



CAZALY
RESOURCES LIMITED

ABN 23 101 049 334

Quarterly Report for December 2009

- **Parker Range Pre-Feasibility Study confirms technical and economic viability**
 - Expected NPV of A\$216m with IRR of 78% for Contract Operations
 - Capital costs of A\$78m plus A\$26m deferred to year 3. Estimated operating costs of A\$45/t of shipped product
 - Total production target of 22Mt fines grading 56.6% Fe (62.2% CaFe)
 - 4Mtpa transported by road-rail to Port of Kwinana
 - Advanced Metallurgical Program commences
- **Strategic partner discussions underway**
- **A\$2.24m raised via private placement to continue development and exploration**

Iron Ore Projects

Parker Range – CAZ interest 100%

Highlights:

- **Pre-Feasibility Study confirms technical and economic viability of the Parker Range Iron Ore Project in the Yilgarn region of Western Australia**
 - **Expected NPV of A\$216m with IRR 78% for contract operations option**
 - **Revenue based on independent price forecasting and not spot iron ore prices**
 - **Up front capital costs of A\$78m plus A\$26m deferred until year 3**
 - **Estimated operating costs of A\$45/t of shipped product**
 - **Global resource 40.4 Mt @ 53.8% Fe (59.1% CaFe), 90% Indicated category**
 - **Total production of 22.0 Mt target fines product grading 56.6% Fe (62.2% CaFe)**
 - **Preferred option produces 4 Mtpa transported by Road-Rail to Port of Kwinana for initial 5.5 years mine life**
 - **Metallurgical bridging program to commence with early DFS Activities**
 - **First ore on ship (FOOS) planned for Q3/2011**
 - **Strategic partner discussions underway**
- **Advanced Metallurgical Program Commences**
- **RC drilling identifies significant mineralisation outside current resource model**

Summary of Pre-Feasibility Study

Cazaly continued work on the Parker Range Pre-Feasibility Study (PFS) and released results shortly after the end of the Quarter. The Parker Range Project lies approximately 15 kilometres south-east of Marvel Loch and approximately 50 kilometres by road south of the Perth–Kalgoorlie railway.

The study indicates very robust economics for the project which greatly benefits from its close location to existing and accessible infrastructure including road, rail, port, power and township. This access allows for the relatively rapid development and ramp up to full production of 4 Mtpa within 1.5 years. These positive results now allow for the commencement of a Definitive Feasibility Study (DFS) into the project, the initial phase of which will incorporate a bridging programme of further metallurgical work.

The study has shown that the Company is on track to become the second major iron ore producer in the Yilgarn region of Western Australia, behind Koolyanobbing Operations who have successfully operated in the region for many years.

The study evaluated several options for development including the production of 1 or 2 products (fines only or lump and fines) at varying throughput rates and modelled both Contractor operated and Owner operated scenarios. The result of these studies indicated that the optimal scenario involved the production of 4 Mtpa fines only product either on a contractor operated basis (lower capex, higher opex, NPV & IRR, shorter payback period) or owner operated basis (high capex, lower opex) as follows;

Table 1: Contractor versus Owner Operated Options

OPTION	Capex (A\$m)	Sales (Mt)	Cost (A\$/t)	NPV ₈ (A\$m)	IRR (%)	Payback (Years)
Case – 4mtpa Contract Develop	78 (+26*)	22.0	45	216	78	0.9
Case – 4mtpa Owner Process	148 (+26*)	22.0	43	178	42	1.7

* Additional capital requirement for year 3

The study also highlighted Kwinana as the preferred export port over Esperance due to its closer proximity and lower capital costs requirements. Esperance however can still be considered as an alternate port option for the project.

The targeted fines only product has ultra-low phosphorous content and chemical properties which is highly marketable (Table 2).

