

## Quarterly Activities Report Quarter ended December 31 2011

### Highlights:

- ⦿ Program of Work (POW) approval was received from the Department of Mines and Petroleum (DMP) for an evaluation drilling program on priority hematite targets at Mt Padbury
- ⦿ RC drilling commenced on Mt Padbury in pursuit of the JV's hematite and magnetite targets.
- ⦿ Diamond drilling started on Telecom Hill aimed at providing a better understanding of the geology of the JV's magnetite JORC compliant resource
- ⦿ New appointments made to the Padbury Board.

### Program of Work Approval

Government approval of the proposed drilling of iron mineralisation targets at the Peak Hill Iron Project's Mt Padbury prospect was obtained.

The maiden drilling at Mt Padbury is targeting hematite mineralisation within the Robinson Range Iron Formation contained within tenement E52/2279.

The Department of Mines and Petroleum approved the Program of Works, conditional on avoiding impact on individual species of conservation value required by the Department of Environment and Conservation.

The Mt Padbury drilling is the follow up on subsurface testing of potential hematite mineralisation identified in exploration mapping carried out earlier in 2011. This program is part of the JV's key objective to develop the potential of the flagship Peak Hill Project to deliver a pipeline of strategic iron projects in Western Australia's Midwest region.

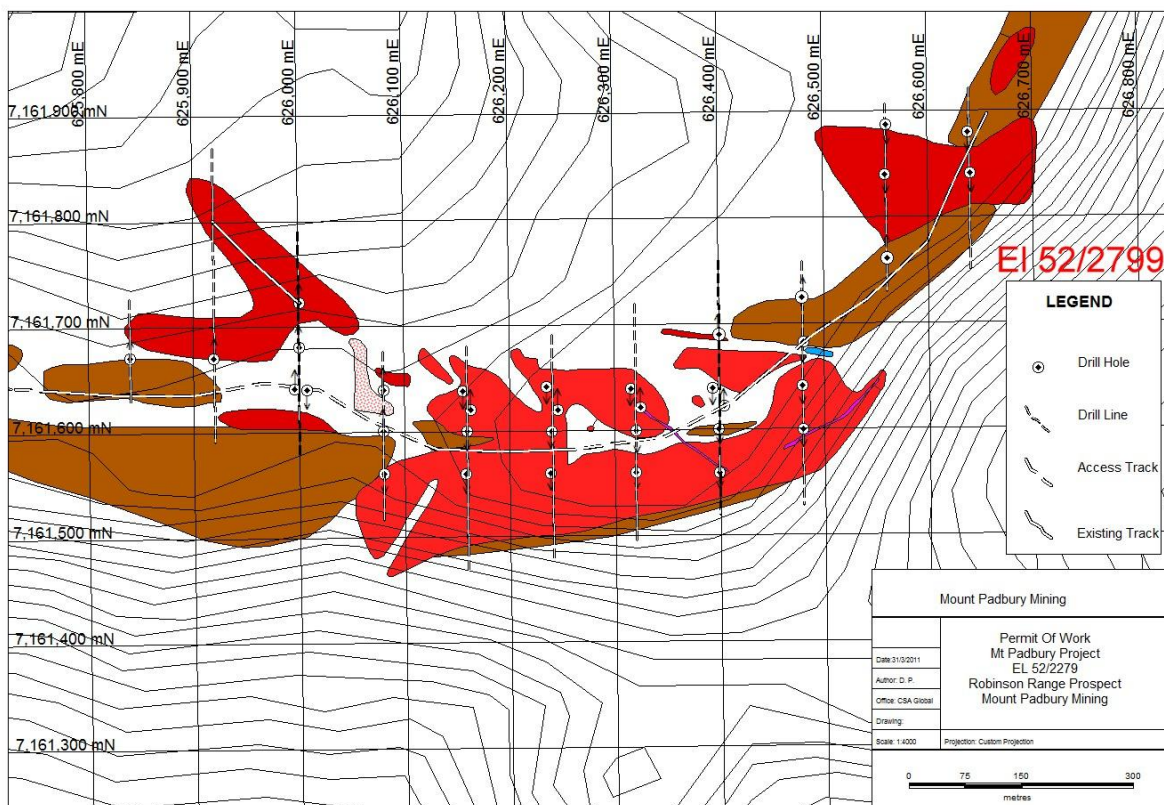
The Mt Padbury operations will be integrated within the ongoing evaluation drilling of the magnetite and hematite potential nearby at Peak Hill's Telecom Hill prospect.

