Forge Resources Ltd
ACN 139 886 187

**31 July 2012**

**QUARTERLY ACTIVTIES REPORT FOR THE PERIOD**
**1 APRIL 2012 TO 30 JUNE 2012**

**HIGHLIGHTS**

- Completed a $50 million capital raising during the quarter.
- Completed the acquisition to acquire a 100% interest in the Balla Balla Magnetite, Vanadium and Titanium Project ("Balla Balla") in Western Australia.
- Established an un-incorporated Joint Venture with Todd Capital Ltd with respect to development of the Balla Balla Project. Forge on sold 25% of the project to Todd, with Forge retaining 75% ownership of the Project.
- Retained approximately $8 million for additional working capital post Balla Balla acquisition and transaction costs.
- Commenced an optimisation program to evaluate options for the maximisation of the Balla Balla Project Net Present Value. Ideas with an NPV benefit of between $200 million – $300 million have been identified and a verification process is now underway.
- Completed detailed mineralogy test work completed on the heavy mineral assemblage of the West Eucla McClaren deposit has identified 63.2% ilmenite (>40% TiO2), 0.5% zircon and 0.6% rutile within the heavy minerals. In addition approximately 56% of the ilmenite is “altered ilmenite” with a Titanium oxide phase of 55-70% $TiO_2$.

## 1. CORPORATE

### 1. 1 Balla Balla Magnetite, Vanadium and Titanium Project

During the quarter Forge Resources (ASX:FRG, “Forge”) completed the acquisition initially announced on 16 December 2011 to acquire a 100% interest in the Balla Balla Magnetite, Vanadium and Titanium Project in Western Australia from Atlas Iron Limited (ASX:AGO; "Atlas"). Following a variation of the sale agreement, the total cash consideration of $39.5 million was paid to Atlas prior to settlement rather than in two tranches ($17.5 million on settlement and $22.5 million 12 months later).

As announced on 19 March 2012, the Balla Balla Project is being developed and run as an un-incorporated Joint Venture between a related body corporate of Forge (75% ownership interest) and a related body corporate of Todd Capital Ltd ("Todd") (25% ownership interest). Todd is part of The Todd Corporation Limited, a private New Zealand based company with a diversified portfolio of business interests.

To enable Forge to complete the purchase of the Balla Balla Project from Atlas, Forge received shareholder approval and completed a $50 million capital raising during the quarter consisting of:

1. an investment by Todd to acquire a direct 25% interest in the Balla Balla Project ($10 million);
2. a senior secured project-level debt facility from Todd to Forge ($27.5 million);
3. a placement of Forge shares to Todd (at an issue price of $0.50 per share) ($8 million); and
4. a placement of $4.5 million of new shares to sophisticated investors.

Post transaction costs, Forge retained approximately $8 million for additional working capital to advance both Balla Balla and the Eucla West Mineral Sands Project in Western Australia.

### 1.2 Appointment of Non-Executive Director

During the quarter Mr Michael Wolley was appointed as a Non-Executive Director of Forge Resources Ltd. Mr Wolley's extensive technical and commercial background is considered to be an excellent addition to the Board of Forge and Mr Curtis and his fellow Directors welcome Mr Wolley to the Board at what is considered to be an exciting growth phase for Forge.

Mr Wolley currently holds the position of Vice President Corporate Development at the Todd Corporation and holds a first class honours degree in Chemical and Materials Engineering (University of Auckland) and a Masters of Management (Macquarie Graduate School of Management).

## 2. BALLA BALLA DEFINITIVE FEASIBILITY STUDY ACTIVITIES

Following the completion of the acquisition of the Balla Balla Magnetite, Vanadium and Titanium Project, Forge commenced an optimisation program to evaluate options for the maximisation of the overall Project Net Present Value (NPV). Forge appointed Partners in Performance (PIP) to facilitate the review of the Definitive Feasibility Study (DFS), previously completed by Aurox (with updated capital and operating costs as announced last quarter). This process involved working with GR Engineering Services (GRES), Orelogy, Mintrex and OSD Pipelines to identify the main drivers of capital and operating expenditure and to challenge the key assumptions behind these main drivers together with reviewing the interaction of the various components of the project. The optimisation process has considered the following levers and the impact on schedule, capital and operating costs estimates to evaluate the NPV impact for the Project. These levers include:

- Project scale – Confirm that the Project scale minimises capital intensity, through ensuring that each component of the concentration process is correctly sized to the target annual capacity (e.g. removing excess capacity for specific equipment which cannot be utilised, thus reducing capital costs).
- Reduce capital spend – Evaluate the design to determine whether there are opportunities to simplify the plant and reduce costs and risks. In addition to evaluating the design, alternative sourcing options, pre-investment expenditure and outsourcing via contracts, partnerships and/or joint ventures are also being considered.
- Reduce operating costs/tonne – Evaluate options for the reduction in power/fuel costs, transport, processing, human resource and technology costs.
- Accelerate timetables – Evaluate options for targeting faster revenues and a lower overall spend with reduced risks through the clear articulation of the critical path to first ore, execution strategy, ramp up to full production and phasing options.
- Optimise margin/tonne – Evaluation of grade and product mix with market information input.

