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18 October 2012

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NARHEX LIFE SCIENCES LIMITED – UPDATE ON DUE DILIGENCE ACTIVITIES PRIOR TO EXERCISE OF OPTION OVER EPC 2769

HIGHLIGHTS

- **Coalplay have been granted EPC 2769 and have advised Narhex of commencement of 6 month option period, expiring January 3 2013**
- **Narhex are commencing a geological due diligence program which will include 3 appraisal wells, wireline logging, and a high resolution shallow seismic survey, all funded from internal resources**
- **Program to commence before the end of October with initial results anticipated before end of November 2013**
- **Program seeks to confirm the expectation of the presence of medium to higher grade metallurgical coal within EPC 2769**

BACKGROUND

Narhex Life Sciences Limited ("Narhex" or "the Company") has recently been advised of the granting of tenement EPC 2769 (the "Permit") to Coalplay Pty Ltd ("Coalplay"). Consequently Narhex has until January 3 2013 to decide whether or not to exercise the option it has been granted on this tenement.

The terms of that option have been previously announced and are contained in more detail in Appendix One to this announcement.

If the Company chooses to exercise the Option the ASX will cause the Company to re-comply with Chapters 1 and 2 of the ASX Listing Rules which will, in turn, require the Company to:

- Seek shareholder approval for the transaction and the change of nature of the Company's business;
- Consolidate the Company's share capital to an effective price of $0.20 per share (ie if the shares were trading at 2 cents prior to the issue of the Notice of Meeting, the capital structure would require a 1 for 10 consolidation); and
- Issue a Prospectus to raise the required amount of capital to ensure Net Tangible Asset backing of the company in accordance with ASX requirements. Such a raising will be at $0.20 per share.

The cost of seeking shareholder approval and issuing a prospectus is significant, so the Company wishes to ensure enough information is available to it, and by extension its shareholders, prior to a decision to exercise the option and seek shareholder approval.

Hence the Company is about to conduct a due diligence program which will include a limited drilling and seismic program to be conducted utilizing existing cash resources.

The nature of that program is explained in more detail below.

DUE DILIGENCE PROGRAM

The rationale in the planning of the Due Diligence program is as below:

- Tiaro Coal Ltd ("Tiaro") (ASX:TCM) have achieved recent exploration success in nearby EPC 256 (see Appendix 2, Diagram 1) (ASX Announcement 20.12.11) resulting in a recently announced JORC Inferred Resource of 40M tonnes of high quality metallurgical coal amidst an exploration target of 100M to 200M tonnes (ASX Announcement 29.05.12);
- EPC 956 is within 20 kms of EPC 2769;
- Available Magnetic data and comparison to that overlaying the Tiaro inferred resources on EPC 956 (App:2 Diag: 2&3);
- Available Gravity data and comparison to that overlaying the Tiaro inferred resources on EPC 956 (App: 2 Diag: 4);
- Regional structural Geology; and
- General topography, including ground elevation and creek/watercourse locations.

Four suitable sites for reconnaissance wells have been identified within the northern portion of the Permit. Identification of these sites has been through review of Gravity and Density maps.

The program is for an initial three appraisal wells. If significant intersections of coal are intercepted during the first two wells, the program will core the third well to enable samples to be taken and analysed.

If the initial three wells are successful in intercepting significant intersections of coal, the program will then be extended to include:

- Downhole wireline logging of all well holes; and

- High Resolution Shallow Seismic Reflection Survey on the initial three wells.

The proposed location of the initial three wells and an additional well site (NHX 12-04) is shown below in Appendix Two, Diagram 1.

Based on the initial 18.5 km^2 exploration target area, and adopting the regional Tiaro assumptions of 10m cumulative coal seam over 15% of the exploration area, a rough approximation of the potential resource is 36.5M tonnes.

Given the age, structural and depositional similarity of the structure, together with the Gravity and Magnetic signatures relative to Tiaro's inferred resource in EPC 956, to the north, EPC 2769 has a likelihood of containing a similar high grade metallurgical coal to that discovered by Tiaro.

It is also worth noting that based on gravity and magnetic images; there are 2 other secondary targets within the permit, as identified in Diagram 3.

