep	70-80°
Mineralogy	quartz, arsenopyrite, pyrite	minor galena, chalcopyrite, sphalerite

This overall geological setting is very similar to the high grade, quartz vein style mineralisation in the slate belts of Western Victoria which have historical production of approximately 53Mozs.

Structure and Mineralization

The host-rocks to gold mineralization in the Mathinna area preserve several overprinting deformation features which are documented in Keele (1994) and modified for the specific geometries and observations of the New Golden Gate mine area below.

D₁

Observations by Keele (1994) of minor folding and spaced cleavage overprinted by the dominant S₂ cleavage. Not observed at the New Golden Gate deposit to date.

D₂

Regional folding with NW/NNW trending axial planes. Pervasive slaty cleavage. Dominant fabric in hand-specimen previously reported.

D₃

Local folding with N/NNE trending axial planes. Antiformal fold observed by Twelvetrees as central to the reefs of the New Golden Gate and Tasman Consols mines is likely to be an F₃ fold. S₃ cleavage recorded in geological logs of Defiance Mining diamond-drilling in the licence area. Intersection lineation (L₃⁰) in hand specimen previously reported post-dating S₂ and pre-dating late kinking. Occurs at ~60degree angle to L₂⁰ in the plane of bedding. Observations by Twelvetrees (1906) that the 'apparent' drag of reefs into the main slide, previously assumed to be fault-drag folding, is actually a manifestation of simultaneous brecciation along the reef line and the main slide. This gives the effect of the reef turning sharply. His evidence for this was that although the reefs exhibited this 'apparent' drag on intersection with the main slide, bedding in the host-rocks did not. This observation supports

the controls on high-grade and wider mineralization in the mine as being located at the intersection of NW striking faults and the NNE striking reef structures. NNW trending faults (Main Slide, Western, Central, East and West branch) may represent domainal reactivation of the S_2 slaty cleavage concurrent with the development of N/NE trending fault/shear-zones which became reef 'channels'. Folding of bedding and the main S_2 cleavage may have created a zone of restraining during D_3 reactivation of S_2 and this is seen as the contributing factor as to why the New Golden Gate reef system is located where it is. Note that both orientation of structures are mineralised. The main phase of gold mineralisation is interpreted as late- to post D_3 .

Post- D_3

Kink-folding is recognized in the hand-specimen previously reported and overprints all other fabrics.

Exploration Rationale

The New Golden Gate mine was one of the most significant gold mines in Tasmania when operating ~1888 – 1908. The mine produced ca. 260,000oz from a multiple reef system within the polydeformed host rocks.

The discovery of the Dylan's and Sophie's reef system (Defiance Mining 1999) along strike to the NNE from the historic workings shows that mineralisation can still be discovered in the vicinity of this historic mine which, as was the case 100 years ago, was developed without exploratory drilling. Cala believe that there is potential to discover new reefs and to locate mineralisation on those reefs intersected in the old workings but not explored.

Historical records indicate that the cut-off for stoping in the New Golden Gate mine was approximately >15g/t. Interpretation of the historical mine development data also suggest that the individual reefs were driven for some distance (up to 300m) and only very selected areas stoped. This means that areas of the historic mine still contain mineralised reef that has not been mined due to historical cut-off constraints.

Cala plans to explore the tenement area with the aim of building on the existing resource base with through new discovery, extension of the Dylans and Sophies reefs, and evaluation of remnant reef material left in the mine itself and remnant tails on surface.

REVIEW OF PREVIOUS WORK

Historical Mining

Mining of the New Golden Gate (**NGG**) shaft commenced in 1888 following discovery of Loanes reef in the adit level (Twelvetrees, 1906). Samples from Loanes reef were grading between 1 and 1.5oz/t and a decision was made to sink a shaft. The Main reef was discovered when the shaft intersected it at ~100ft below surface and together the Main and Loanes reefs account for a significant amount of the gold production from the mine (Twelvetrees, 1906). The NGG shaft was sunk to 556m below surface and mine development reached 585m below surface. Mining development occurred on 19 levels.