Following the initial review, ideas with an NPV benefit of between $200 million – $300 million have been identified. A verification process is now underway to refine and validate these ideas, identify risks to be mitigated and confirm the NPV impact of each idea. Following the completion of this verification process, recommended ideas will be presented for approval and shall then feed into an updated DFS. The verification process is targeted for completion during the upcoming quarter.

## 3. EXPLORATION ACTIVITIES

### 3.1 West Eucla Heavy Mineral (HM) Resource Development

Following the maiden heavy mineral resource estimation at the McLaren Heavy Mineral (HM) Deposit, work during the June 2012 Quarter included detailed mineralogy analysis and ongoing investigations into the regional prospectively of West Eucla Mineral Sands Project.

The West Eucla Mineral Sands Project overlies a southwest area of the Albany – Fraser Orogen located on the western margin of the Eucla Basin in Western Australia. The Albany – Fraser Belt is host to a number of significant economic mineral deposits and is the source of heavy minerals for the West Eucla Mineral Sands Project.


**Figure 1. The West Eucla Mineral Sands Project is located within the highly prospective Eucla Basin where a number of HMS deposits have been discovered. Also shown are the interpreted different age shorelines.**

The tenements (E69/2386, E69/2388 and E69/2436) cover an area of approximately 218 square kilometers and contain significant occurrences of heavy mineral sand (HMS) including the McLaren HM Resource (inferred category) of 470 million tonnes @ 4.6% HM for 21.5 million tonnes of contained HM. This JORC compliant resource estimate was completed by Hellman and Schofield Pty Ltd using a 2.0% HM cutoff grade and a bulk density of 1.8.

| HM Cut-off Grade (%) | Material Tonnes (Mt) | HM Grade (%) | In Situ HM Tonnes |
|---|---|---|---|
| 2.0 | 470 | 4.6 | 21,500,000 |
| 3.0 | 450 | 4.7 | 20,800,000 |
| 4.0 | 300 | 5.3 | 15,500,000 |
| 5.0 | 150 | 6.0 | 9,400,000 |

**Table 1. McLaren Heavy Mineral Deposit Inferred Resource Estimate**

The mineralisation at the McLaren HM Deposit occurs at or near surface, is up to 35 metres thick and remains open to the north. The deposit is hosted in unconsolidated sand and when applying a 2.0% HM cutoff grade the average unconstrained fines (less than 45 micron) content is 31%. Following the maiden resource estimate, 60 composite aircore (AC) drill samples have undergone optical mineralogy (reported in the March 2012 Quarterly Report). A further 11 composite AC drill samples were analysed at AMDEL Laboratories by Quantitative Evaluation of Minerals by SCANning (QEMSCAN) electron microscopy and results received during the quarter

The detailed QEMSCAN mineralogy test work has identified 63.2% ilmenite (>40% TiO2), 0.5% zircon and 0.6% rutile within the heavy mineral assemblage. Iron oxide and goethite account for 12.6% and 15.9% respectively. Pleasingly, over 56% of the ilmentite is an altered ilmenite with TiO2 between 55% to 70%, and the deleterious minerals of monazite and chromite are low at 0.01% and below detection respectively. QEMSCAN particle classification test-work also confirmed that the average particle size of ilmenite and altered ilmenite is 94 and 88 microns respectively. This is well within acceptable industry standards for efficient gravity separation. The QEMSCAN assemblage results and classifications are summarised in Table 2.

| Minerals | Mineral Classification | Average Mass (%) of THM |
|---|---|---|
| Zircon | | 0.5 |
| Rutile/Anatase | rutile / anatase (>95% TiO2) | 0.6 |
| Leucoxene | Ti Oxide phases with 85-95% TiO2 | 0.5 |
| Hi Ti Oxide | Ti Oxide phases with 70-85% TiO2 | 3.1 |
| **Altered Ilmenite** | **Ti Oxide phases with 55-70% TiO2** | **35.4** |
| **Ilmenite** | **Ti Oxide phases with 40-55% TiO2** | **23.6** |
| Low Ti Ilmenite | Ti Oxide phases with 5-40% TiO2 | 1.1 |
| Si bearing Ti Oxide | Si bearing Ti Oxide phases | 1.2 |
| **VHM Total** | | **65.7** |
| Quartz | | 1.0 |
| Andalusite | | 0.5 |
| Tourmaline | | 0.1 |
| Fe Oxide | | 12.6 |
| Goethite/cement | | 15.9 |
| Feldspars | | 0.1 |
| Other Silicates | | 3.8 |
| Monazite | | 0.0 |
| Chromite | | 0.0 |
| Others | | 0.3 |
| Total | | 100 |

**Table 2. McLaren Deposit heavy mineral assemblage (QEMSCAN).**

In conjunction with the mineralogical test work at the McLaren HM Deposit, an exploration auger drill program comprising a total of 142 holes for 580 metres was also completed during the quarter. This reconnaissance drilling aims to identify possible satellite mineral resources close to the McLaren HM Deposit with elevated high value heavy mineral concentrations. Detailed mineralogy analyses by chemical assay and QEMSCAN on 20 composite auger drill samples from the reconnaissance drill program are expected in the next quarter.