The program is scheduled to commence before the end of October with initial results due before the end of November.

The cost of the initial Due Diligence program, prior to a decision to move forward with coal development of EPC 2769, and recompliance with Chapters 1 and 2 of the ASX Listing Rules is estimated at $220,000.

REGIONAL GEOLOGY

The project area is underlain by the Gympie and Maryborough Basins. Just outside the project area, to the northeast, are outcrops of the Tiaro Coal Measures. The Tiaro Coal Measures (TCM) are conformably underlain by the Myrtle Creek Sandstone which is the basal unit of the Maryborough Basin, and overlain by the volcanic tuffaceous and conglomeritic Grahams Creek Formation.

A regional aeromagnetic survey was conducted by the Department of Minerals and Environmental Research in 2009. The permit area has a high magnetic reading towards the southern and south-eastern area, located approximately over the volcanic and metamorphosed areas of geology. There is a section of low magnetic response, in the central area of the EPCA located around the Amamoor Beds. The magnetic response shows a high reading again in the northwest corner, due to more volcanic outcrops.

A regional gravity survey was run by the Department of Minerals and Environmental Research in 2007. The whole of the project area falls within a high gravity response. There are no low gravity readings around the project area, which are often targeted as a preferred area to prospect for coal, as the low gravities indicate the possibility of thick sedimentary rock accumulation.

The main target is to search for outliers of Tiaro Coal Measures within the permit area. These coal measures outcrop to the north in the Maryborough Basin, but there remains a possibility that their extent southwards exceeds previous outcrop mapping. Previous coal exploration and coal intersections within registered water bores have highlighted the potential of coal within the Myrtle Creek Sandstone in the area. This formation has been poorly explored to date, so consequently provides another target for coal.

There has been recent exploration success to the north east of EPC 2769 by Tiaro Coal Limited ("Tiaro") (ASX:TCM) resulting in an Inferred Resource in their EPC 956 of 40M tonnes of high quality metallurgical coal amidst an exploration target of 100M to 200M tonnes. (See Diagram 1)

PROPOSED TIMETABLE FOR RECOMPLIANCE

An outcome of this Due Diligence Program will be a decision as to whether or not to exercise the option to acquire EPC 2769.

That decision will be made prior to December 31 2012, after which the Company is most likely to require recompliance with Chapters 1 and 2 of the ASX Listing Rules.

An indicative timetable for recompliance is set out below.

	Date*
Exercise of Option	3 January 2013
Despatch of Notice of Meeting	15 February 2013
Lodgement of Prospectus with ASIC	15 March 2013
Meeting of Shareholders to Approve Acquisition	18 March 2013
Suspension of Company's Shares from trading on ASX	19 March 2013
Closure of Prospectus	30 April 2013
Satisfaction of all Requirements of Chapters 1 & 2	6 May 2013
Reinstatement to Trading	8 May 2013

* The above dates are indicative only and are subject to change. The Company will keep shareholders updated on the timing of the implementation of the transaction as it progresses

To re-comply with Chapters 1 and 2 of ASX Listing Rules Narhex will prepare and issue a prospectus. Funds raised will be used to conduct exploration on the properties to be acquired, and to cover the ongoing administration costs of the Company.

INDICATIVE CAPITAL STRUCTURE

	Number of Shares (Pre-Reconstruction)	Number of Shares (Post-Reconstruction)
Current Issued capital	430,117,350	21,505,868
Shares to be issued in capital raising, completed as part of the recompliance with Chapters 1 & 2 of the ASX Listing Rules (Assumes capital raising at $0.01 – though shares to be issued at $0.20)	200,000,000	10,000,000
Total Shares on Issue following Completion and Recompliance	**630,117,350**	**31,505,868**
Potential shares to be issued under the Share Sale Agreement (subject to satisfaction of Milestones)	150,000,000	7,500,000
Total Issued Shares assuming Milestones satisfied	**780,117,350**	**39,005,868**

NB *The above table shows the Company's pre and post reconstruction capital structure.*

The Company is most likely to reconstruct its capital to comply with Chapters 1 and 2 of the ASX Listing Rules which require a capital raising at $0.20 per share. The above Table is based on a share price of $0.01 immediately prior to the issuance of the requisite Notice of Meeting and consequently a reconstruction ratio of one share for every 20 held. However if the share price is at a higher or lower price prior to the issuance of the Notice of Meeting then the reconstruction ratio will be reduced or increased accordingly.