Table 2: Parker Range Target Product Specification

Ore Type	Fe	CaFe*	SiO ₂	Al ₂ O ₃	P	Mn	TiO ₂	LOI
	%	%	%	%	%	%	%	%
Min	56.0	61.4	3.50	2.10	0.016	1.30	0.02	8.80
Max	57.5	63.3	6.50	2.90	0.029	2.20	0.10	9.20

* CaFe: calcined Fe% grade

Project Management

The study was lead by Cazaly Resources and involved a number of experienced sub-consultants as follows:

Component	Consultant
Resource Estimation	Runge Ltd
Mine Design and Schedules	Runge Ltd
Geotechnical Assessment	Runge Ltd
Hydrological Assessment and Modelling	Rockwater Pty Ltd
Metallurgical Test Work	IMO Pty Ltd / Amdel Ltd
Engineering and Logistics	Lycopodium Minerals Pty Ltd
Environmental Surveys	Keith Lindbeck & Associates / Botanica Consulting
Heritage Surveys	Western Heritage Research Pty Ltd
Approvals	Keith Lindbeck & Associates
Commercial Proposals	Suppliers and Contractors

Study components of marketing, operations, risk management and financial evaluation were undertaken by Cazaly Resources.

Resources and Mining

The PFS was based upon the existing October 2009 global resource for the Mount Caudan iron ore deposit of **40.4mt @ 53.8% Fe** as modelled by Runge Limited using a nominal 50% Fe wireframe for BIF and 45% Fe for Canga material. From this an Indicated and Inferred resource estimate utilising a 52% Fe low cut resulted in a resource of **28.7mt @ 55.4% Fe** as follows;

Table 3: Mount Caudan Deposit Mineral Resource Estimate (52%Fe Cut-off Grade)

Type	Total								
	Tonnes t	Fe %	CaFe %	Al ₂ O ₃ %	P %	SiO ₂ %	LOI %	Mn %	S %
Canga	1,342,000	53.5	57.1	6.8	0.01	8.6	6.3	0.9	0.06
Oxide	27,363,000	55.5	61.1	2.6	0.02	6.5	9.2	1.3	0.08
Total	28,705,000	55.4	60.9	2.8	0.02	6.6	9.0	1.3	0.08

The Company is not declaring an ore reserve as part of the PFS with this work to be completed in the DFS. The existing resource model was utilised to estimate mineable

resources which comprise 90% Indicated and 10% Inferred material. Given the continuity of mineralisation and the close proximity of inferred to indicated material the Company firmly expects that further planned drilling will readily convert a reasonable proportion of the inferred resource material to indicated status which can then be considered for conversion to an ore reserve as part of the DFS. Mineable resources based on the limited amount of inferred resources are considered too speculative to be considered for ore reserve estimation. Mineable resources and mine schedules were generated using open pit designs for various mining throughputs and product options with a result for the preferred option (fines only product at 4 Mtpa) of **23.2 Mt @ 54.6% Fe (60.0% CaFe)** with life of mine waste to ore stripping ratio of **1.34** based on an initial 5.5 year mine life. Contract mining is assumed via conventional open pit mining method, with the Company managing the mine design, medium and long term planning, grade control, sampling and ore quality control.

Metallurgy

Ore characterisation studies to date have largely been aimed at characterising the chemical and physical properties of lump/fines and fines only 'at shipment' products and the beneficiation potential of the ore. In summary, the ore has ultra-low phosphorus, carries acceptable levels of other potential impurities and responds favourably to beneficiation.

Preliminary beneficiation testwork undertaken to evaluate ore response to potential upgrading has resulted in early success with wet-screening/de-sliming and gravity separation techniques. The work has indicated that there is good potential to upgrade the ore, including lower grade (50-54% Fe) ore, with target upgrades of ~2% Fe at 92% recovery of plant feed expected.