While the mineralogical results for the 20 composite drill samples have yet to be received, field observations confirms that the McLaren HM Deposit continues to the north over an extensive area.

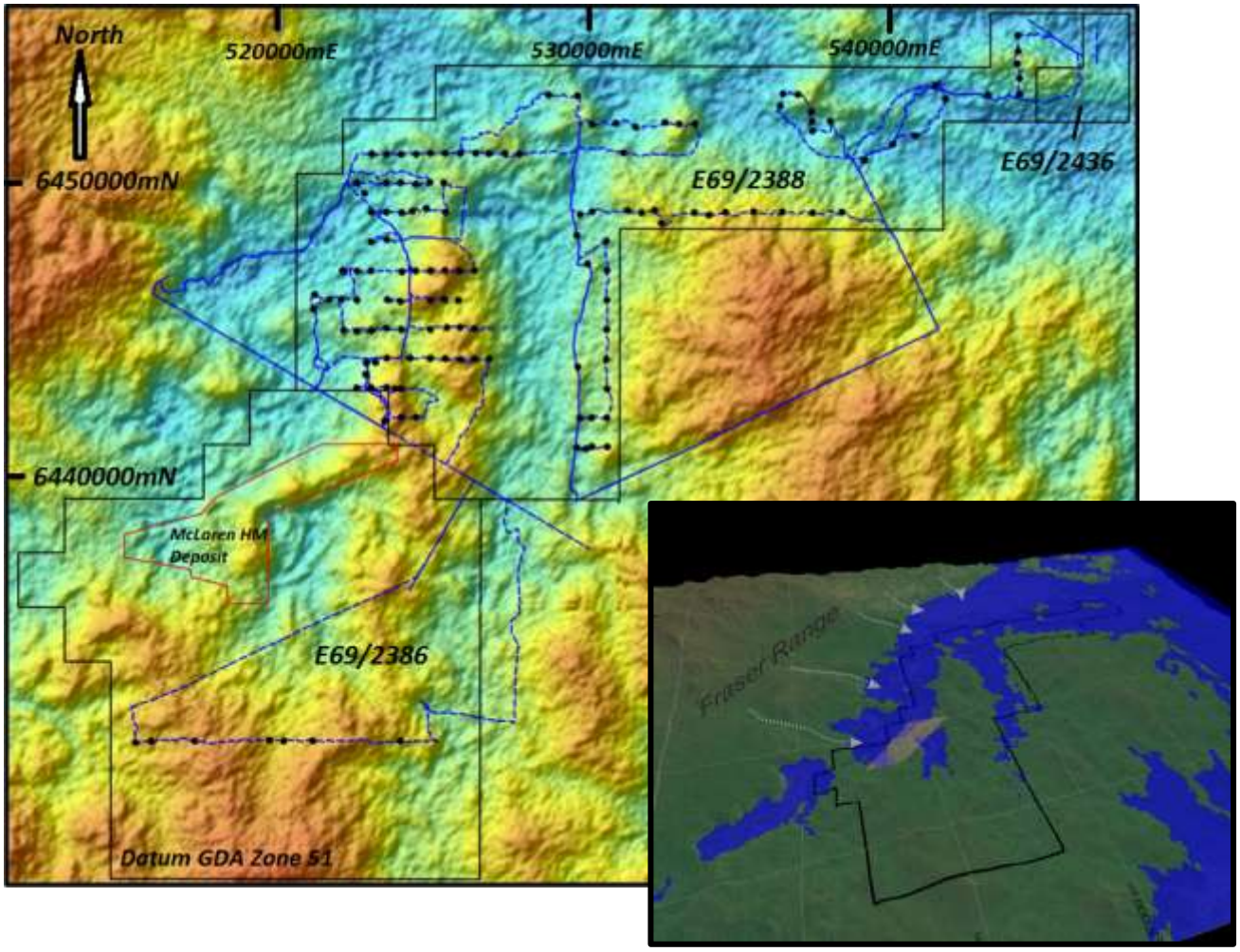


**Figure 2. Regional auger drill collar locations and traverses over elevation DTM. Also shown (inset) the McLaren HMS prospect shaded pink, the paleo drainage from the Fraser Range and interpreted shoreline at the time of deposition.**

These encouraging observations also indicate that there have been a number of deposition events at different elevations over time. The pending QEMSCAN results aim to determine the mineralogy and alteration styles of various known HM deposition sites and will be used to identify high priority targets containing high value heavy minerals for future drill campaigns. Detailed investigations will also continue to focus on determining the full economic potential of the McLaren HM Deposit.

