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Mount Magnet South NL

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Quarterly Activities & Cashflow Report 31 December 2011

Summary

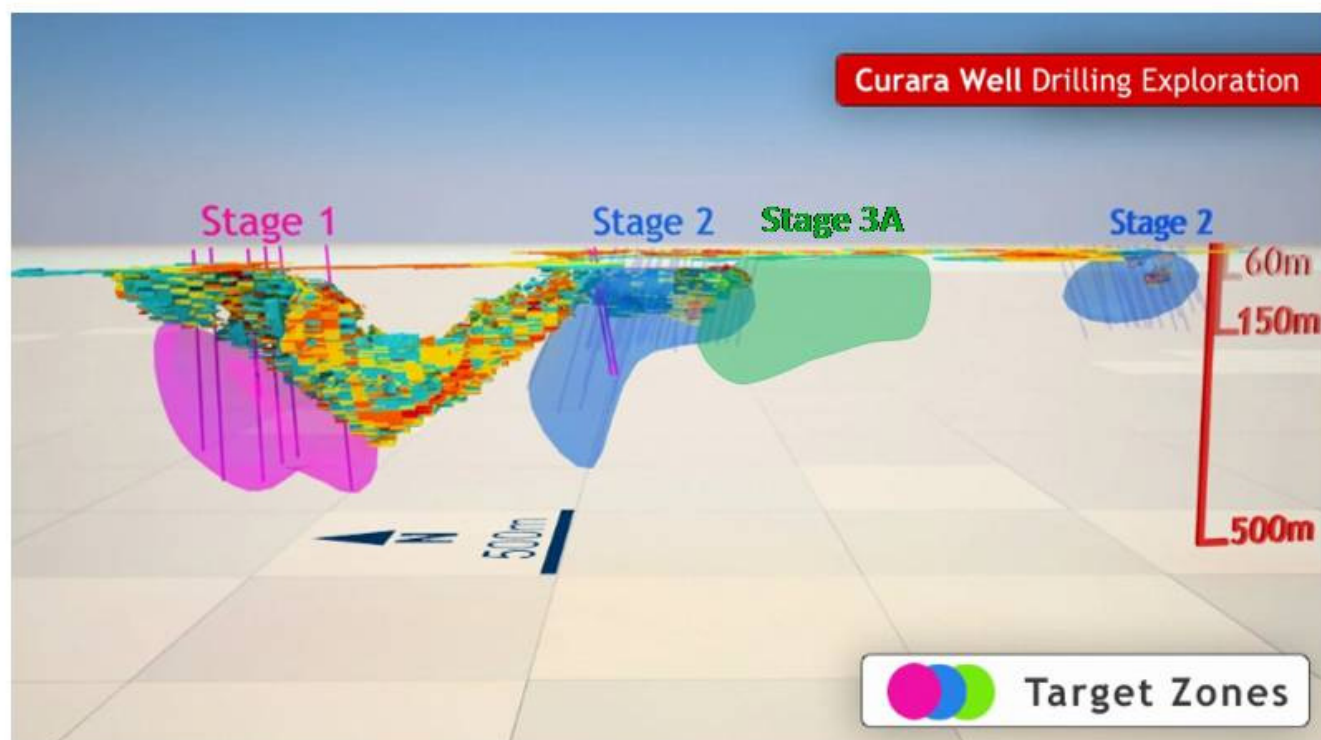
- Final results received for Stage 2 drilling program:
 - Results confirm presence of near surface gold mineralisation at **NE1 structure**, which **remains open to the north-east and south-west**. Significant intercepts include 13m @ 2.9 g/t Au and 14m @ 2.1 g/t Au.
 - Drilling to the south of the 'NE1' structure identifies a repeat structure, which also remains open along strike and at depth.
- **Stage 3 of drilling program commenced** to the areas south of the Curara Well open pit, comprising 22 RC holes for 2,870m. Program targeting near surface oxide and supergene mineralisation exploration targets.
- Geological interpretation demonstrates potential for identifying structural controls of high grade gold zones within primary mineralisation. Work indicates **presence of higher grade zones at intersection of SE and NE trending structures and felsic intrusives**. Mapping indicates felsic intrusives occur within current zones of mineralisation and extend 1.1 km beyond southern rim of Curara Well pit.
- Targeting completion of **feasibility study** into the recommencement of operations at the Kirkalocka Gold Project in the first quarter 2012. **Analysis during quarter resulted in potential for improved throughput**.
- Share placement to raise \$3m before costs.