Stoping occurred on four significant reefs (Main, Loanes, Lower east, and Lower West) and several minor reef/fault structures were driven but not stoped.

The Tasman Consols (**TC**) Mine was developed on an adjacent mine-lease and the distance between this and the NGG shaft is approximately 80m. Mining in the TC mine largely occurred between 1906 and 1908. Stoping only occurred on one of the reefs mined in the adjacent NGG mine, namely the Lower West reef. The TC shaft was sunk to 494m below surface and mining development occurred on 11 levels.

Gold production amounted to 260,000oz with just 10,000oz of this attributable to the Tasman Consols mine.

EXPLORATION ON CURRENT LICENCE AREA

The area has been the focus of a number of exploration companies since the 1980s, the most notable work being carried out by the following companies:

Dept of Mines

The Department of Mines drilled 3 holes (GG1-3), in the current licence area, for 669m between 1962 and 1965. Two holes, GG1 and GG2, tested the 'South Gate' area and while significant quartz veining was intersected, no significant assays were returned. GG3 intersected:

- 3.4m @ 5.8g/t Au from 59.4m, and 3.2m @ 10.9g/t Au from 153.8m.

Location of these collars needs confirmation as they are plotted in different locations on a Resolute Samantha map.

Epoch Mining

Epoch Mining drilled 11 percussion holes (PDH1-11) for 825m in 1987. The drill-holes targeted shallow resource potential and were the first test of the mine remnants and the area immediately adjacent to the historic workings. The drilling was located at the northing of the NGG shaft and extend 100m to the south. Best results of the program included:

- 8.0m @ 8.5g/t Au from 40m down-hole in PDH5

Defiance Mining

Between 1999 and 2000, Defiance Mining drilled 67 RC and RC/Diamond holes within the licence area for a total of 7199m. This included 953m of diamond-core as tails on RC holes. The drilling tested multiple areas of the NGG deposit and environs and lead to the discovery of the Dylan's and Sophie's shoots to the immediate NNE of the historic mine workings.

Best results from the Dylan's and Sophie's discovery include:

- 4.0m @ 15.4g/t Au from 51m in MT039
- 2.0m @ 11.3g/t Au from 137.3m in MT040
- 2.0m @ 26.8g/t Au from 92m in MT046
- 2.0m @ 15.9g/t Au from 30m in MT054
- 3.0m @ 23.1g/t Au from 46m in MT055
- 2.0m @ 25.4g/t Au from 220m in MT075

Other mineralization intersected at the Central 'reef' included:

- 10.0m @ 9.3g/t Au from 60m in MT028
- 3.0m @ 18.1g/t Au from 33m in MT029

Defiance defined a resource base of 37,800oz in four distinct reefs.

Cala Resources

In 2004, Cala Resources engaged Coffey Mining to complete a 4 part scoping study on the underground potential of the tenement. The conclusion was that at the gold price at the time the return on equity was not sufficient to attract capital, but the exploration potential was defined as between 100,000 and 250,000 ounces of resources within the reef system on the tenement area.

Tamar Gold

During 2011 Tamar Gold conducted a substantial program of data capture and digitization, 3D modeling of the historic working and reef systems and assessment of the tailings resource and 'mullock' heaps.

A small bulk sample (6t) of the tailings was taken using a one tonne per hour jig plant. This sample was taken for metallurgical test work, but was inconclusive due to operational issues with the plant.

CURRENT WORK

There is no on-ground work underway.

CONCLUSION

The tailings HOA, while unsuccessful, has delivered some important information in a resource statement, bulk density and some assessment of the issues facing development. While the tailings resource remains a low priority further work may be warranted to determine if a process route to recover the ultra-fine gold can be achieved. Cala currently has a full set of samples from the SCMCL drilling which is believed to be sufficient to determine this aim.

Focus will remain on raising capital to test drill the Exploration Target.

While the current gold price remains around the cost of production both nationally and internationally, raising capital continues to be difficult. Cala is currently focused on raising capital from interstate based sophisticated investors to complete a 1100m drill program on the underground Exploration Target.