### 3.2 New South Wales Tenements Overview

Exploration activities during the quarter were focused on the Loaded Dog Prospect located within the Mayfield North licence area and the Colinton Prospect located within the Michelago licence area. These two prospects are part of Forge's prospective portfolio of gold and base metal Projects located in NSW (Figure 3).

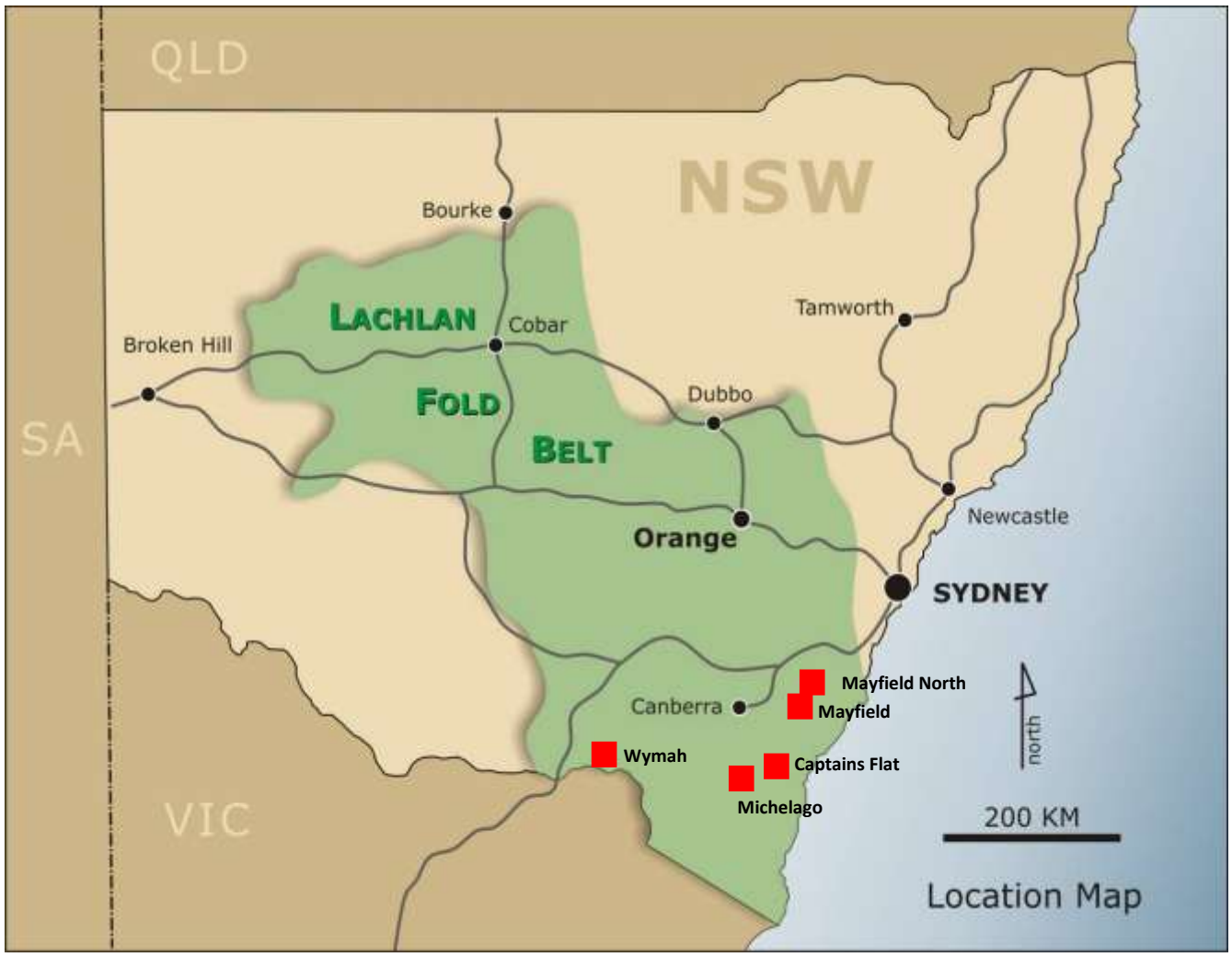


**Figure 3: Location of Forge tenements.**

#### 3.2.1 Mayfield North (Forge 100%)

The Mayfield North licence is considered prospective for granite hosted copper and gold mineralisation. Results of an Induced Polarisation (IP) survey completed in the previous quarter indicated the presence of 5 (five) chargeability anomalies being defined within the Loaded Dog Project area. Of these however, there are two particularly strong anomalies (Anomalies 1 and 2). The estimated depth to the top of these anomalies varies between 85 and 120 metres. Their position within the Project area is illustrated in Figure 4.

It should be noted that these anomalies could be generated by barren pyritic haloes or graphitic deposits. However, given the coincidence of anomalous rock and soil geochemistry over the survey area, the possibility that they may represent disseminated copper/gold deposits cannot be ignored and on that basis, drill testing is warranted.

