

23 June 2014

Company Announcement Office  
Australian Stock Exchange Ltd  
4th Floor, 20 Bridge Street, Sydney NSW

**ASX code: MUX**

### **NOTICE OF EGM AND IER**

Attached are MUX's Notice of Extraordinary General Meeting, Proxy Form and Independent Expert Report (IER) for an Extraordinary General Meeting to be held on Thursday 24 July 2014 at which approval for the acquisition of the Northern Region base metal and gold assets from Kagara Limited (in liquidation) will be sought. The materials will be despatched to shareholders today and copies are also available on MUX's website at:

<http://munganagoldmines.com.au/news-and-reports/asx-announcements>

#### **Additional information:**

#### **ASX Waiver – Listing Rule 10.13.3**


In order to facilitate the issue of shares in payment of interest accrued on convertible notes to be issued to Kagara Limited (in liquidation) and Mungana Pty Ltd (in liquidation) as consideration for the acquisition of the Northern Region assets (Convertible Notes) over the term of the Convertible Notes, the Company applied for and the ASX has granted a waiver of from Listing Rule 10.13.3 to the extent necessary to permit the Company's notice of meeting seeking shareholder approval for the issue of shares with respect to the obligations of the Company to pay interest on the Convertible Notes (Interest Shares) not to state that the Interest Shares will be issued within one month of the date of the shareholders' meeting, on the following conditions:

1. The notice of meeting contains a summary of the material terms of the Convertible Notes.
2. The Interest Shares are issued no later than the date that is 5 years one month and 5 business days from the date after receipt of shareholder approval to approve the issue.
3. If the Company releases its annual report during a period in which the Interest Shares are issued or remain to be issued, the annual report discloses details of the Interest Shares that have been issued and any Interest Shares remaining to be issued.
4. The Company releases the terms of the waiver to the market no later than the time the notice of meeting is released.

For more information about Mungana Goldmines Ltd and its projects please visit our website [www.munganagoldmines.com.au](http://www.munganagoldmines.com.au) or contact:

Ben-Louis Ludik:	CFO and Company Secretary
Phone:	+61 (0)7-3835 0800
Email:	<a href="mailto:ben-louis@mungana.com.au">ben-louis@mungana.com.au</a>

Yours sincerely

A handwritten signature in black ink, appearing to be 'Ben-Louis Ludik', with a stylized flourish extending from the end.

Ben-Louis Ludik  
CFO and Company Secretary

## Mungana Goldmines Ltd ACN 136 606 338

### Notice of Extraordinary General Meeting, Explanatory Memorandum and Independent Expert's Report

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Date of Meeting: Thursday, 24 July 2014

Time of Meeting: 10:00am (Brisbane time)

Place of Meeting: At the offices of HopgoodGanim, Level 7, Waterfront Place, 1 Eagle Street, Brisbane Qld 4000

This Notice of Extraordinary General Meeting, Explanatory Memorandum and Independent Expert's Report should be read in their entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser without delay.

The Independent Expert, Grant Thornton Corporate Finance Pty Ltd, has concluded that the Proposed Transaction is NOT FAIR but REASONABLE to the Non-Associated Shareholders.

The Independent Expert, Grant Thornton Corporate Finance Pty Ltd, has concluded that the granting of the Security is FAIR and REASONABLE to the Non-Associated Shareholders.

# Notice of Extraordinary General Meeting

Notice is given that an Extraordinary General Meeting of Shareholders of Mungana Goldmines Ltd ACN 136 606 338 (**Company**) will be held at the offices of HopgoodGanim, Level 7, Waterfront Place, 1 Eagle Street, Brisbane Qld 4000, on Thursday, 24 July 2014 at 10:00am (Brisbane time).

## Agenda

### 1. Resolution 1 - Approval of transactions within Kagara Ltd (in liquidation) and Mungana Pty Ltd (in liquidation) to acquire the Northern Region Assets

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To consider and, if thought fit, pass the following Ordinary Resolution, with or without amendment:

*"That, for the purposes of Chapter 2E and section 611 (Item 7) of the Corporations Act 2001 (Cth) and ASX Listing Rules 10.1 and 10.11 and for all other purposes, the terms of the Heads of Agreement between the Company, Kagara Limited (in liquidation) ACN 008 988 583 (**Kagara**), Mungana Pty Ltd (in liquidation) ACN 101 738 096 (**MPL**) and the Liquidators dated 27 December 2013 (**HoA**) and the Sale Agreement relating to the Northern Region Assets entered into between the Company, Kagara, MPL and the Liquidators dated 18 February 2014 (**Sale Agreement**) be approved and the Company be authorised, with effect from the passing of this Resolution 1 to proceed with:*

- (a) the transactions contemplated by the HoA and Sale Agreement (**Proposed Transaction**);*
- (b) without limitation to (a):*
  - (i) the proposed acquisition of the Northern Region Assets from MPL and Kagara;*
  - (ii) the issue of convertible notes, capable of being converted into Shares in the Company with a face value of \$15 million representing the consideration for the acquisition of the Northern Region Assets (**Convertible Notes**);*
  - (iii) the subsequent conversion of the Convertible Notes into Shares and Kagara and MPL acquiring a relevant interest in additional Shares on conversion of the Convertible Notes;*
  - (iv) the issue of Shares to Kagara and MPL in satisfaction of the obligation of the Company to pay interest on the Convertible Notes and Kagara and MPL acquiring a relevant interest in such Shares;*
  - (v) the granting of the security by the Company to MPL and Kagara to secure the indebtedness associated with the Convertible Notes (**Security**); and*
  - (vi) the giving of financial benefits to Kagara and MPL being related parties of the Company,*

*pursuant to the terms and conditions of the HoA and the Sale Agreement, the details of which are summarised in the Explanatory Memorandum."*

#### Notes:

Grant Thornton Corporate Finance Pty Ltd has prepared an Independent Expert's Report on the Proposed Transaction and has concluded that, in its opinion:

- the Proposed Transaction is NOT FAIR but REASONABLE to all Non-associated Shareholders; and
- the granting of the Security is FAIR and REASONABLE to all Non-associated Shareholders.