Based on dry processing for years 1 and 2, and beneficiation from year 3, the mineable resources yield an expected target fines product of **22.0 Mt @ 56.6% Fe (62.2% CaFe)** for life of mine as follows:

Table 4: Mount Caudan Target Fines Product Estimate

	Total								
	Tonnes Mt	Fe %	CaFe %	Al ₂ O ₃ %	P %	SiO ₂ %	LOI %	Mn %	S %
Target Product	22.0	56.6	62.2	2.47	0.02	6.1	9.0	1.7	0.06

Subsequently a systematic programme of metallurgical testwork has commenced to further assess this beneficiation potential. Based on physical attributes the ore can be classified

as moderately strong in comparison to Pilbara hematite ores and will be amenable to conventional crushing and screening process technology.

Processing and Infrastructure

The study was based upon a process plant producing a single fines product at a nominal rate of 4mtpa. The plant would incorporate a primary sizing/crushing circuit, with two stage secondary and tertiary crushing, scalping screening, sampling and stockpiling of product fines by radial stacker. The ore will then be transported by road from site to the rail head before being transported by rail to port. The plant will have the flexibility to expand to incorporate beneficiation at year 3 of operation.

Options for road infrastructure and transport operations have been developed in consultation with the Shire of Yilgarn and Main Roads Western Australia whilst options for rail infrastructure and operations have been developed in consultation with the existing rail provider and haul operators.

There are two existing export port options at Esperance and Kwinana with both having potential for the export of iron ore mined at Parker Range. The preferred option is the port of Kwinana, due to both lower rail haulage distance and capital cost. Additionally, there are proposed a further two future port options located at James Point (Kwinana) and Southern Mid-West Port (North of Perth), however best case development for these is 2013.

Power for the project will be provided from the existing Western Power grid which is located just 14km away at the mining townsite of Marvel Loch. Water will be provided from a new borefield and desalination plant. A combination of existing and new accommodation will also be provided by the project situated in the existing township of Marvel Loch.

Operations

The Company and its contractors anticipate employing up to 159 persons during the 4 Mtpa operations phase with up to 124 persons on-site at any one time. Furthermore, during construction a workforce of up to 250 people will be require to complete the project over a 12 month implementation program.

It is the intention of Cazaly to provide opportunities wherever possible to the local community in the area. Cazaly will continue to work closely with the Yilgarn Shire Council and community to provide these opportunities.

Environmental, Heritage, Community and External Approvals

The Mount Caudan deposit and proposed project area is already covered by existing granted mining leases. Cazaly holds the necessary iron ore mining rights to the project and no native title claims exist in the area. Extensive environmental baseline studies, which have been ongoing over the past 1.5 years, confirm that the project is unlikely to materially affect conservation of either flora or fauna in the project area. Heritage surveys have been completed with no identified ethnographic or archaeological sites to be impacted by the project.

Consultation has been undertaken with key external stakeholders to ensure all impacts can be adequately identified and managed throughout the approvals process. There exists strong community support within the Yilgarn region for the project and Cazaly will continue to consult with the community.

The project approval process commenced in August 2009, with the EPA setting a *Public Environmental Review* level of assessment. Cazaly currently has the project *Environmental Scoping Document* with the EPA for review in preparation for the public review process. Ministerial environmental and mining approvals are forecast to be received by September 2010.

Financial

Capital and operating cost estimates for the Owner operated and the Contract operated options have been estimated for the project and are as follows;

Table 5: Contractor versus Owner Operated Options

OPTION	Capex (A\$m)	Sales (mt)	Cost (A\$/t)	NPV ₈ (A\$m)	IRR (%)	Payback (Years)
Case – 4.0mtpa Contract Develop	78 (+26*)	22.0	45**	216	78	0.9
Case – 4.0mtpa Owner Process	148 (+26*)	22.0	43**	178	42	1.7

* Additional capital requirement for year 3. Capex accuracy at -15%+30%, Opex accuracy \pm 25%.

**Costs exclude state royalties.

Both options for development display robust investment economics. Furthermore, beneficiation has the potential to significantly improve the project economics with upgrades of plant feed to product of between 1.4 to 4.5% Fe and a decrease in silica and alumina

levels. Capital payback is less than 1 year and with a high IRR of 78% with the Contract option as the preferred development case.