Kirkalocka Gold Project - Exploration Activity

Staged Drilling Program

The Company has planned a three stage drilling program (refer Figure 1) to the areas north and south of the Curara Well open pit, with the purpose of in-filling areas of known mineralisation in order to bring them into the current resource model, increase the confidence in the mineralisation already in the resource model, and to extend the mineralisation to depth and along strike.

Figure 1: 3 Stage Drilling Program to the mineralised areas north and south of the Curara Well open pit





Stage 2B Drilling

A total of ten RC drill holes totalling 1,403m were completed as part of stage 2B of the planned three stage drilling program (see Figure 1). Eight holes totalling 1,103m targeted the south-western and north-eastern extents of the NE1 structure. Two holes totalling 300m targeted a repeat structure to the south of NE1 target zone. Results of the programme were released on 23 November 2011, and include:

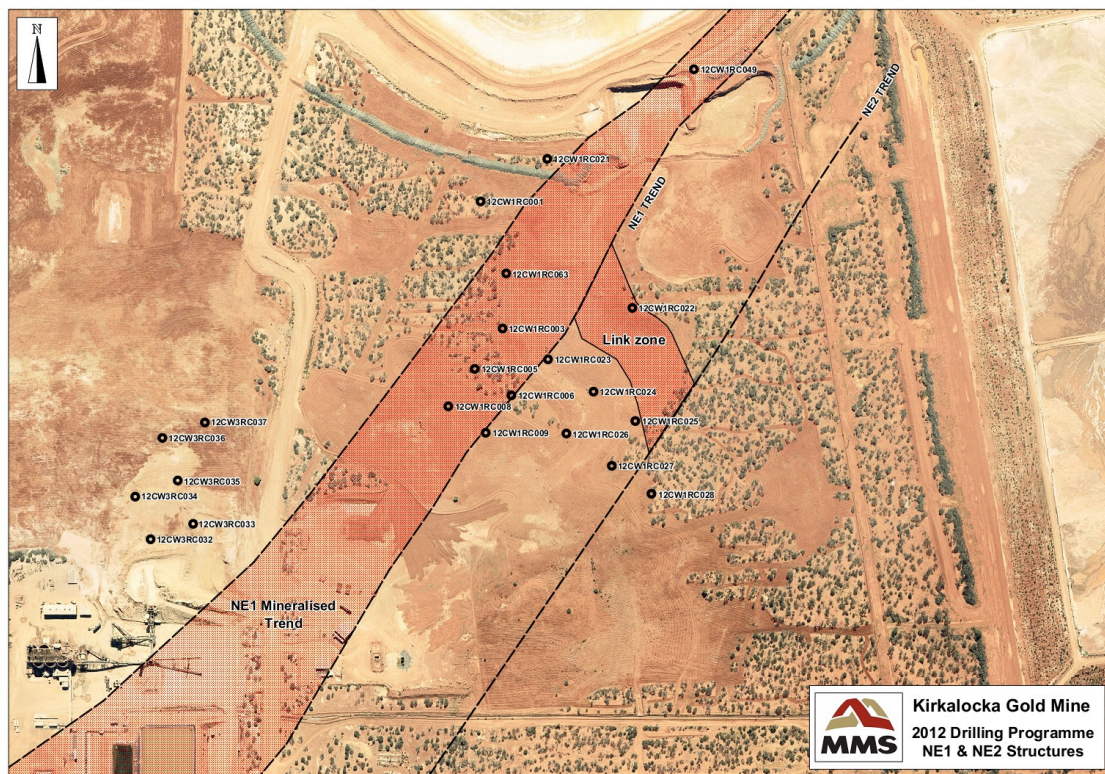
- 13m @ 2.9g/t Au from 40m
- 14m @ 2.1g/t Au from 8m
- 13m @ 1.4g/t Au from 22m
- 11m @ 1.2g/t Au from 113m
- 22m @ 0.8g/t Au from 34m
- 4m @ 2.7g/t Au from 113m

The drill holes confirmed additional oxide, supergene and primary mineralisation along the NE1 trend. The south-western margin of the NE1 structure remains open with the successful 50m step out drilling completed as part of this program. The RC drilling also successfully intersected gold mineralisation associated with north south felsic intrusives (FI) in the repeat structure south of NE1. Near surface supergene mineralisation as well as a series of shallow SE dipping sheet like structures within the primary host sequence were intersected. The extent of repeat structure remains open along strike and at depth.