The Company has submitted this Notice of Meeting and accompanying Explanatory Memorandum and Independent Expert's Report to ASIC pursuant to section 218 of the Corporations Act.

The ASX has reviewed a submission by the Company and has determined that the



# Notice of Extraordinary General Meeting

Company is not required to obtain Shareholder approval under Listing Rules 11.1.1 or 11.2.

Further details regarding the HoA, Sale Agreement and Proposed Transaction are set out in the accompanying Explanatory Memorandum and Independent Expert's Report which the Directors recommend Shareholders read in full before making any decision in relation to Resolution 1.

## **Voting exclusion statement**

The Company will disregard any votes cast on this Resolution by:

- MPL and Kagara; and
- any associate of MPL and Kagara.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

## **General business**

To consider any other business as may be lawfully put forward in accordance with the Constitution of the Company.

By order of the board



Ben-Louis Ludik  
Company Secretary  
23 June 2014

# Explanatory Memorandum

## 1. Introduction

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This Explanatory Memorandum is provided to Shareholders of Mungana Goldmines Ltd ACN 136 606 338 (**Company**) to explain the resolution to be put to Shareholders at the Extraordinary General Meeting to be held at the offices of HopgoodGanim, Level 7, Waterfront Place, 1 Eagle Street, Brisbane Qld 4000 on Thursday, 24 July 2014 commencing at 10:00am (Brisbane time).

The Directors recommend Shareholders read the accompanying Notice of Meeting, this Explanatory Memorandum and the Independent Expert's Report in full before making any decision in relation to the resolution.

The Disinterested Directors unanimously recommend that Non-Associated Shareholders vote in favour of the resolution. The reasons for this recommendation are set out in section 2.1(d).

Terms used in this Explanatory Memorandum are defined in Section 3.

## 2. Resolution 1- Approval of transactions within Kagara Ltd (in liquidation) and Mungana Pty Ltd (in liquidation) to acquire the Northern Region Assets

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### 2.1 Proposed Transaction

#### (a) Background to Proposed Transaction

The Company's major shareholder, MPL, and its parent, ASX listed Kagara, entered into voluntary administration on 29 April 2012 (**Appointment Date**). At this point in time, Kagara held (through MPL) a 61.7% controlling stake in the Company. Subsequent to this, the voluntary administrators became deed administrators when each of Kagara and MPL executed a deed of company arrangement on 27 May 2013. On 16 December 2013, in accordance with these deeds of company arrangement, Kagara and MPL were placed in liquidation.

On 27 December 2013, the Company, MPL, Kagara and the Liquidators entered into a Binding Heads of Agreement under which the Company would acquire the Northern Region Assets owned by Kagara and MPL. The Company made an announcement regarding the HoA on 30 December 2013. The Northern Region Assets comprise the Chillagoe assets in North Queensland owned by Kagara and MPL. Further details regarding the Northern Region Assets are included in the Independent Expert's Report (in particular on pages 49 to 51).

On 18 February 2014 the Company, MPL, Kagara and the Liquidators entered into the Sale Agreement for the sale of the Northern Region Assets.

There are a number of conditions which must be satisfied before completion of the Proposed Transaction pursuant to the Sale Agreement and the HoA will occur (details of which are set out in Schedule 1), including obtaining the approval of Shareholders to the Proposed Transaction. The final date for satisfaction of all conditions is 31 July 2014.

The Meeting has been convened for the purpose of seeking the approval of Shareholders to the Proposed Transaction. The Company engaged Grant Thornton Corporate Finance Pty Ltd to prepare an Independent Expert's Report on the Proposed Transaction to assist Shareholders to decide whether or not to vote in favour of Resolution 1 and the Proposed Transaction.

In summary, upon completion of the Proposed Transaction, the Company will hold the entire interest in the Northern Region Assets as previously held by Kagara and MPL for a purchase price of \$15 million to be satisfied by the issue of convertible notes in

# Explanatory Memorandum

favour of Kagara and MPL (with a face value of \$15 million), capable of being converted into Shares in the Company on the terms set out in Schedule 2. The Independent Expert has assessed the total fair value of the Convertible Notes as approximately \$16,000,000. This assumes the automatic conversion of Convertible Note A on or shortly after Completion and the fair value of the Convertible Note B being approximately \$8.5 million (refer to the IER for further details).

The Disinterested Directors (being Mr Fitzgerald and Mr Wu) have given detailed consideration to the Proposed Transaction. The Disinterested Directors consider that the Proposed Transaction is in the best interests of the Company and recommend the Proposed Transaction to Shareholders.

A detailed explanation of the rationale of the Proposed Transaction and Sale Agreement are summarised in section 2.1(d) and the advantages and disadvantages of the Proposed Transaction are set out in section 2.1(e).