The financial evaluation incorporates iron ore prices supplied by a well regarded independent minerals economic forecaster utilising a benchmark forecast for Australian iron ore fines (FOB) with a long term average of US 82c/dmtu. Evaluation incorporates a long term FX rate of 0.80 and a discount rate of 8.0%. Current iron ore fines spot prices were not evaluated in the model.

Development Schedule

The DFS is forecast to be completed in early Q3 this year and it is expected that approximately 12 months will be required to design, procure, construct and commission the processing plant and associated infrastructure and services for the project. Following this, and subject to achieving the necessary statutory approvals and financing, operations can commence with a target date for production being Q3/2011.

Cazaly has commenced discussions with several potential strategic partners including both significant trading houses and customers regarding advancement of the project.

Exploration Update

The Company completed 24 RC holes for 2,079m as part of on-going exploration at the Project testing resource extensions as well as infilling the Mt Caudan Deposit. Results of this drilling were very encouraging with numerous holes intersecting mineralisation outside the current Resource Model, providing scope for further resource upgrades. Significant results are tabulated below:

Parker Range Iron Project. Significant RC drilling Results (>55% Fe, max 2m int. dilution)

HoleID	East	North	Hole Depth	From	Length	Fe %	Intercept				
							SiO ₂ %	Al ₂ O ₃ %	P%	S%	LOI%
PKRC0161	742617	6500075	60	37	17	59.2	6.38	1.05	0.01	0.16	7.09
PKRC0164	742679	6500162	36	18	7	58.6	5.50	2.40	0.01	0.15	7.59
PKRC0174	742367	6499597	102	73	20	56.7	4.47	3.21	0.03	0.05	10.26
PKRC0175	742301	6499304	135	12	8	58.2	3.48	7.56	0.01	0.06	4.51
				79	40	57.1	5.57	2.08	0.01	0.06	9.58
PKRC0176	742226	6499205	186	16	8	59.3	4.33	6.49	0.01	0.05	3.53
				111	3	56.8	9.01	1.03	0.00	0.04	7.93
PKRC0177	742191	6499087	146	97	5	58.2	3.03	1.50	0.01	0.04	8.52
				112	8	56.0	2.94	0.88	0.01	0.16	6.53
PKRC0178	742186	6498956	120	64	38	57.8	6.75	1.29	0.01	0.06	8.50
PKRC0179	742011	6498298	114	89	19	59.3	2.95	1.14	0.01	0.07	10.05
PKRC0180	742014	6498236	106	84	16	61.5	2.46	0.86	0.01	0.01	8.80
PKRC0181	741990	6498071	108	90	9	58.1	4.02	1.95	0.02	0.05	8.43

Samples located on GDA 94 Datum Zone 50.

All samples analysed by XRF with LOI determined at 1000°C

Pilbara Iron Ore Project – Cazaly 100%

Hamersley Project

- **RC Infill and extension programme complete**
- **Metallurgical drill sample programme complete**
- **Metallurgical beneficiation test work commences**

RC Drilling Programme

A total of 9 drill holes were completed for 1,332m at the Winmar Prospect, located approximately 70km north of the township of Tom Price. The Winmar Prospect is a Channel Iron Deposit (CID) target buried by modern alluvial drainage. Drilling tested extensions to mineralisation discovered in late 2008 as well as infilling previous drilling to determine mineralisation continuity.

Numerous significant results were returned with a best result of 60m @ 55.6% Fe. Mineralisation has been intersected over a strike of 1km and is open in all directions. A small number of holes have also intersected bedrock mineralisation (BID) beneath the CID providing additional scope for resources.