Further due to existing cash and other tangible assets in the Balance Sheet the capital raising considered in the above Table is $2M. The capital raising number may be adjusted through the prospectus dependent upon the final position of the Company's tangible assets before the capital raising commences.

Competent Persons Statement

Mr Malcolm Carson has compiled the information in this report from data gained during an initial appraisal by Mr Tim Stringer, P.Geo, a Consulting Geologist to Narhex Life Sciences Limited.

Mr Carson is a Member of the AusIMM, and has sufficient experience which is relevant to the style of mineralisation and type of deposit 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."

Mr Carson has given his consent to the inclusion in this report of the matters based on the information in the form and context in which it appears.

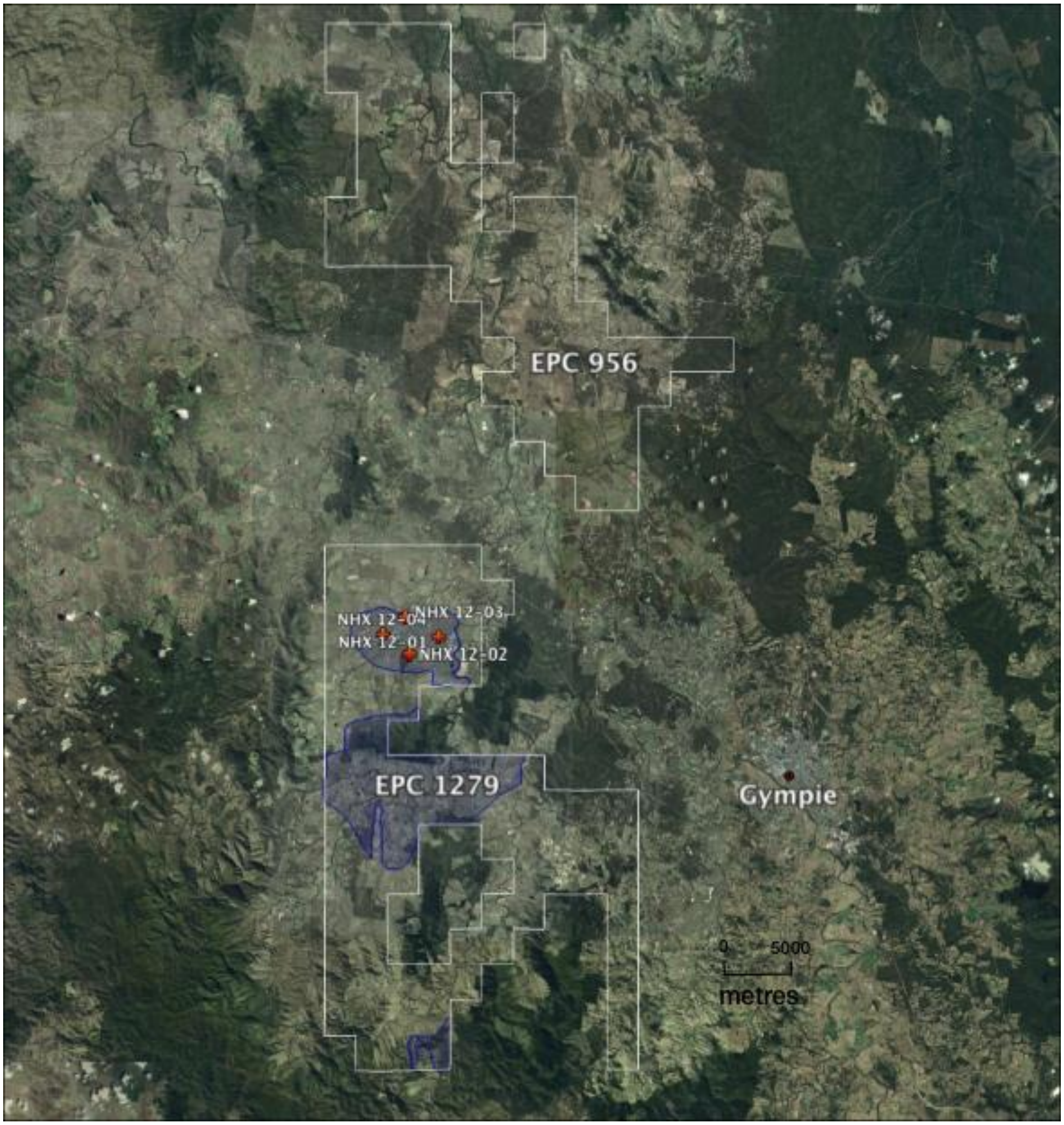
Appendix One – Terms of Option Agreement