A summary of the Sale Agreement and HOA is set out in Schedule 1. A summary of the key terms of the Convertible Notes is set out in Schedule 2. A summary of the key terms of the Security is set out in Schedule 3.

## (b) Key Elements of the Proposed Transaction

Pursuant to the terms of the HoA and the Sale Agreement, the Proposed Transaction will be undertaken in the following manner:

- Kagara and MPL will sell, and the Company will acquire, the Northern Region Assets on the terms set out in the Sale Agreement for a purchase price of \$15 million. Further details regarding the Northern Region Assets are included in the Independent Expert's Report (in particular on pages 49 to 51);
- the Company will issue the Convertible Notes as consideration for the purchase of the Northern Region Assets to Kagara and MPL on the terms set out in the Sale Agreement (as summarised in Schedule 2 and Schedule 3 of this Explanatory Memorandum). The Convertible Notes have a face value of \$15 million. For completeness it is noted that the Independent Expert has assessed the total fair value of the Convertible notes as approximately \$16,000,000 (refer to the IER for further details);
- in addition to the Convertible Notes being able to be converted into Shares, the Company may also elect to pay interest owing on the Convertible Notes in Shares or cash;
- the Company will grant security to MPL and Kagara to secure the indebtedness associated with the Convertible Notes (as summarised in Schedule 3). Given the Old Stamp Duty Liability has been discharged, the Company anticipates that it is likely that the Security will be released shortly after Completion, upon payment of any duty relating to the Proposed Transaction; and
- any claims that the Company may have against Kagara, MPL or the Liquidators will be withdrawn and the Company undertakes not to lodge any further Proof of Debt or rely upon any existing or further Proof of Debt in relation to Kagara or MPL or any related body corporate of the same.

Upon completion of the Proposed Transaction, the Company will continue to operate as an explorer and developer of mineral resources.

As a result of the Company releasing Kagara and MPL from various claims under the terms of the HoA and the Sale Agreement, subject to Completion occurring, the Company will no longer have any right to claim or otherwise seek payment of any part

# Explanatory Memorandum

of the Old Stamp Duty Liability from Kagara or MPL and the Company will be solely responsible for the payment of the Old Stamp Duty Liability. Prior to entering the HoA, the OSR had issued an assessment to the Company in respect of the Old Stamp Duty Liability in the amount of \$12.19 million. The Company had objected to this duty assessment, however, the outcome of the objection remained unknown at the time of entering the HoA and the Sale Agreement.

Subsequently, as announced on 7 May 2014, the OSR has allowed the Company's objection to the duty assessments issued in February 2013 in respect of the Old Stamp Duty Liability. The assessments in respect of the Old Stamp Duty Liability were approximately \$12.19 million and \$2,637.33. The assessment for \$12.19 million will be reduced to nil and the assessment for \$2,637.33 will be reduced by \$1,445.58 (being the penalty and interest component) with the remaining primary duty of \$1,191.75 to be reconsidered by the OSR. The Company had paid approximately \$1.2 million of the assessments to date and received a refund of this amount from the OSR on 21 May 2014.

Following the Proposed Transaction, if Kagara and MPL fully convert the Convertible Notes, together they will have the ability to hold 210,046,943 Shares in the Company which would represent 75.80% of the total Shares issued in the Company.

In addition, if the Company elected to pay all interest owing on the Convertible Notes in Shares, up to a further 43,332,448 Interest Shares may be issued which would bring the total holding of Kagara and MPL up to 253,379,391 Shares in the Company which would represent up to 79.07% of the total Shares issued in the Company. These numbers are arrived at on the assumption that both Convertible Notes are converted for Shares in the Company in full at their maturity date (5 years after issue) and no additional Shares are issued in the Company. This represents an increase of up to approximately 19.81% from the holding of Kagara and MPL in the Company as at the date of this Notice of Meeting of 59.25%. If any of the Convertible Notes are converted or redeemed earlier than their maturity date (Convertible Note A is anticipated to be converted shortly after Completion upon payment of all duty on the Proposed Transaction), this will result in a lesser number of Interest Shares which may be issued and in such a case, the potential increase in the holding of Kagara and MPL in the Company will be less than that set out above.

The current directors of the Company are Mr Joseph Treacy, Mr John Fitzgerald, and Mr Justin Wu.

## (c) Implementation of the Proposed Transaction

The Proposed Transaction will be implemented in accordance with the Sale Agreement which is summarised in Schedule 1.

Completion is dependent upon, amongst other things, the passing of Resolution 1.

## (d) Rationale of the Proposed Transaction

The Disinterested Directors have given detailed consideration to the Proposed Transaction. The rationale for the Proposed Transaction includes:

- The Proposed Transaction provides certainty for Shareholders regarding the Company's rights with respect to the Company's current interest under the Gold Rights Agreement in light of the liquidation of Kagara and MPL.
- The Proposed Transaction will, in the Directors' view, add significant value to these assets. The acquisition of the Northern Region Assets will diversify the Company's asset base, while retaining exposure to the Gold Rights Agreement assets.

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- The Company has been engaged with the administrators of Kagara and MPL since their appointment in April 2012 and since their appointment as liquidators, the Liquidators, to find a mutually acceptable solution to the Gold Rights Agreement and the Old Stamp Duty Liability (noting the Old Stamp Duty Liability has recently been resolved). Two prior transactions had been proposed with Kagara and MPL in November 2012 and May 2013, however, these transactions did not ultimately complete. There are presently no alternative transactions available to the Company which address the Gold Rights Agreement and the Board does not believe it is likely that a more favourable alternative transaction will become available in a timely manner.