Winmar Prospect. Significant Intersections (>50% Fe, Max 4m Internal Dilution)

HoleID	East	North	Hole Depth	From	Intercept							Ore Type
					Length	Fe %	SiO ₂ %	Al ₂ O ₃ %	P%	S%	LOI	
PLRC0022	603751	7530175	140	104	30	55.7	10.9	3.93	0.03	0.01	4.66	CID
PLRC0023	604016	7529728	144	116	10	52.5	13.7	5.69	0.02	0.00	4.28	CID
PLRC0024	604255	7529971	144	94	50	53.7	10.0	5.09	0.04	0.02	7.24	CID
PLRC0025	604610	7530346	162	100	62	53.6	12.4	3.90	0.03	0.01	6.36	
			<i>Incl</i>	100	28	53.5	13.2	3.89	0.03	0.01	5.65	CID
			<i>and</i>	128	34	53.7	11.7	3.90	0.04	0.01	6.93	BID
PLRC0026	604825	7530189	140	104	24	53.4	12.4	4.55	0.04	0.01	6.00	CID
				136	4	55.5	6.15	4.37	0.09	0.01	7.21	BID
PLRC0027	604111	7529479	140	116	8	52.5	8.31	7.61	0.04	0.02	8.46	CID
PLRC0028	604286	7529648	144	92	44	54.8	11.9	3.93	0.04	0.01	5.27	
			<i>Incl</i>	92	36	53.8	13.4	4.20	0.04	0.01	4.97	CID
			<i>and</i>	128	8	59.3	5.45	2.71	0.06	0.01	6.62	BID
PLRC0029	604471	7529841	150	90	60	55.6	9.20	3.93	0.04	0.01	6.96	
			<i>Incl</i>	90	54	56.1	8.93	3.77	0.04	0.01	6.71	CID
			<i>and</i>	144	6	51.4	11.6	5.36	0.07	0.01	9.25	BID
PLRC0030	604638	7530005	168	94	74	53.8	11.9	3.67	0.05	0.01	7.11	
			<i>Incl</i>	94	38	54.1	12.1	3.55	0.04	0.01	6.37	CID
			<i>and</i>	132	36	53.4	11.7	3.79	0.06	0.01	7.89	BID

Samples located on GDA 94 Datum Zone 50.

All samples analysed by XRF with LOI determined at 1000°C



Metallurgical Programme

Three large diameter sonic core holes were completed at the Winmar Prospect providing approximately 5t of sample for metallurgical test work.

SGS Lakefield Oretest Laboratories in Perth have been engaged to conduct a metallurgical test work programme to determine if low grade mineralisation can be upgraded into a marketable product. Results of the test work programme are due in the next quarter.

Earaheedy Iron Ore Project

Cazaly identified the potential for significant iron ore deposits in the Earaheedy Basin early in 2007 and made applications over vacant portions of the prospective Frere Formation.

During the quarter the Company has continued to evaluate the Project's resource potential and interpret results from the sampling program conducted during the previous quarter.

The Company has also consolidated its ground position with another two tenement applications covering 15 square kilometres.

Significant iron results returned from September Quarter sampling are tabulated below

Earaheedy Significant Iron Rockchip results (>50% Fe)