'NOTE: This potential quantity and grade is conceptual in nature and there has been insufficient exploration to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

## Direct Shipping Ore (DSO)/ Hematite

During the quarter RC drilling commenced (See Figure 1) at Mt Padbury and is targeting DSO as part of the JV's ongoing programs aimed at its exploration target of 10-55Mt at 55-58% Fe'.

The Company believes the drilling program is the first significant step of a focused strategy to improve the Peak Hill Iron Project iron ore base and to develop DSO for early cashflow benefits to the JV..



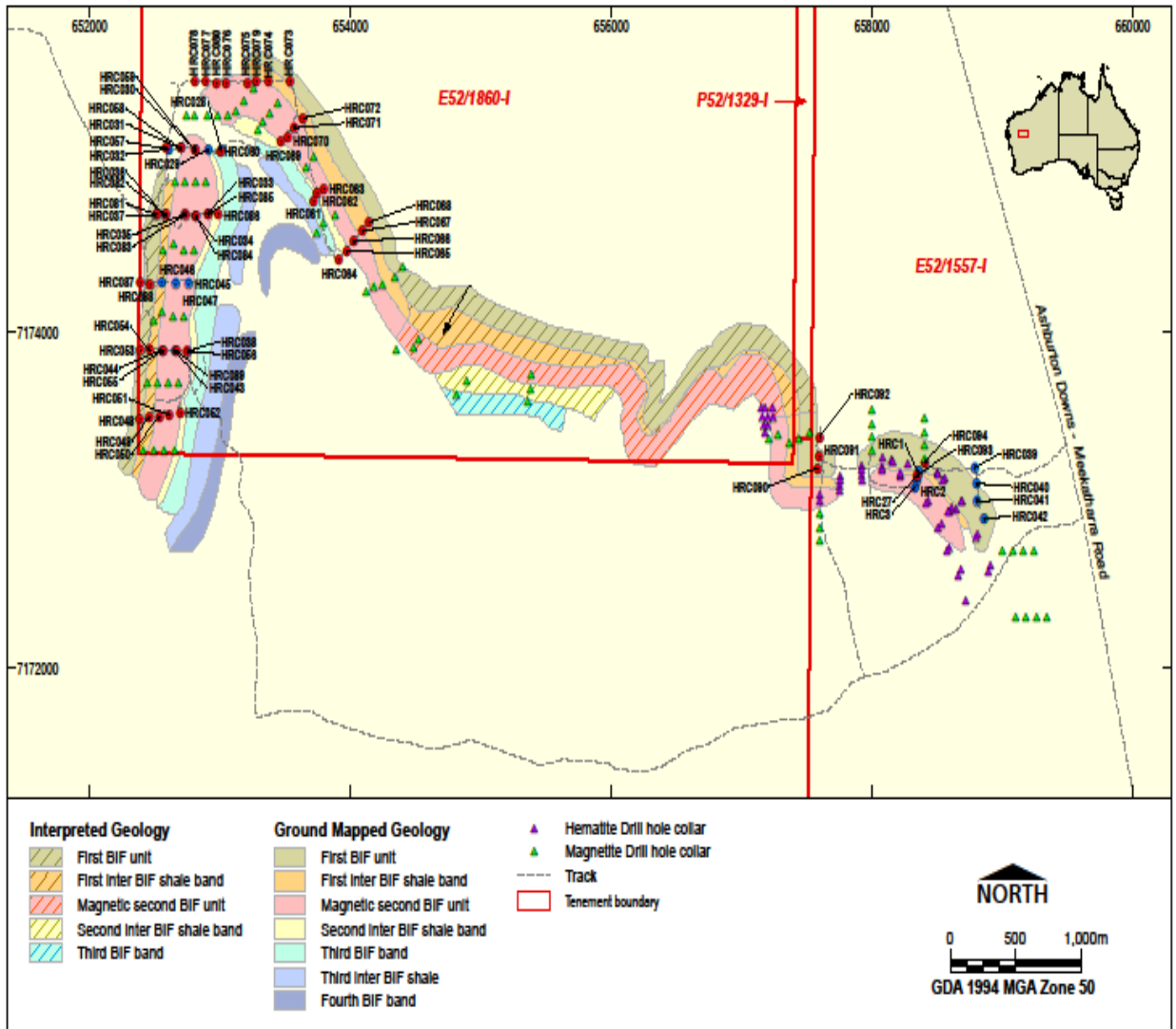
**Figure 1: Proposed Drilling at Mt Padbury**

## Magnetite

The initial holes HRC 1, 2 and 3 (see figure 2), targeting a magnetite Banded Iron Formation, have been drilled to approximately 300 metres.