Stage 3A Drilling

Geological interpretation work has identified a series of elevated gold grade zones within oxide – supergene domains south of the Curara Well Open Pit. A series of near surface oxide and supergene targets (mainly extensions to the NE1 structure) will be tested by reverse circulation drilling. The program comprises 22 RC drill holes totalling 2,870 metres (see Figure 2) and commenced on the 25th January 2012.

Figure 2: Plan view of Curara Well showing NE1 and related structures and planned Stage 3A drilling program



During the quarter geological work also focussed on identifying controls of high grade gold zones within primary mineralisation north, south and beneath the existing Curara Well Open Pit. A series of lithology and structural controls have been identified by the recent geological evaluation. Geological interpretation indicates that where SE and NNE trending structures intersect felsic intrusives, this results in an accumulation of higher gold grade mineralisation adjacent to and along the felsic intrusive contact. Felsic intrusives and SE and NNE trending structures have been identified within the current mineral resource as well as up to 1.1 km south of the rim of the Curara Well open pit. Further geological interpretation work is planned to identify the continuity and grade tenor of the higher gold grade zones in first quarter 2012.



Kirkalocka Gold Project – Feasibility Study

Feasibility study work during the quarter included incorporating the increase in the resource base (announced 13 October 2011, refer Annexure 1) into mine planning and design as well as further analysis of treatment plant throughput and metallurgical schedule options. Testwork indicates the potential to improve throughput compared to historic operating levels. Further analysis and refinement of the geological model has also identified the potential for improved identification of low grade and waste material within the optimized pit design. Detailed cost estimates were completed for open pit mine equipment fleet selection. This work included open pit engineering evaluations of owner operator, dry hire and owner workforce and contractor options. All environmental surveys were completed during the quarter, and these will form the basis for submission of relevant licence and permit applications.

The feasibility study into the recommencement of operations at the Kirkalocka Gold Project is targeted for completion in the first quarter 2012.

Corporate Activity

Placement of Shares

In January 2012 the Company entered into an agreement with Capital Investment Partners to raise \$3 million through a private placement of shares. The Company proposes to issue 48,387,097 fully paid ordinary shares at 6.2 cents per share pursuant to the placement. For every two shares subscribed for, an attaching option exercisable at 7 cents on or before 31 August 2014 will also be issued. The issue of securities in excess of the Company's 15% placement capacity under ASX Listing Rules will be subject to shareholder approval. A general meeting for this purpose will be held in March 2012. The proceeds of the placement will be used to fund the next stage of the drilling campaign at Kirkalocka, completion of the feasibility study and for working capital purposes.

Board Changes

In January 2012 Mr Matthew Shackleton resigned as Managing Director of the Company. Executive management responsibilities have been assumed by Mr Mark Pitt and Mr Patrick Flint, both of whom are existing directors of the Company, pending completion of the feasibility study.



Legal Proceedings

In December 2011 the Company was served a Writ of Summons (“Writ”) to appear in the Supreme Court of Western Australia to answer claims by entities associated with a former director of the Company (Mr Fred McMurray) and Mr Gary Johnson under the Trade Practices Act 1974, the Fair Trading Act 1987 (WA), the Corporations Act 2001 and the Australia Securities and Investments Commission Act 2001. The Company intends to vigorously defend the action.

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Competent Person’s Statements – Resource Estimate

The estimation, depletion and reporting was completed by Lynn Olssen MAusIMM (CP) who is a full-time employee of Snowden Mining Industry Consultants. Lynn Olssen has sufficient experience that is relevant to the style of mineralisation, type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration, Results, Mineral Resource and Ore Reserves (JORC, 2004). Lynn Olssen consents to the inclusion in this report of the matters based on the information in the form and context that the information appears.

The information including database compilation, geological interpretation and mineralisation wireframing were completed under the overall supervision and direction of Graham Howard, MAusIMM, who is a full time employee of Mount Magnet South NL. Graham Howard has sufficient experience that is relevant to the style of mineralisation, type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration, Results, Mineral Resource and Ore Reserves (JORC, 2004). Graham Howard consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

Rounding, conforming to the JORC Code, may cause some computation discrepancies.

Competent Person’s Statements – Exploration Results

The information in this report that relates to exploration results is based on information compiled by Graham Howard, MAusIMM, who is a full time employee of Mount Magnet South NL. Graham Howard has sufficient experience that is relevant to the style of mineralisation, type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resource and Ore Reserves (JORC, 2004). Graham Howard consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.