East	North	Lease	Fe %	Al ₂ O ₃ %	SiO ₂ %	P%	S %	LOI %
353403	7179153	E69/2375	52.1	2.60	10.53	0.241	0.100	10.75
345014	7186026	E69/2375	60.3	3.57	4.67	0.033	0.100	5.33
345067	7186001	E69/2375	60.9	2.58	3.74	0.030	0.111	5.83
345147	7185963	E69/2375	61.9	2.26	3.18	0.037	0.071	5.39
344736	7186097	E69/2375	58.8	3.85	6.92	0.036	0.076	4.26
344622	7186138	E69/2375	61.0	2.20	5.83	0.031	0.081	4.26
344474	7186163	E69/2375	58.8	3.99	5.75	0.076	0.059	5.54
344339	7186199	E69/2375	55.8	4.24	7.29	0.078	0.067	8.27
344116	7186243	E69/2375	59.4	2.67	3.30	0.051	0.064	8.46
343659	7186155	E69/2375	52.8	7.50	8.08	0.026	0.068	8.37
343344	7186185	E69/2375	60.3	1.86	3.48	0.085	0.058	7.52
342811	7186079	E69/2375	56.9	5.69	8.14	0.063	0.053	4.46
342280	7186110	E69/2375	57.6	3.09	4.10	0.057	0.110	9.89
341916	7185806	E69/2375	56.7	5.82	6.61	0.028	0.093	5.22
341839	7185817	E69/2375	59.5	2.87	4.57	0.023	0.112	6.56
341371	7186068	E69/2375	52.2	7.18	9.15	0.112	0.088	8.06
344829	7186094	E69/2375	58.0	4.50	5.94	0.030	0.099	5.45
344969	7186045	E69/2375	61.1	3.24	3.73	0.030	0.112	4.75
345121	7185975	E69/2375	64.4	1.22	1.93	0.034	0.067	4.18
345350	7185893	E69/2375	61.5	2.25	2.33	0.046	0.087	7.01
345676	7185799	E69/2375	56.3	4.57	4.13	0.037	0.191	10.12
347263	7180713	E69/2375	54.8	3.74	4.80	0.276	0.133	10.91
310937	7189780	E69/2376	53.3	4.73	14.91	0.042	0.136	2.90
311727	7189637	E69/2376	55.6	4.14	12.01	0.028	0.067	3.42
311707	7189683	E69/2376	61.9	2.99	4.44	0.016	0.142	3.32
311178	7189762	E69/2376	60.2	3.88	5.78	0.037	0.068	3.56
310920	7189831	E69/2376	58.8	2.87	7.46	0.023	0.282	3.14
203969	7187390	E52/2183	58.6	2.05	4.41	0.197	0.157	8.01
208039	7170687	E51/2183	59.4	2.90	4.86	0.058	0.178	5.40
207968	7170771	E51/2183	57.9	1.68	6.00	0.039	0.228	7.82

East	North	Lease	Fe %	Al ₂ O ₃ %	SiO ₂ %	P%	S %	LOI %
207927	7170900	E51/2183	60.2	1.35	5.61	0.038	0.143	5.64
204274	7183156	E51/2183	59.2	1.59	3.20	0.293	0.132	8.84
202974	7186556	E51/2183	59.2	1.28	2.94	0.054	0.159	9.21
202978	7186527	E51/2183	62.2	1.30	3.47	0.049	0.082	5.62

Notes:

1. Grid coordinates refer to MGA 94 Zone 51 datum system
2. Analyses conducted using X-Ray Fluorescence Spectrometry and LOI at 1000°C

West Kalgoorlie Gold Project

- **Drill Programme completed at Ora Banda**
- **Identifies new mineralised structure**

Ora Banda RC drilling

A small, broad spaced RC programme comprising 12 RC holes for 1,621m was completed at the Ora Banda Sub-Project.

The drilling targeted a conceptual structure, sub-parallel to the Gimlet structure which has produced in excess of 200,000oz of gold. The conceptual structure can be interpreted from regional magnetics, with multi-element geochemistry data further highlighting the structure and specific targets.

Drilling intersected strongly sheared basalts with broad zones of low-level gold anomalism, an indicator that drilling successfully identified the structure. A best result of 6m @ 2.67 g/t Au was returned from 58m in WKRC0108.

It should be noted that drilling tested the structure over a strike of 3km and there remains significant potential for the structure to host an economic gold resource. The Company is still awaiting results of multi-element "pathfinder" assays which will greatly assist interpretation and further drill targeting.

Ora Banda Significant Drill Intersections (>1g/t Au)

HoleID	East	North	Hole Depth	From	To	Intercept		g/t Au
WKRC0108	312515	6639123	119	58	64	6	m@	2.67
			<i>Incl</i>	58	60	2	m@	6.65
WKRC0113	310876	6638314	125	40	52	12 (comp)	m@	1.04

Grid coordinates refer to GDA 94 datum, Zone 51

All analyses conducted by Fire Assay



Mick Adam & Wadi Development

Waratah Gold Ltd (ASX: WGO) (Waratah) is a specialist gold exploration and development company which seeks to build shareholder wealth through the efficient development of its gold projects as well as sourcing additional accretive resource opportunities in Australia and internationally.