## (e) Key Advantages and Disadvantages of the Proposed Transaction

The benefits to Non-Associated Shareholders of the Proposed Transaction include:

### (1) Certainty regarding the Company's interest in the Gold Rights Agreement in light of the liquidation of Kagara and MPL

The Proposed Transaction provides certainty for Shareholders regarding the Company's rights in respect of the Gold Rights Agreement in light of the liquidation of Kagara and MPL. Currently, Kagara and MPL are the legal owners of the tenements the subject of the Gold Rights Agreement and the Company has certain rights to explore for and exploit gold and silver resources within these tenements. As the Company will acquire the Northern Region Assets, it will have far more fulsome rights in respect of the tenements underlying the Gold Rights Agreement, than it has under the Gold Rights Agreement.

Various disputes have arisen during the term of the Gold Rights Agreement due to the complexity of and uncertainties regarding the legal framework surrounding the Gold Rights Agreement.

The Mungana Gold Project was put on hold in 2012, pending developments with the administration and subsequently the liquidation of Kagara. The voluntary administrators of Kagara removed services from the Mungana decline in 2012. One of the outcomes is that the decline has flooded.

During 2012 the Company impaired the accounting carrying value of the Mungana Gold Project from approximately \$126 million to approximately \$46 million. In addition, there was a further write down of \$28.09 million to \$18.4 million in the carrying value of the Mungana Gold Project in the 31 December 2013 half year accounts.

Upon Completion, the Gold Rights Agreement will be terminated and the Company will hold title to the Northern Region Assets. Accordingly, this will resolve the uncertainties surrounding the Company's rights in respect of the Gold Rights Agreement which the Board believes has created a significant impediment to the Company's ability to raise funds and develop its assets.

### (2) Simplifies the development of the Gold Rights Agreement assets

In addition to providing certainty regarding the Company's interest in the Gold Rights Agreement Assets, the termination of the Gold Rights Agreement will also simplify any potential development of the Company's assets in the Chillagoe region as the restrictions and requirements of the Gold Rights Agreement will no longer inhibit the exploration and potential development of these assets and the Company will be the direct holder of the underlying tenements.

# Explanatory Memorandum

Significant funds will be required in order to progress exploration and development activities in respect of the Northern Region Assets. The Board believes that the removal of the uncertainties regarding the Company's interests in the Gold Rights Agreement and the simplification of ownership of the tenements the subject of the Gold Rights Agreement will place the Company in a significantly better position to be able to raise funds to progress exploration and development activities.

It is also noted that the Company has recently divested its interests in the Tarcoola and Tunkillia Projects and as a result, the Company's assets in the Chillagoe region will likely be the Company's only pre-development asset in the short to medium term and is likely to be a key driver for value for the Company.

## (3) Acquisition of additional Northern Region Assets and diversification of assets

The Company will, on Completion, acquire the Northern Region Assets. This will expand the Company's asset base in North Queensland to include the base metals and other resource rights in addition to the existing rights to gold and silver resources the Company has. The Northern Region Assets contain a number of additional exploration assets which have significant exploration targets. This includes the King Vol deposit where Kagara has undertaken a significant amount of pre-feasibility work. Further details regarding the Northern Region Assets are included in the Independent Expert's Report (in particular on pages 49 to 51).

In addition, on Completion the Company will retain its current interests in the tenements the subject of the Gold Rights Agreement and Shareholders will therefore retain exposure to the potential development of these existing assets.

Accordingly, the acquisition of the Northern Region Assets will result in the Company becoming a more diversified explorer and developer of mineral resources.

## (4) Terms of Convertible Notes

Convertible Note A has a conversion price of \$0.10 per Share. Convertible Note B has a conversion price of \$0.20 per Share. The highest Share price in the last 4 months was \$0.09 with the lowest Share price in the last 4 months being \$0.03.

The Convertible Notes are convertible at a substantial premium to the current trading prices of Shares as well as the trading prices of Shares before the announcement of the Proposed Transaction. The IER summarises the premium as follows:

- Convertible Note A conversion price of A\$0.10 per Share is at a premium of 47% to the trading price as at 31 May 2014 (being \$0.068) and of 81% to the Share trading before the announcement of the Proposed Transaction (being A\$0.055 as at 17 February 2014).
- Convertible Note B conversion price of A\$0.20 per Share is at a premium of 194% to the trading price as at 31 May 2014 (being \$0.068) and of 263% to the Share trading before the announcement of the Proposed Transaction (being A\$0.055 as at 17 February 2014).

It is however noted that the depth and liquidity in trading in Shares is limited (see section 7.9 of the IER).

The Independent Expert has assessed the fair market value of the Company's Shares before the Proposed Transaction on a control basis of between 18.95

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cents and 23.56 cents and the fair market value per MUX Share after the Proposed Transaction on a minority basis of between 14.84 cents and 18.24 cents. Refer to pages 5 to 7 and sections 7 and 8 of the Independent Expert's Report for further details. Accordingly, the conversion price of Convertible Note A (\$0.10) is lower than the fair market value of the Company's Shares as assessed by the Independent Expert. The conversion price of Convertible Note B (\$0.20) is within the range of the fair market value of the Company's Shares as assessed by the Independent Expert before the Proposed Transaction on a control basis, and is higher than the fair market value of the Company's Shares as assessed by the Independent Expert after the Proposed Transaction on a minority basis.