Annexure 1

Mineral Resource Estimate – Curara Well

Category	Tonnes (Mt)	Grade (g/t Au)	Gold (ounces)
Indicated	8.0	1.2	305,000
Inferred	3.2	1.0	108,000
TOTAL	11.2	1.1	413,000

The Mineral Resource has been classified and reported in accordance with the JORC code (2004) and is reported above cut-off grades of 0.3 grams per tonne gold for the laterite mineralisation, and 0.5 grams per tonne gold for the oxide and fresh mineralisation. The Mineral Resource is constrained within an optimisation shell that extends to 290m below the surface, with cut-off grades based upon economic factors determined from the application of open pit mining methods and historical gold recoveries from the Kirkalocka treatment plant. The total dataset comprises 176,032 metres of RC, air core and diamond drilling. Further details on the resource estimate are provided in the ASX release, 13 October 2011.



Annexure 2

Significant Intersections Stage 2B Curara Well RC Drilling

Hole Number	Grid Coordinates		Hole Data			Significant Intersections			
	MGA Easting	MGA Northing	Azimuth (deg)	Dip (deg)	Total Depth (m)	From (m)	To (m)	Interval (m)	Grade Au (g/t)
11CW4RC201	574520	6827519	-	90	153	2	3	1	3.0
						22	35	13	1.4
						40	53	13	2.9
						68	73	5	0.8
						127	128	1	0.4
						129	130	1	0.5
						139	140	1	0.5
						145	146	1	0.8
11CWRC202	574494	6827477	-	90	131	0	1	1	0.4
						26	28	2	0.4
						34	37	3	0.3
						45	51	6	0.5
						71	73	2	0.4
						79	86	7	0.5
						91	101	10	0.6
						113	117	4	2.7
						124	125	1	1.7
11CW4RC203	574477	687480	310	60	167	0	4	4	0.7
						24	29	5	0.5
						36	37	1	0.5
						51	52	1	0.3
						72	73	1	1.0
						117	118	1	0.3
						125	126	1	0.8



Hole Number	Grid Coordinates		Hole Data			Significant Intersections			
	MGA Easting	MGA Northing	Azimuth (deg)	Dip (deg)	Total Depth (m)	From (m)	To (m)	Interval (m)	Grade Au (g/t)
11CW4RC204	574420	6827379	310	60	150	4	6	2	0.6
						24	25	1	0.5
						34	46	12	0.4
						61	62	1	0.5
						71	73	2	1.0
						79	80	1	0.8
						94	95	1	0.5
						101	124	23	0.6
						136	142	6	0.4
						149	150	1	0.6
11CW4RC205	574430	6827306	305	80	140	38	40	2	0.6
						56	58	2	0.8
						71	72	1	0.3
						78	79	1	0.7
						90	93	3	0.5
						100	101	1	0.4
						106	108	2	1.0
						127	128	1	0.5
						131	134	3	0.3
11CW4RC206	574381	6827345	65	305	140	8	22	14	2.1
						28	29	1	0.3
						31	32	1	0.3
						46	47	1	0.3
						81	82	1	1.1
						96	97	1	0.3
						137	140	3	0.6
11CW4RC207	574349	6827365	65	305	140	8	10	2	3.0
						38	39	1	0.6
						51	59	8	0.5
						71	72	1	0.8
						103	104	1	0.4



Hole Number	Grid Coordinates		Hole Data			Significant Intersections			
	MGA Easting	MGA Northing	Azimuth (deg)	Dip (deg)	Total Depth (m)	From (m)	To (m)	Interval (m)	Grade Au (g/t)
11CW4RC208	574431	6827264	65	305	150	0	1	1	0.6
						34	56	22	0.8
						61	62	1	0.6
						66	67	1	0.5
						77	79	2	0.4
						83	84	1	0.3
						94	95	1	0.5
						108	110	2	1.0
						134	135	1	0.3
						149	150	1	0.5
11CW4RC209	574458	6827230	65	305	150	41	49	8	0.9
						68	69	1	0.3
						75	78	3	0.4
						89	90	1	1.0
						104	105	1	0.5
						106	107	1	0.3
						113	124	11	1.2
11CW4RC210	574374	6827284	65	305	82	2	7	5	0.5
						26	27	1	1.1
						62	63	1	1.0

(i) Results are based on 40g fire assay

(ii) Intersections are calculated from RC drilling

(iii) Minimum sample interval of 1.0 metre

(iv) Mean grades have been calculated on a 0.3g/t lower cut-off grade, with no upper cut-off grade applied, and maximum internal waste of 4.0 metres

(v) Collar coordinates are based on GPS survey and downhole survey based up Eastman Multishot

(vi) All intersections are downhole intervals