In August 2009, Waratah announced the finalisation of the farm-in and joint venture agreement with Cazaly whereby Waratah can earn 50% of the Mick Adam and Wadi Gold deposits in WA's Eastern Goldfields region.

The results of the external scoping study undertaken by Mineral Engineering and Technical Services Pty Ltd (METS) and Snowden Group (Snowden) was also released in August and concluded the project viable with an NPV of \$8.06m and an IRR of 69% based on a 2.0Mtpa mining and processing scenario at a gold price of US\$850 (A\$1063). Given the scoping study level of accuracy +/- 30% Waratah engaged consultants to undertake a prefeasibility study to review, confirm and optimise the capital and operating expenditures prior to the Board making a decision to proceed to a full Bankable Feasibility Study (BFS). The outcomes from the study are being finalised and will be reviewed by the Board prior to any decisions to proceed being made.

Joint Venture Projects

BRYAH PROJECT

(Dominion earning initial 70%)

The Company and Dominion Mining Ltd (ASX: DOM)("Dominion") have formed a Joint Venture whereby Dominion may earn an initial 70% equity by expenditure of \$600,000 in the Bryah Project and committing to \$70,000 in the first 12 months once granted.

Dominion have identified the tenement application (E51/1290) held by Sammy Resources Pty Ltd, a wholly owned subsidiary of Cazaly Resources Limited, to be prospective for copper - gold VMS deposits similar to the **DeGrussa** discovery. Historical exploration on the tenement has focussed on identifying lode gold mineralisation and only limited copper exploration has been completed.

Dominion are currently waiting for the tenement to be granted prior to conducting Aboriginal Heritage Surveys and field programmes.

HUCKITTA PROJECT – Northern Territory (Mithril earning 80%)

Exploration activities during the reporting period consisted of five Reverse Circulation (RC) percussion drillholes for a total of 535m. This drilling tested electromagnetic anomalies and beneath a mineralised outcropping gabbroic body at the Kevin Darling Prospect. Drill log summaries for this drilling were reported last quarter.

Analytical results returned from the drilling indicate elevated Ni – Cu – PGEs in drill hole SARC-002 within a weakly mineralised gabbro at the Kevin Darling Prospect. Assay results up to 491ppmNi, 572ppmCu and 115ppmPGEs (Pt+Pd+Au) over 2m intervals were recorded. These results confirm that the gabbroic body at Kevin Darling does have the potential to host significant accumulations of Ni-Cu-PGE bearing sulphides and further work in the form of surface and downhole electromagnetic surveys are planned, followed by further drilling.

Drillhole SARC-005 was drilled under the outcropping Cu-Ag mineralisation at the Edmund Prospect and although did not intersect any high grade results assays indicate the presence of mafic rocktypes from 92m to the end of the drillhole at 100m. Further work is required here to determine if the outcropping mineralisation is linked to the mafics intersected in the drilling.

No significant assay results were returned for drillholes SARC-001, SARC-003 and SARC-004.

Activities in the next quarter will include further mapping and geophysical surveys and will focus on advancing additional targets to the drill stage.

JILLEWARRA PROJECT - North Murchison

(Red Emperor earning initial 51%)

Red Emperor Resources NL (ASX:RMP) are earning an initial 51% interest in the project through the expenditure of \$1,200,000. The North Murchison Goldfields have recently had resurgence in polymetallic exploration with the discoveries of the Doolgunna Project (Sandfire Resources NL) and the Austin Project (Silver Swan Group).

The Jillewarra Project has historically been explored for base metals. During 1969 - 1971 a gossan was located on an IP anomaly, with rock chips assayed between 19.5% and 47% copper with silver values from 670g/t to 850g/t.