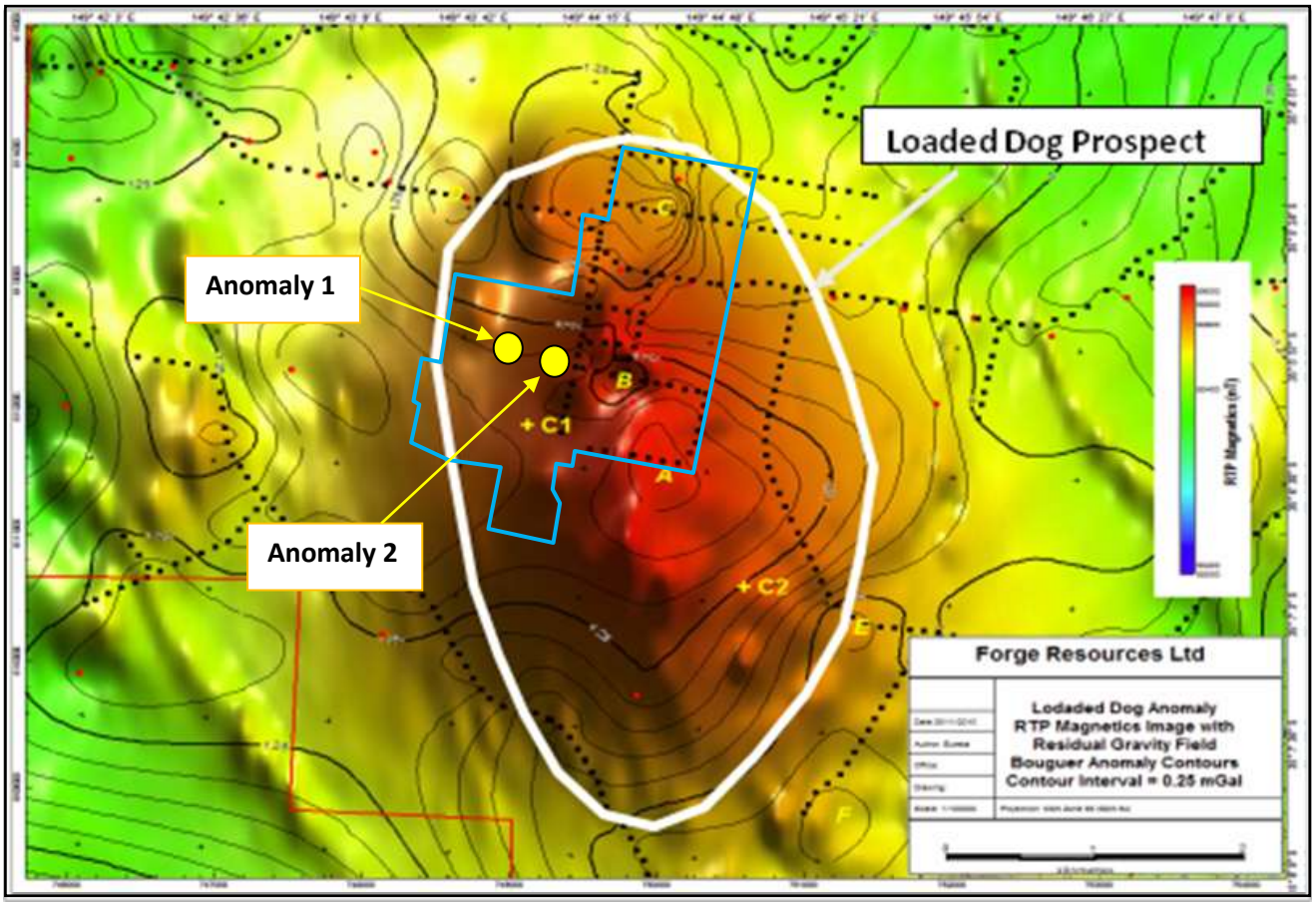


**Figure 4: Location of the Loaded Dog Prospect and survey area (blue boundary).**

Modeling of the IP data has now enabled optimisation of drilling target locations. Three drill hole locations have been chosen for each anomaly with priority at each anomaly being determined by the maximum indicated thickness of the interpolated chargeable model.

Work over the next quarter will focus on completing a Review of Environmental Factors ahead of seeking consent for drilling operations from the NSW Department of Resources and Energy.

### 3.2.2 Michelago (Forge 100%)

The results of initial soil sampling continued to lend encouragement to the delineation of a new zone of base metal mineralisation running parallel to an existing mineralised horizon. Figure 5 illustrates zinc in soil results confirming this trend.