The total consideration for the purchase of the Tenement will be payable by the Company to the Grantor of the Option (Coalplay) as follows:

- the Exercise Price of $250,000 at Settlement, followed by the potential issue of:
- 50,000,000 Shares at a deemed issue price of $0.025 per Share upon the Company identifying an inferred JORC resource level of 50,000,000 tonnes of commercial specification coking coal, or 200,000,000 tonnes of commercial specification thermal coal;
- 50,000,000 Shares at a deemed issue price of $0.025 per Share upon the Company identifying an indicated JORC resource level of 100,000,000 tonnes of commercial specification coking coal or 200,000,000 tonnes of commercial specification thermal coal; and
- 50,000,000 Shares at a deemed issue price of $0.025 per Share upon the Company identifying an indicated JORC resource level of 200,000,000 tonnes of commercial specification coking coal or 300,000,000 tonnes of commercial specification thermal coal.

Appendix Two – EPC 2769 Tenement Diagrams

Diagram 1 – Location of proposed appraisal wells on EPC 2769 and proximity to Tiaro's EPC 956



Appendix Two Continued

Diagram 2 – Magnetic Map of EPC 2769

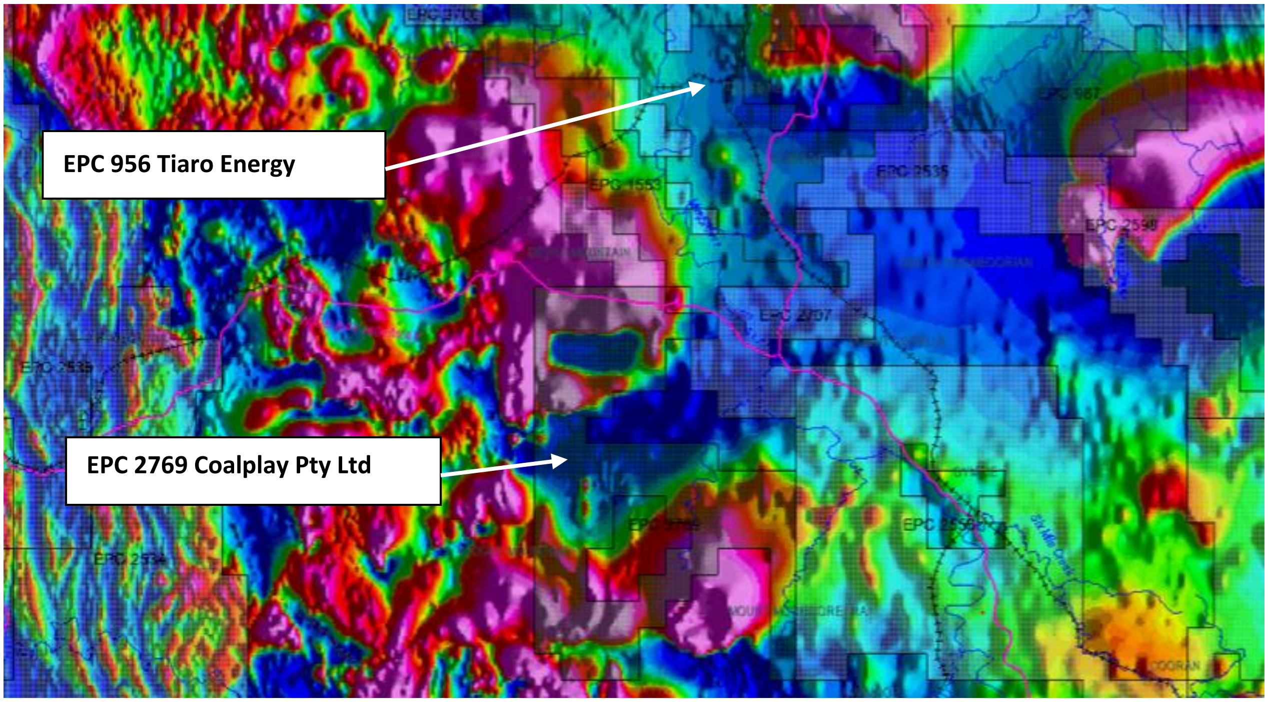
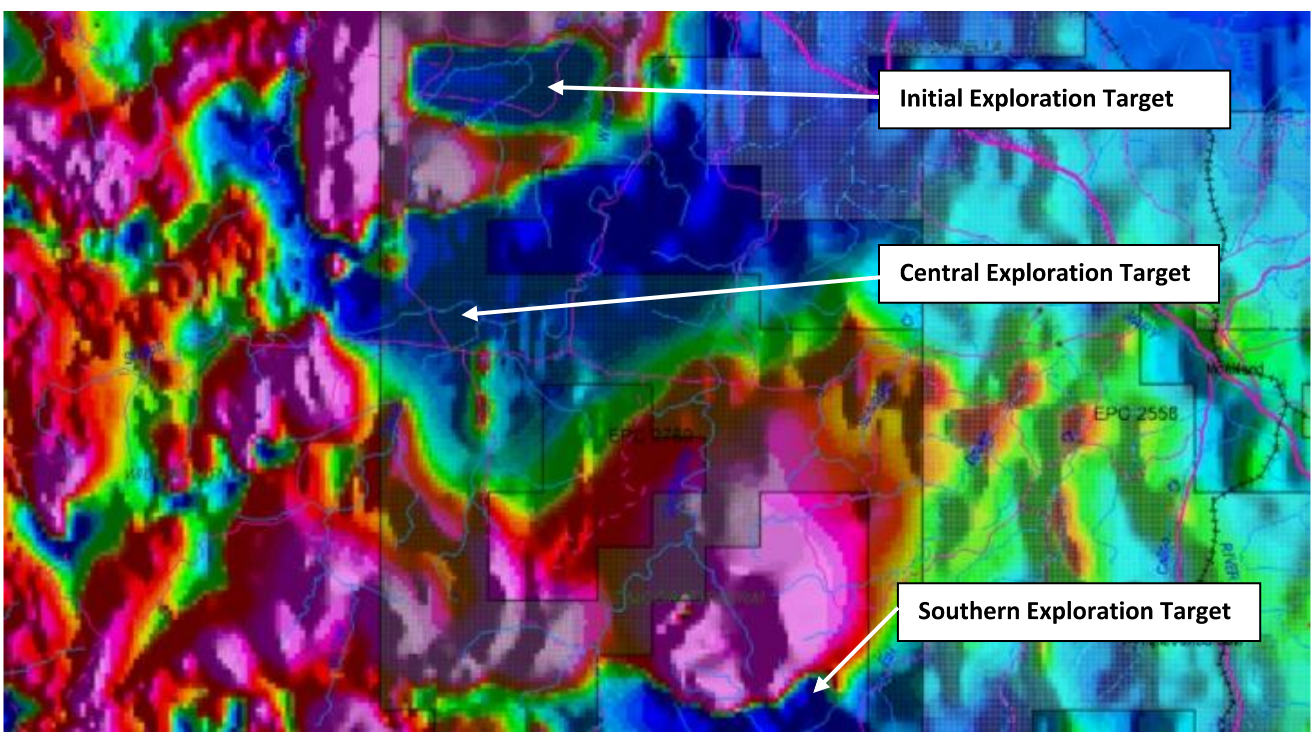


Diagram 3 – Magnetic Map of EPC 2769 showing Target areas of interest.



Appendix Two Continued

Diagram 4 – Gravity Data showing signature on EPC 956 (Tiaro) versus EPC 2769