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During 2008, Cazaly Resources Ltd completed field reconnaissance work over the Project and confirmed the location of the copper-bearing gossan. Rock chips returned results between 8.5% and 10.84% copper. The recently flown REPTM survey has shown that a magnetic anomaly is coincident with the gossan.

Limited historical drilling has been completed over the gossan.

Red Emperor is considering further exploration opportunities including broad spaced geochemistry over the remainder of the Project leading to identify possible drill targets to test the gossan and the margins of the ultramafic unit. The prospective ultramafic – basalt contact zone strikes for over 6km within the Project Area but has received limited historical drill testing.

Red Emperor continues to pursue heritage and environmental approvals for such programs.

NEBO PROJECT – Musgrave Province

(Traka Resources earning 90%)

An Option Agreement was entered into between Sammy Resources Pty Ltd (a wholly owned subsidiary) and Traka Resources Ltd (ASX:TKL) to earn 90% of Exploration Licences 69/2229 and 69/2230. These licences abut other tenements held by Traka. These licences collectively are considered to be particularly prospective for copper, nickel and PGE's and are in the vicinity of BHP Billiton's Babel and Nebo Project.

The following is an extract from Traka's December Quarterly Report that relates to the JV:

“In November 2009 a consolidated agreement was reached with the traditional owners and the Ngaanyatjarra Council for access to the Sammy and Polaris tenements as well as one of Traka's own tenements located between the two (Figure 4). This agreement allows exploration programs to be conducted efficiently without the artificial constraints of individual licence boundaries. The formalities with the respect to this Access Agreement are currently being attended to and it is anticipated that they will be finalized in time for field exploration programs to start early in the field season.”

Corporate

On 30th December 2009 the Company announced it had secured a placement to raise up to A\$2,240,000 by way of an excluded offer under section 708 of the Corporations Act 2001. 4 million ordinary fully paid shares ("Placement Shares") at A\$0.28 per share and 4 million free standing options, exercisable at A\$0.28 on or before 1st February 2010 were issued.

The 4 million A\$0.28 options were exercised on 29th January 2010.

The funds raised under this placement are intended to be used primarily to advance the Company's Parker Range iron ore project and for the further exploration over the Company's various Iron Ore projects and for working capital purposes.

Summary

The Company is extremely pleased with the results of the Parker Range Pre-Feasibility Study which highlights the technical and economic viability of the Project. The PFS study has shown that the Company is on track to become the second major iron ore producer in the Yilgarn region of Western Australia.

These positive results now allow for the commencement of a Definitive Feasibility Study (DFS) into the project and to this end advanced metallurgical studies have already commenced. The DFS is forecast to be completed in early Q3 this year. Following this, and subject to achieving the necessary statutory approvals and financing, operations can commence with a target date for production being Q3/2011.

Meanwhile, recent drilling results highlight the potential for further resource upgrades and new discoveries as the Company continues to explore the 16km of BIF horizon.

Cazaly has commenced discussions with several potential strategic partners including both significant trading houses and customers regarding advancement of the project. The Company views the Parker Range project as highly attractive to a range of end users.



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A handwritten signature in black ink, appearing to be 'Nathan'.

Nathan McMahon
Joint Managing Director

A handwritten signature in black ink, appearing to be 'Clive Jones'.

Clive Jones
Joint Managing Director

The information that relates to exploration targets, exploration results and drilling data of Cazaly operated projects is based on information compiled by Mr Clive Jones and Mr Gregory Miles who are Members of The Australasian Institute of Mining and Metallurgy and The Australian Institute of Geoscientists respectively and are employees of the Company. The information that relates to the Mt Caudan Mineral Resource Estimate has been authorized by Mr Paul Payne who is a member of the Australasian Institute of Mining and Metallurgy and an employee of Runge Limited. The information that relates to the West Kalgoorlie Project Mineral Resources has been authorized by Mr Jones and Mr Miles. Both Mr Jones, Mr Miles and Mr Payne have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Jones, Mr Miles and Mr Payne consent to the inclusion in their names in the matters based on their information in the form and context in which it appears.