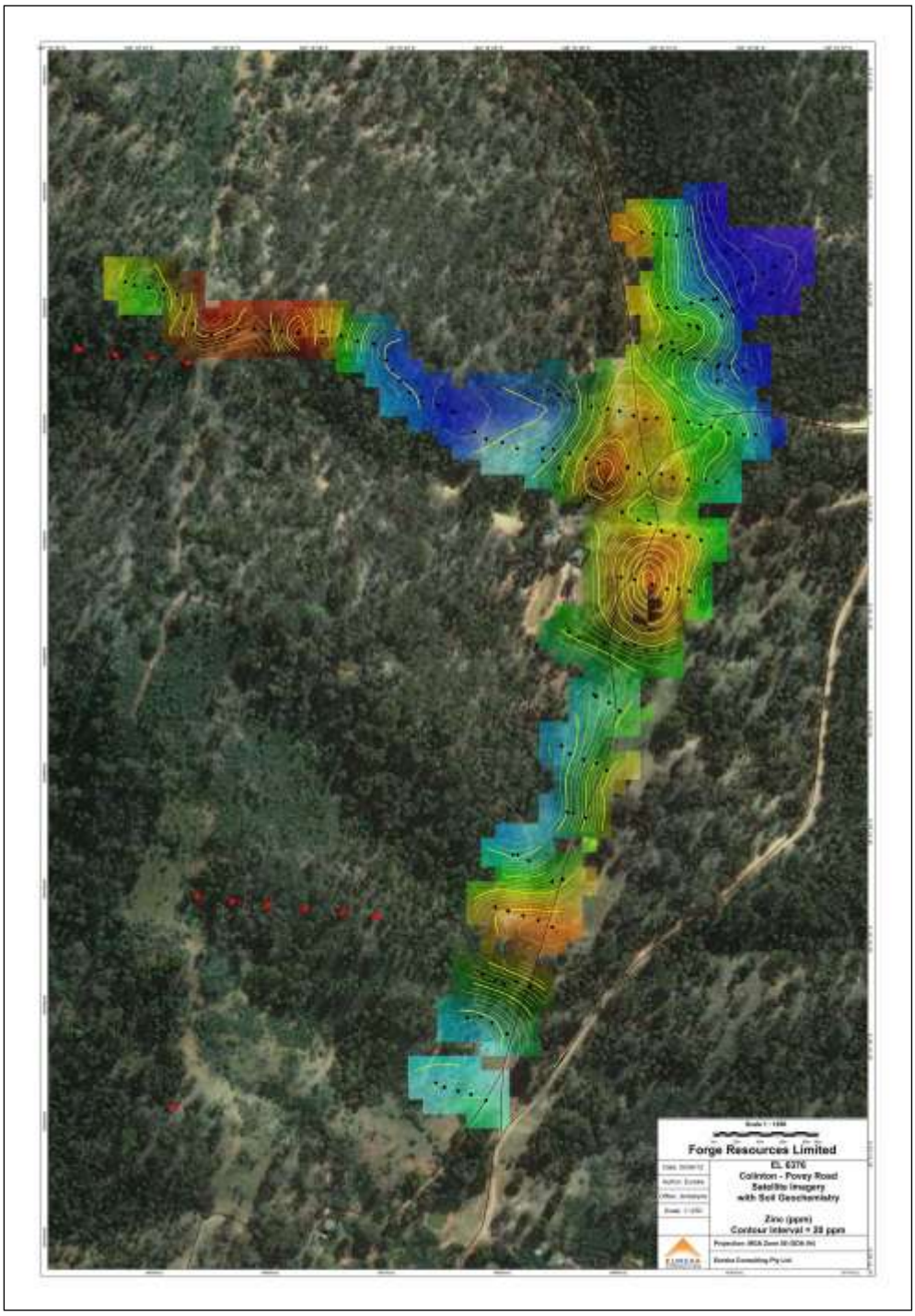


**Figure 5: Zinc in soils – red indicates metal anomalism.**

As a result of this work, further soil sampling was commissioned together with a detailed ground magnetic survey. Preliminary results from the magnetic survey have enhanced the prospectivity of the Poveys Road area and as illustrated in Figure 6, the main "foot print" of the magnetic high coincides with existing anomalous zinc in soils as well as anomalous rock chip sample data and this is considered to be a very encouraging trend. Work over the next quarter will be focused on:

- Completing all soil sampling analyses;
- Modelling the magnetic data with the view to identifying mineralised related targets both along strike and at depth; and
- Reviewing all geological and geophysical data with the view to identifying drilling targets.