Given the Company's current cash position and current market conditions, the Board believes that it is unlikely that the Company would be able to raise the necessary funds in order to fund the acquisition of the Northern Region Assets on more favourable terms.

- (5) Independent Expert concludes Proposed Transaction is not fair but reasonable to the Non-Associated Shareholders and granting of Security is fair and reasonable

The Independent Expert has analysed the Proposed Transaction as a whole and has concluded that the Proposed Transaction is not fair but reasonable to the Non-Associated Shareholders and the granting of the Security is fair and reasonable. The Independent Expert is of the view that in the absence of a superior alternative proposal emerging, the advantages of the Proposed Transaction outweigh the disadvantages of the Proposed Transaction.

Further details regarding the analysis undertaken by the Independent Expert and the Independent Expert's conclusions are set out in the Independent Expert's Report.

The disadvantages to Non-Associated Shareholders of the Proposed Transaction include:

- (1) Increasing the voting power of Kagara and MPL

Kagara and MPL currently having voting power of 59.25%. Upon completion of the Proposed Transaction (assuming the Convertible Notes are fully converted into Shares, the interest on the Convertible Notes is satisfied by the issue of Interest Shares and no other Shares are issued) Kagara and MPL's voting power would increase to up to 79.07%.

Accordingly, if any Shares are issued under the terms of the Convertible Notes, this will dilute the shareholding interests of Non-Associated Shareholders in the Company and will diminish their ability to influence the future direction of the Company.

Until June 2012, the Shares held by Kagara and MPL were subject to mandatory escrow and could not be traded. Since the appointment of administrators and subsequently liquidators to Kagara and MPL, there has been no trading in the Shares held by MPL.

Both Kagara and MPL are in liquidation and as part of the liquidation process, the Corporations Act would ordinarily require the Liquidators to dispose of or distribute to creditors Kagara's and MPL's assets, including MPL's Shares in the Company and the Convertible Notes, which may occur at an appropriate time in the future.

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The ability and willingness for Kagara and MPL to dispose of their Shares and the Convertible Notes in the short term, may have the result of depressing the Share price until there is certainty as to how and when the Liquidators will monetise the interest of Kagara and MPL in the Company.

In addition, it is noted that given that Kagara and MPL already hold approximately 60% of the current issued capital of the Company, they already currently hold a controlling interest in the Company.

## (2) Loss of rights to lodge proof of debt

Upon completion of the Proposed Transaction occurring, the Company will no longer be entitled to lodge a proof of debt in the liquidation of MPL and Kagara and the existing Proof of Debts lodged by the Company against Kagara and MPL will be withdrawn. The current Proof of Debt claims lodged by the Company are in the amount of approximately \$44.7 million, however, it is likely that material amounts of these claims may be legally disputed by the Liquidators. Further, as a result of the OSR allowing the Company's objection to the assessment in respect of the Old Stamp Duty Liability, the existing Proof of Debt lodged by the Company would be reduced by \$12.19 million leaving the balance of the Proof of Debt lodged at \$32.51 million. In addition, in the latest circular to creditors and employees issued by the Liquidators in October 2013 the Liquidators provided some preliminary indications that a dividend of less than 10 cents in the dollar was projected for unsecured creditors. Further details regarding the existing Proof of Debts lodged by the Company against MPL and Kagara, including in respect of the amount currently claimed and the Expert's assessment of the fair market value (between nil and \$1 million), are set out in the Independent Expert's Report.

## (3) Release of claims against Kagara and MPL

Pursuant to the HoA and the Sale Agreement, subject to Completion occurring the Company releases Kagara, MPL and the Liquidators from various claims.

As a result of these releases, subject to Completion occurring, the Company will no longer have any right to seek payment of any part of the Old Stamp Duty Liability from Kagara or MPL and the Company will be solely responsible for the payment of the Old Stamp Duty Liability, further details of which are set out in section 2.3(f). As a result of OSR allowing the Company's objection to the Old Stamp Duty Liability which was assessed by the OSR in February 2013 at \$12.19 million (including penalties and interest), the Company has received a refund of the overpayment of duty made from the OSR (\$1.2 million) on 21 May 2014 and expects that it will have no further liability to the OSR in respect of the Old Stamp Duty Liability.

## (f) Conclusion of the Independent Expert

The Independent Expert has concluded that the terms of the Proposed Transaction are not fair but reasonable to the Non-Associated Shareholders of the Company and the granting of the Security is fair and reasonable to the Non-Associated Shareholders of the Company.

In forming their opinion in relation to the fairness of the Proposed Transaction, Grant Thornton Corporate Finance Pty Ltd, has assessed the fair market value of the Company's Shares before the Proposed Transaction on a control basis of between 18.95 cents and 23.56 cents and the fair market value per MUX Share after the Proposed Transaction on a minority basis of between 14.84 cents and 18.24 cents. Details of the fairness assessment of the Independent Expert are set out on pages 5 to 7 and sections 7 and 8 of the Independent Expert's Report.



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Grant Thornton Corporate Finance Pty Ltd has also considered the reasonableness of the Proposed Transaction in terms of the advantages and disadvantages of the Proposed Transaction. The Independent Expert is of the view that in the absence of a superior alternative proposal emerging, the advantages of the Proposed Transaction outweigh the disadvantages of the Proposed Transaction. Details of the reasonableness assessment of the Independent Expert are set out on pages 8 to 13 of the Independent Expert's Report.

