

11 March 2015

No. of Pages: 3

ASX CODE: ORS

Market Cap.: \$4.22 m (\$0.017 p/s)
Shares on issue: 248,331,672
Cash: \$1.34 m (31 December 2014)
Debt: \$0.0 m (31 December 2014)

BOARD & MANAGEMENT

Ian Gandel, Chairman
Anthony Gray, Managing Director
Bob Tolliday, Director

MAJOR SHAREHOLDERS

Abbotsleigh – 41.1%
Alliance Resources – 8.9%

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Company Update

On 24 December 2014 Octagonal Resources Limited (ASX: ORS) (“**Octagonal**” or “**Company**”) entered into a Share Sale Agreement with A1 Consolidated Gold Limited (ASX: AYC) (“A1 Gold”) to sell all of its Victorian mining and exploration assets including the Maldon gold processing facility and Union Hill Mine (refer to A1 Gold ASX Announcement dated 29 December 2014).

The rationale behind this transaction was driven by the facts that:

1. A1 Gold have a substantial Mineral Resource at the A1 Mine (estimated by CSA Global Pty Ltd) consisting of;
 - Indicated Resource: 200,000t @ 5.1 g/t Au for 41,200oz Au¹,
 - Inferred Resource: 1,170,000t @ 6.4 g/t Au for 240,000oz Au¹,
2. To operate efficiently the Maldon gold processing facility requires between 100,000 and 150,000 tonnes per annum of ore,
3. It has become apparent that the Union Hill Mine while capable of producing high-grade gold, will not deliver the tonnage required to efficiently operate the Maldon gold processing facility,
4. A1 Gold requires a suitable gold processing facility to process its ore and the Maldon gold processing facility is appropriate for this purpose,
5. Toll treatment of ore at the Maldon gold processing facility does not provide a commercially favourable outcome for either party due to the size of the treatment plant,
6. Bringing the two businesses together provides certainty of ore supply to the Maldon gold processing facility and reduces A1 Gold’s all in sustaining costs of production at the A1 Mine², and
7. Costs at Maldon and the A1 Mine are reduced by operating under a single management team with shared labour, technical skills, and mining equipment.

In consideration for the sale of its wholly owned Victorian subsidiary companies (Maldon Resources Pty Ltd, Highlake Resources Pty Ltd, and Matrix Gold Pty Ltd) Octagonal will receive \$5.1 million in A1 Gold shares at 3.0 cents each, one listed A1 Gold option for every three A1 Gold shares received exercisable at 3.0 cents each before 30 November 2019, and a board position on A1 Gold³.

The transaction is subject to:

- Shareholder approval by both Octagonal and A1 Gold shareholders, and
- A1 Gold raising \$2.4 million⁴.

1. Refer to A1 Gold ASX Announcement dated 12 May 2014

2. Refer to A1 Gold ASX Announcement dated 13 January 2015

3. Refer to A1 Gold ASX Announcement dated 29 December 2014

4. The \$2.4 million capital raising is a condition precedent for the benefit of Octagonal. This condition may be waived once Octagonal is comfortable that A1 Gold have sufficient funds to carry out its planned mining and gold producing activities.

A1 Gold have currently raised \$800,000 of the \$2.4 million being sought (refer to A1 Gold ASX Announcements dated 23 January 2015 and 9 February 2015) and shareholder approval is now expected to be sought by both companies at Extraordinary General Meetings to be held during April (Octagonal and A1 Gold have agreed to extend the Sunset Date of the Share Sale Agreement by one additional month from 31 March 2015 to 30 April 2015 to provide time for Independent Experts Reports and drafting of the Notices of Meetings).

Pursuant with the Share Sale Agreement, Octagonal must upon settlement procure that the companies being sold do not have any liabilities (other than employee entitlements) and that sufficient funds remain in the company's bank account to cover employee entitlements. Also, the cash backed environmental bonds that are currently held in the companies bank accounts (totalling \$873,500) will remain to continue to support the rectification of the companies mining and exploration activities.

In ASX Announcements dated 24 November 2014 and 30 January 2015 Octagonal proposed to distribute approximately 50% of the A1 Gold shares and options received under the Share Sale Agreement (Consideration Securities) to its shareholders through an in-specie distribution on a pro rata basis.

At this time the Company had the ability to place 91,013,730 shortfall shares from its rights issue that closed on 13 November 2014 to raise an addition \$1.18 million by 13 February 2015 (refer to Octagonal ASX Announcement dated 24 November 2014). The Company reasonably assumed that these shortfall shares would be placed given that the sale price of the Company's Victorian assets was at a 15% premium to the fully diluted market capitalisation of the Company post the placement of shortfall shares (excluding cash, value of A1 Gold options, and the value of the Company's Western Australian exploration assets).