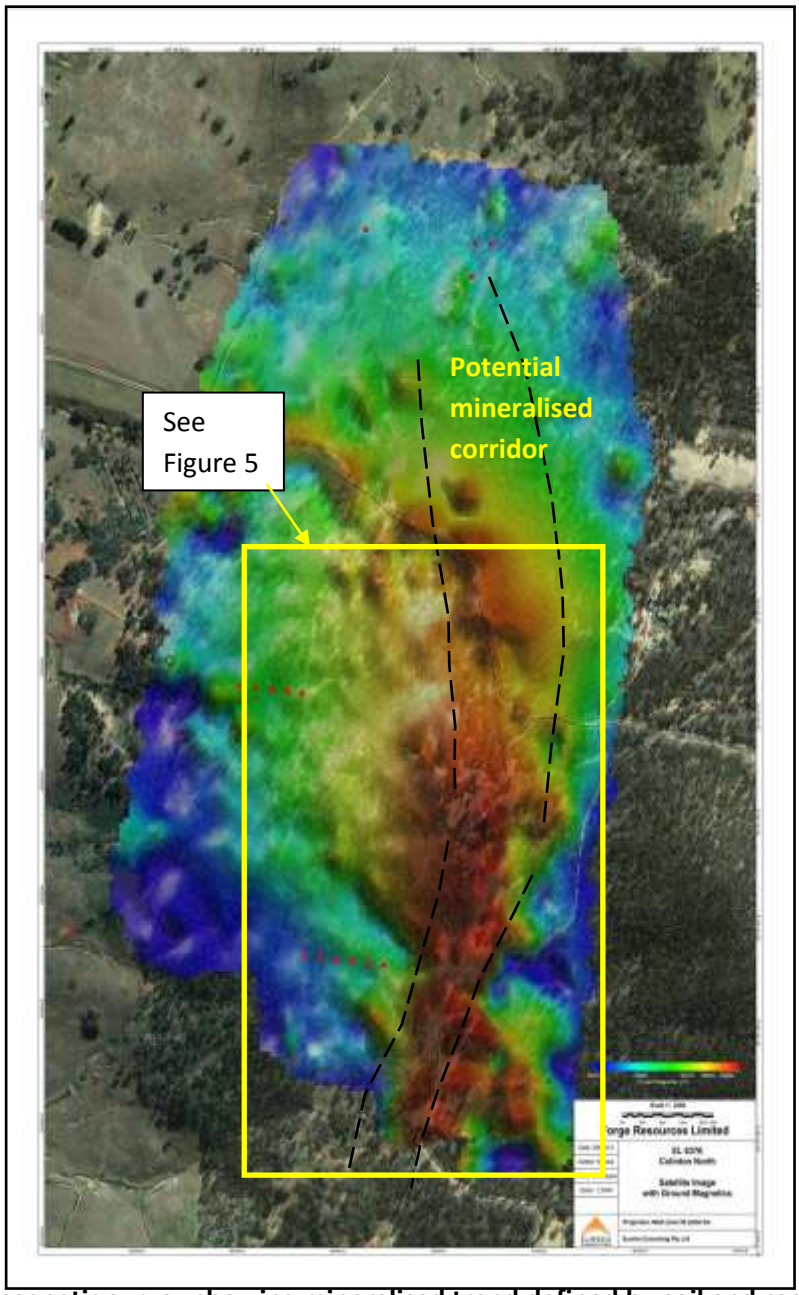


**Figure 6: Ground magnetic survey showing mineralised trend defined by soil and rock geochemistry.**

### 3.2.3 Wymah (Forge 100%)

Options for the continuing exploration of the tenement are currently being considered.

### 3.2.4 Mayfield Project (Forge 46.55%)

Capital Mining Limited (Capital) is the Operator of the Joint Venture over this licence. Thge Company is currently re-assessing its entire exploration and development priorities ahead of determing the next work program for the Mayfield Project.

### 3.2.5 Captains Flat (Forge 49% reducing to 25%)

Ironbark (ASX: IBG) and NSW Base Metals (a Glencore Limited subsidiary) are jointly earning a 75% interest in the Captains Flat Project from Forge who currently holds a 49% non-contributing interest diluting to 25% subject to Ironbark and NSW Base Metals meeting agreed expenditure commitments.

No significant work was undertaken during the quarter. However, exploration planning for the remainder of the year has been completed following consultation with all joint venture parties. The plan now entails undertaking a number of programs focusing on the Jerangle, Vanderbilt Hill and Anembo prospects as it is considered that these provide the best opportunity for advancement in the short to medium term.

***Competent Persons Statement – Eucla West Project***

*The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Paul Benson, who is a member of The Australasian Institute of Mining and Metallurgy. Paul Benson is a consultant to Forge Resources Ltd. Paul Benson has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Paul Benson consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

***Competent Persons Statement – NSW Projects***

*The review of NSW exploration activities and results contained in this report is based on information compiled by Mr. M Rampe, a director of Harvest Exploration Pty Ltd and a Member of the Australasian Institute of Mining and Metallurgy. He has sufficient experience which is relevant to the style of mineralisation and types of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the December 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code). Mr. Rampe consents to the inclusion of this information in the form and context in which it appears in this report.*

*Rule 5.3*

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

FORGE RESOURCES LTD

| ABN | Quarter ended ("current quarter") |
|---|---|
| 30 139 886 187 | 30 JUNE 2012 |