Further details regarding the analysis undertaken by the Independent Expert and the Independent Expert's conclusions are set out in the Independent Expert's Report. The Independent Expert's Report is set out in Schedule 4 of this Explanatory Memorandum.

## (g) Subsequent Events

Since entering the HoA and the Sale Agreement, the Company has (as announced on 2 April 2014 and 22 May 2014) entered a term sheet and subsequently a sale and purchase agreement with ASX listed WPG Resources Limited, in respect of the sale of the Company's interest in the Tarcoola and Tunkillia gold projects. This sale completed on 29 May 2014. The funds raised from this sale (initially \$1.5 million) are intended to be used to advance the Chillagoe assets of the Company.

It is also noted that, as announced on 17 April 2014, the Company received \$2.27 million from the Federal Governments' Research and Development Tax Concession Scheme which has strengthened the Company's cash position.

The OSR has also recently allowed the Company's objection to the Old Stamp Duty Liability which was assessed by the OSR in February 2013 at \$12.19 million (including penalties and interest) and as a result the Company received a refund of the overpayment of duty made from the OSR (\$1.2 million) on 21 May 2014 and expects that it will have no further liability to the OSR in respect of the Old Stamp Duty Liability.

## (h) Substantial Shareholders

It is important to note that the Proposed Transaction has the potential to increase Kagara's shareholding to up to 79.07% and as such, should this occur, the impact on the interests of Shareholders who presently are considered substantial shareholders, based on their holdings as at 6 June 2014 is set out below:

Shareholder	Current Shares	Current Interest	Shares if Convertible Notes were Converted in full and Interest Shares are issued	Interest upon conversion of Convertible Notes in full and Interest Shares are issued
Prosperity Steel United Singapore Pte Ltd	13,564,786	8.24%	13,564,786	4.23% [Prosperity Steel United would cease to be a substantial Shareholder]
MPL	97,546,943	59.25%	253,379,391	79.07%

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Guangdong Guangxin Holdings Group Ltd	25,120,000	15.26%	25,120,000	7.84%
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Note 1: The figures in this table assume that the Convertible Notes are converted for Shares in the Company in full at the maturity date (5 years from issue), interest on the Convertible Notes is satisfied by the issue of Interest Shares, there are no adjustments to the price at which the Interest Shares are issued to that which applies as at the date of this Notice, no default interest is payable and no additional Shares are issued in the Company. If Convertible Notes are converted or redeemed sooner (it is noted that the Company anticipates that Convertible Note A will likely be converted shortly after Completion) or interest is paid in cash, fewer Interest Shares may be issued.

## 2.2 Shareholder approvals

### (a) Listing Rule 10.1

Listing Rule 10.1 requires the Company to obtain Shareholder approval prior to the acquisition or disposal of a substantial asset from or to a related party, a subsidiary, a substantial holder (within the meaning of Listing Rule 10.1.3) or an Associate of any of them. A substantial asset is an asset valued at greater than 5% of the equity interests of the Company as set out in the latest accounts given to ASX by the Company.

For the purposes of Listing Rule 10.1, the Proposed Transaction requires Shareholder approval due to the following:

- the Proposed Transaction constituting both:
  - an acquisition of a substantial asset by the Company from a related party as a result of the acquisition of the Northern Region Assets; and
  - a disposal of a substantial asset to a related party as a result of the grant of the Security to secure the Convertible Notes.

A “related party” is defined under the Corporations Act to include an entity that controls a public company. The Corporations Act provides that an entity controls a second entity if the first entity has the capacity to determine the outcome of decisions about the second entity’s financial and operating policies. Having regard to MPL’s 59.25% holding of the Shares immediately prior to the Proposed Transaction, it may be considered that MPL, and consequently Kagara (as MPL is a subsidiary of Kagara), possess the capacity to determine the outcome of decisions about the Company’s financial and operating policies, and are therefore related parties of the Company. Additionally, MPL is considered a substantial holder within the meaning of Listing Rule 10.1.3;

- the value of the consideration to be provided in respect of the acquisition of the Northern Region Assets under the Sale Agreement is greater than 5% of the equity interests of the Company as set out in the latest accounts given to ASX by the Company (31 December 2013 showing equity interests of \$13,208,000, 5% of which equals \$660,400). The Convertible Notes have a face value of \$15 million and the Independent Expert has assessed the total fair value of the Convertible notes as \$16,000,000 (refer to the IER for further details); and
- the value of the assets over which the Security is granted is greater than 5% of the equity interests of the Company as set out in the latest accounts given to ASX by the Company (31 December 2013). In the event that the Security was enforced, this may result in Kagara and MPL (or either of them) obtaining

# Explanatory Memorandum

control of the assets the subject of the Security or such assets otherwise being disposed of.

Listing Rule 10.10.2 provides that shareholder approval sought for the purpose of Listing Rule 10.1 must include a report on the proposed acquisition from an independent expert. Accompanying this Explanatory Memorandum is an Independent Expert's Report prepared by Grant Thornton Corporate Finance Pty Ltd. This report provides a detailed examination of the Proposed Transaction and has concluded that the Proposed Transaction is not fair but reasonable to Non-Associated Shareholders and the granting of the Security is fair and reasonable to Non-Associated Shareholders.