Despite Octagonal and the Underwriters best efforts the shortfall shares were unable to be placed before 13 February 2015 and consequently the Company requires funding to settle the Share Sale Agreement and meet future operating requirements.

Having considered a number of funding options, and recognising the difficult equity market conditions that are currently faced by junior ASX listed mining companies, Octagonal's board of directors have resolved not to proceed with the proposed in-specie distribution of Consideration Securities (that would otherwise drain the Company of its capital).

The directors, Mr Gray and Mr Tolliday, have resolved for the Company to enter into a short term loan agreement with Gandel Metals Pty Ltd ("Gandel Metals"), a company related with Octagonal's Chairman Mr Ian Gandel. Pursuant with the loan agreement, Gandel Metals will provide access to a bank standby credit facility for up to \$1.0 million.

The credit facility is to be secured by a mortgage over A1 Gold securities held by Octagonal, else a mortgage over the shares held in Maldon Resources Pty Ltd should the Share Sale Agreement be terminated for any reason. This security arrangement will require shareholder approval that will be sought at the upcoming General Meeting to approve the sale of the Company's Victorian assets.

The credit facility may be drawn down in multiple tranches. Interest on the facility levied by the bank will be reimbursed to Gandel Metals at cost. The bank facility is a variable rate facility and thus the interest rates can move up or down in accordance with bank policy. The current bank interest rate on the facility is 4.58%.

The loan is repayable no later than 1 December 2015 however, the Company will be obliged to repay the funds at the earliest possible opportunity. The loan may be repaid in either cash or A1 Gold shares (with price determined based of the five trading day volume weighted average price of A1 Gold shares up to the trading day immediately prior to such transfer).

If shareholders do not approve the security arrangements no further funds may be drawn under the loan and any funds drawn will become payable within three months.

The funds drawn under the loan will primarily be used to meet existing creditors, liabilities (including employee entitlements), meet financial obligations under the Share Sale Agreement with A1 Gold, exploration funding in Western Australia, and for working capital purposes.

As the proposed in-specie distribution of Consideration Securities to Octagonal shareholders will not proceed, Octagonal and A1 Gold have agreed that instead of 50% of the Consideration Securities being voluntarily escrowed for 6 months (as contemplated by the Share Sale Agreement), that 75% of the Consideration Securities will be voluntarily escrowed for 6 months. The remaining 25% of Consideration Securities will not be subject to escrow.

Since the announcement of the Share Sale Agreement Octagonal has endeavoured to cut all non-essential company expenditure. To this end, the Company entered into a Management Agreement and Deed of Variation to the Share Sale Agreement to provide A1 Gold with early management control of the Maldon Gold Operation. This agreement effectively terminated Octagonal's obligations to maintain the Maldon Gold Operation from the start of February, two months earlier than contemplated under the original Share Sale Agreement, and allowed A1 Gold to commence mill improvement and underground mining activities at Maldon (refer to A1 Gold ASX Announcement dated 9 February 2015).

Further cost saving initiatives that Octagonal is implementing include:

1. Following settlement of the Share Sale Agreement Mr Anthony Gray, Managing Director, will be the only employee of the Company. Mr Gray has agreed to reduce his annual salary from \$235,000pa + super to \$210,000pa + super and have his fee as a non-executive director of A1 Gold (once appointed) of \$40,000pa be paid directly to Octagonal, essentially cutting his effective base salary paid by Octagonal to \$170,000pa,
2. Since 2010 Octagonal's financial, company secretarial, and administrative services have been provided by Gandel Metals under a Management Service Agreement based on commercial terms and conditions. Gandel Metals have agreed to reduce its fees initially by 50% following settlement of the Share Sale Agreement and will further review its ongoing costs once Octagonal's future management service requirements are established,
3. In January 2014 Octagonal closed its Kalgoorlie exploration office. Since this time Mr Anthony Gray has, and continues to, provide the Company with office space and shed storage facilities in Kalgoorlie free of charge,
4. Non-executive Chairman Mr Ian Gandel has agreed to reduce his directors fees by 50% from \$75,000pa to \$37,500pa, and
5. Non-executive Director Mr Bob Tolliday has also agreed to reduce his directors fees by 50% from \$40,000pa to \$20,000pa.

The Directors of Octagonal believe that the sale of the Maldon Gold Operation to A1 Gold is a substantial transaction that will significantly benefit both companies once ore production commences at the A1 Mine.

The loan and cost reduction initiatives taken by the Company are designed to maximise Octagonal's leverage to the A1 Gold share price as it moves from developer to miner and gold producer in a very difficult climate for junior ASX listed mining companies.

Additional information relating to Octagonal and its various mining and exploration projects can be found on the Company's website: www.octagonalresources.com.au

For further enquiries, please contact:

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