## Consolidated statement of cash flows

| | | Current quarter $A'000 | Year to date (12 months) $A'000 |
|---|---|---|---|
| **Cash flows related to operating activities** | | | |
| 1.1 | Receipts from product sales and related debtors | - | - |
| 1.2 | Payments for (a) exploration & evaluation | (228) | (894) |
| | (b) development | - | - |
| | (c) production | - | - |
| | (d) administration | (697) | (2,289) |
| 1.3 | Dividends received | - | - |
| 1.4 | Interest and other items of a similar nature received | 43 | 146 |
| 1.5 | Interest and other costs of finance paid | - | - |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Other (provide details if material) | - | - |
| | Balla Balla transaction costs | (1,233) | (1,233) |
| | **Net Operating Cash Flows** | (2,115) | (4,270) |
| | **Cash flows related to investing activities** | | |
| 1.8 | Payment for purchases of: (a) prospects | - | (50) |
| | (b) equity investments | - | - |
| | (c) other fixed assets | - | - |
| 1.9 | Proceeds from sale of: (a) prospects | - | - |
| | (b) equity investments | - | - |
| | (c) other fixed assets | 9,875 | 9,875 |
| 1.10 | Loans to other entities | - | - |
| 1.11 | Loans repaid by other entities | - | - |
| 1.12 | Other (provide details if material) | | |
| | Deposit & expenditure – Balla Balla project | (160) | (349) |
| | Purchase of Balla Balla Project | (39,000) | (39,500) |
| | **Net investing cash flows** | (29,285) | (30,024) |
| 1.13 | Total operating and investing cash flows (carried forward) | (31,400) | (34,294) |

+ See chapter 19 for defined terms.

| | | | |
|---|---|---|---|
| 1.13 | Total operating and investing cash flows (brought forward) | (31,400) | (34,294) |
| | **Cash flows related to financing activities** | | |
| 1.14 | Proceeds from issues of shares, options, etc. | 12,500 | 15,000 |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | 27,500 | 27,500 |
| 1.17 | Repayment of borrowings | - | - |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other (provide details if material) Capital Raising Fees | (1,261) | (1,410) |
| | **Net financing cash flows** | 38,739 | 41,090 |
| | **Net increase (decrease) in cash held** | 7,339 | 6,796 |
| 1.20 | Cash at beginning of quarter/year to date | 2,381 | 2,924 |
| 1.21 | Exchange rate adjustments to item 1.20 | - | - |
| 1.22 | **Cash at end of quarter** | 9,720 | 9,720 |

## Payments to directors of the entity and associates of the directors
## Payments to related entities of the entity and associates of the related entities

| | | Current quarter $A'000 |
|---|---|---|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 92 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | |

1.25 Explanation necessary for an understanding of the transactions

These payments include Non-Executive Director Fees and Salary to the Managing Director

## Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

## Financing facilities available

*Add notes as necessary for an understanding of the position.*

| | | Amount available $A'000 | Amount used $A'000 |
|---|---|---|---|
| 3.1 | Loan facilities | - | - |
| 3.2 | Credit standby arrangements | - | - |

## Estimated cash outflows for next quarter

| | | $A'000 |
|---|---|---|
| 4.1 | Exploration and evaluation | 1,800 |
| 4.2 | Development | - |
| 4.3 | Production | - |
| 4.4 | Administration | 1,245 |
| | **Total** | **3,045** |

# Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | | Current quarter $A'000 | Previous quarter $A'000 |
|---|---|---|---|
| 5.1 | Cash on hand and at bank | 9,720 | 2,381 |
| 5.2 | Deposits at call | - | - |
| 5.3 | Bank overdraft | - | - |
| 5.4 | Other (provide details) | - | - |
| | **Total: cash at end of quarter** (item 1.22) | 9,720 | 2,381 |

## Changes in interests in mining tenements

| | | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|---|---|---|---|---|---|
| 6.1 | Interests in mining tenements relinquished, reduced or lapsed | | | | |
| 6.2 | Interests in mining tenements acquired or increased | | Refer to commentary in Quarterly Activity Report. | | |

+ See chapter 19 for defined terms.

## Issued and quoted securities at end of current quarter

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

| | | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|---|---|---|---|---|---|
| 7.1 | **Preference +securities** *(description)* | Nil | - | - | - |
| 7.2 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 | **+Ordinary securities** | 80,577,667 | 76,652,667 | $0.20 | $0.20 |
| 7.4 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | 49,000,000 | 49,000,000 | $0.50 | $0.50 |
| 7.5 | **+Convertible debt securities** (*description)* | Nil | | | |
| 7.6 | Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 | **Options** *(description and conversion factor)* | 32,455,905 | 6,547,573 | *Exercise price* *$0.20* | *Expiry date* *31 July 2014* |
| 7.8 | Issued during quarter | 6,500,000<br>1,000,000 | | $0.50<br>$0.50 | 31 May 2015<br>31 May 2015 |
| 7.9 | Exercised during quarter | | | | |
| 7.10 | Expired during quarter | | | | |
| 7.11 | **Performance Shares** *(totals only)* | 24,000,000 *Expired effective 21 March 2012* | Nil | | |

+ See chapter 19 for defined terms.

| | | | |
|---|---|---|---|
| 7.12 | **Unsecured notes** *(totals only)* | Nil | |

## Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).

2 This statement does /does not* *(delete one)* give a true and fair view of the matters disclosed.

Sign here: ..... Date: .....
(Director/Company secretary)

Print name: SHANE HARTWIG

## Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.