The Independent Expert's Report is for the purpose of assisting the Non-Associated Shareholders' consideration and assessment of the merits of the Proposed Transaction and the making of their decision whether to vote in favour of Resolution 1. Shareholders are urged to carefully read the Independent Expert's Report, to understand the scope of the report, the methodology of the valuation and the assumptions made.

A copy of the Independent Expert's Report has been mailed to each Shareholder entitled to receive this Notice of Meeting and Explanatory Memorandum. Irrespective of this, a copy of the Independent Expert's Report is available on the Company's website at [www.munganagoldmines.com.au](http://www.munganagoldmines.com.au) and additional copies, free of charge, may be requested by a Shareholder by contacting the Company's registered office.

(b) Chapter 2E of the Corporations Act

The Corporations Act regulates the giving of a financial benefit to a related party of a public company.

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a Related Party of the public company unless providing the benefit falls within a prescribed exception to the general prohibition or alternatively, if the company first obtains the approval of its shareholders in a general meeting in circumstances where certain requirements specified by Chapter 2E in relation to the convening of that meeting have been met.

Accordingly, the Company seeks the approval of its Shareholders under Chapter 2E of the Corporations Act and provides the information contained in this Explanatory Memorandum and the following specific information.

The Explanatory Memorandum contains all information which is known by the Company or any of its Directors which is reasonably required by Shareholders to decide whether it is in the Company's interests to pass Resolution 1 dealing with financial benefits to related parties.

A "related party" is defined under the Corporations Act to include an entity that controls a public company. The Corporations Act provides that an entity controls a second entity if the first entity has the capacity to determine the outcome of decisions about the second entity's financial and operating policies. Having regard to MPL's holding 59.25% of the Shares immediately prior to the Proposed Transaction, it may be considered that MPL, and consequently Kagara, possess the capacity to determine the outcome of decisions about the Company's financial and operating policies, and are therefore related parties of the Company.

A "financial benefit" for the purposes of the Corporations Act is a broad concept including any benefit or advantage, the economic and commercial substance of which is financial, and regardless of whether the recipient gives consideration for the benefit. It includes the public company buying an asset from a related party and paying money or issuing securities to the related party. In determining whether or not a financial

# Explanatory Memorandum

benefit is being given, it is necessary to look to the economic and commercial substance and effect of what the public company is doing (rather than just the legal form). Any consideration which is given for the financial benefit is to be disregarded, even if it is full or adequate.

The Proposed Transaction is considered the giving of a financial benefit to related parties.

Details of the interest of each Director in the Proposed Transaction and the recommendations of the Disinterested Directors are set out under sections 2.3(c) and 2.3(d) below.

(c) Listing Rule 10.11

Listing Rule 10.11 requires that an entity must obtain the approval of Shareholders to issue Securities to a Related Party and in doing so must provide the information specified in Listing Rule 10.13, unless an exception applies.

(d) Listing Rule 7.1 - Issues exceeding 15% of capital

Listing Rule 7.1 prohibits a listed company, except in certain cases, from issuing in any 12 month period new Equity Securities equivalent in number to more than 15% of the total number of ordinary securities on issue at the beginning of the twelve month period (**15% Capacity**) without the prior approval of a majority of disinterested shareholders, or the issue otherwise comes within one of the exceptions to Listing Rule 7.1. However, under Listing Rule 7.2 (Exception 14), if approval is being sought under Listing Rule 10.11, approval will not be required under Listing Rule 7.1. Further, Listing Rule 7.2 (Exception 4) provides that an issue on conversion of convertible securities is an exception to the 15% Capacity if the Listing Rules were complied with when the convertible security was issued. Therefore the issue of the Convertible Notes and any resulting Share issue upon conversion of the Convertible Notes will not count towards the Company's 15% Capacity under Listing Rule 7.1, assuming Resolution 1 is approved.

Accordingly, the Company seeks the approval of its Shareholder under Listing Rule 10.11 to issue the Convertible Notes to Kagara and MPL and for any resulting Shares issued upon conversion of the Convertible Notes, as well as the issue of Interest Shares to Kagara and MPL, and provides the information contained in this Explanatory Memorandum and, more specifically, in section 2.4 below for the purpose of seeking this approval.

## 2.3 Chapter 2E of the Corporations Act

For the purposes of Chapter 2E of the Corporations Act and for all other purposes the following information is provided to Shareholders:

(a) The related parties to whom Resolution 1 would permit the financial benefit to be given

The proposed financial benefit will be given to Kagara and its wholly owned subsidiary MPL, who may be considered related parties of the Company.

(b) The nature of the financial benefit

The nature of the proposed financial benefit to be given is the various matters comprising the Proposed Transaction including, without limitation:

- (1) the purchase of the Northern Region Assets for a purchase price of \$15 million;
- (2) the issue of the Convertible Notes to satisfy the purchase price;

# Explanatory Memorandum

- (3) the issue of Shares on conversion of the Convertible Notes;
- (4) the issue of Shares to satisfy the obligation of the Company to pay interest on the Convertible Notes;
- (5) the grant of the Security to secure the Convertible Notes; and
- (6) the release of various claims which the Company has or may have against Kagara and MPL, which includes any claims against Kagara or MPL relating to the Old Stamp Duty Liability.

(c) Interests of Directors

The Disinterested Directors (Mr Fitzgerald and Mr Wu) do not have a material personal interest in the outcome of Resolution 1, save for any interest they may have solely in their capacity as Shareholders which interest they hold in common with the other Non-Associated Shareholders.