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The aim of this component of the program is to increase and upgrade the project's JORC compliant resource, which currently stands at 850Mt at 27.3% Fe.



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Figure 2: Telecom Hill

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An office has been established at the project camp and equipment, including a water pump and gen set, sample splitter, core saw and sea container, has been purchased and relocated to the Peak Hill site.

A sample archive is being established and rehabilitation work has commenced on previously drilled sites. This work involves the JidiJidi community and local contractors wherever possible and is being supervised by the Peak Hill Project Manager and in-house geologist Dan Podger.

Drill samples are being sent for laboratory analysis and results will be announced as soon as they become available following completion of this testing work.



**Drilling at Telecom Hill**

Heavy rain and hail was experienced towards the end of the quarter and flooding cut access to the site and the nearest towns of Meekatharra and Newman.

All Padbury crew were evacuated until the weather improved and ground conditions were deemed suitable to enable access to the exploration ground and accommodation facilities.

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## Midwest Infrastructure

As a strategic move Padbury purchased the Mid West rail and Oakajee port intellectual property developed by Yilgarn Infrastructure and its Chinese partners.

This IP is vested in a wholly owned Padbury subsidiary Midwest Infrastructure Pty Ltd. It has been subject to independent due diligence and the design concepts, CAPEX and OPEX figures have been completely updated by INDEC Consulting and Pacific Capital.

This update was presented late in the quarter and has the potential to add significant value to Padbury and all miners in the Mid West region that will rely on the development of Oakajee to get their product to market.

## Board Changes Announced

The Company made new appointments to the Board as it moves forward with the development of the flagship Peak Hill Iron Project.

Padbury Chairman Dr John Saunders and Directors David Southam and Garret Dixon resigned their positions on the company board.

Dr Saunders has taken up a new role as Chairman of Padbury's wholly owned subsidiary MidWest Infrastructure Ltd, which holds the Mid West rail and Oakajee Port intellectual property (IP) purchased by Padbury from Yilgarn Infrastructure.

Dr Saunders will focus on the promotion of the IP, in particular its commercial modeling, to various interested parties as a potential means of contributing to a solution to the development of viable port and rail infrastructure to service the emerging mines of Western Australia's Mid West region.

Mr Terry Quinn, Padbury's major shareholder and Managing Director of 30% joint venture partner Aurium Resources, and Mr William Han, who has extensive business interests in China, were appointed to the Board and Mr Quinn accepted the position of Non-Executive Chairman.

## Merger Discussions

Padbury and its JV partner, Aurium Resources Ltd entered into formal, good faith negotiations on a possible merger between the two companies.

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An agreement setting the terms of the negotiations was signed by the parties and this agreement set out a 60-day exclusivity period and the necessary confidentiality obligations and confirms that each party will undertake due diligence reviews of the other, plus discuss possible merger terms and structures.

### **Site Accident**

Padbury advised the Department of Mines and Petroleum (DMP) of an accident at the Peak Hill project site during the quarter.

The incident involved a field hand whose 4WD vehicle collided with a stationary loader. The contractor was air-lifted to hospital for treatment for non-life threatening injuries. Padbury undertook an investigation into the accident in compliance with mine safety requirements and a DMP inspector also visited the site.

Padbury promotes a 'zero-harm' workplace culture and has full induction, health and safety procedures in place and are operational for all site workers and visitors.

### **Geraldton Iron Ore Alliance**

Padbury has joined the Geraldton Iron Ore Alliance as an Associate member and is working towards becoming a major Mid West iron ore producer and joining the ranks of the GIOA reflected the Company's growing maturity.

The development of the Oakajee Port and associated rail network will make the Mid West Australia's next big iron ore region and the GIOA offers a valuable network to its member companies. Padbury will work with them and contribute to the advocacy of the region.

### **Section 249D Requisitions and AGM**

During the quarter a number of Section 249D notices were dealt with at a General Meeting held on 17 November 2011 and the Company used the opportunity of its AGM held on 28 November 2011 to deliver a clear vision and strategy to shareholders for the short and medium term to grow the company.

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### Competent Person's Statement

*The Exploration Results and exploration target estimates discussed in this report were prepared under the supervision of Mr Daniel Wholley BAppSc MAIG, who is a Director and full time employee of CSA Global Pty Ltd and is a competent person as defined by the Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) 2004 Edition. Mr Wholley consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.*

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