Mr Treacy is a director of Kagara and MPL. Mr Treacy also holds 2,091,865 shares in Kagara, representing an interest of 0.26% in the voting shares of Kagara. Kagara and MPL are both parties to the HoA and Sale Agreement and will participate in and benefit from the Proposed Transaction. Accordingly, Mr Treacy does not provide a recommendation in respect of the Proposed Transaction or Resolution 1.

Mr Wu is a representative of Guangdong Guangxin Holdings Group Ltd (**GGHG**) which currently holds 15.26% of the shares in the Company. It is likely that GGHG's percentage holding in the Company may decrease as a result of the Proposed Transaction if the Convertible Notes are converted. GGHG also holds 133,776,785 shares in Kagara representing a 16.7% interest in Kagara. Mr Wu does not hold any shares in the Company, Kagara or GGHG.

To the extent that the Directors hold any Shares, their respective percentage holding of Shares may decrease upon Completion, in the same proportion as the holding of all other Shareholders (other than Kagara/MPL). Details regarding the current direct Share interests of each of the Directors, together with details of their holding on Completion are set out below (the following does not include the holdings of MPL, Kagara or GGHG):

Director	Current Shares held	Current interest	Shares held on conversion of Convertible Notes and Interest Shares are issued <sup>1</sup>	Interest on conversion of Convertible Notes and Interest Shares are issued <sup>1</sup>
Joseph Treacy	250,270	0.15%	250,270	0.08 %
John Fitzgerald	27,143	0.02%	27,143	0.01 %
Justin Wu	Nil	Nil	Nil	Nil

*Notes:*

1. This assumes that the Convertible Notes are converted for Shares in the Company in full at the maturity date (5 years from issue), interest on the Convertible Notes is satisfied in full by the issue of Interest Shares, there are no adjustments to the price at which the Interest Shares are issued to that which applies as at the date of this Notice, no default interest is payable and no additional Shares are issued in the Company including on exercise of options held by Directors (as outlined below).

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In addition, Mr Fitzgerald holds 250,000 options to subscribe for Shares exercisable at \$2.00 per Option.

The Disinterested Directors (being Mr Fitzgerald and Mr Wu) will not otherwise participate in the Proposed Transaction.

(d) Recommendation of Disinterested Directors

Each of the Disinterested Directors considers himself justified in making a recommendation in relation to Resolution 1 and each intends to vote any Shares he holds in favour of Resolution 1. The Disinterested Directors have approved the proposal to put Resolution 1 to the Meeting and have separately approved the information contained in this Explanatory Memorandum.

The Disinterested Directors unanimously recommend that Shareholders vote in favour of Resolution 1.

The Disinterested Directors note that the Proposed Transaction can only proceed with Shareholder approval. The Disinterested Directors consider that approval of the HoA, the Sale Agreement and the Proposed Transaction and any giving of financial benefits to MPL or Kagara pursuant to the HoA, the Sale Agreement and the Proposed Transaction are in the best interests of the Company.

The reasons for the recommendations of the Disinterested Directors are set out below.

In making their recommendations the Disinterested Directors have considered:

- the rationale for the Proposed Transaction as summarised in section 2.1(d);
- the advantages and disadvantages of the Proposed Transaction as set out in section 2.1(e);
- the nature and value of the benefits given to related parties pursuant to the Proposed Transaction; and
- the reasoning and conclusions of Grant Thornton Corporate Finance Pty Ltd in the Independent Expert's Report set out in Schedule 4, including the conclusion that the Proposed Transaction is not fair but reasonable to the Non-Associated Shareholders and the granting of the Security is fair and reasonable to the Non-Associated Shareholders.

In summary, the Disinterested Directors consider that the rationale for and benefits of the Proposed Transaction outweigh any disadvantages of the Proposed Transaction, and other reasons why the Disinterested Directors would consider voting against Resolution 1.

(e) Trading Price Information on Company Shares

Details of the trading price of the Shares during the 4 months prior to 4 June 2014 are set out below.

Description	Date	Share Price
High	14 March 2014	\$0.095
Low	4 February 2014	\$0.03
Last	4 June 2014	\$0.06

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## (f) Taxation Consequences

The Company is responsible for the payment of any stamp duty on the HoA and the Sale Agreement. The Company presently estimates that the stamp duty on the HoA and the Sale Agreement will be approximately \$0.8 million.

As a result of the Company releasing Kagara and MPL from various claims under the terms of the HoA and the Sale Agreement, subject to Completion occurring, the Company will no longer have any right to claim or otherwise seek payment of or contribution to any part of the Old Stamp Duty Liability from Kagara or MPL and the Company will be solely responsible for the payment of the Old Stamp Duty Liability. As announced on 7 May 2014, the OSR has allowed the Company's objection to the duty assessments issued in February 2013 in respect of the Old Stamp Duty Liability. The assessments in respect of the Old Stamp Duty Liability were approximately \$12.19 million and \$2,637.33. The assessment for \$12.19 million will be reduced to nil and the assessment for \$2,637.33 will be reduced by \$1,445.58 (being the penalty and interest component) with the remaining primary duty of \$1,191.75 to be reconsidered by the OSR. The Company had paid approximately \$1.2 million of the assessments and received a refund of this overpayment from the OSR on 21 May 2014.

## (g) Dilutionary Effect

The effect that the issue of the Convertible Notes and the Interest Shares will have on the issued Shares of the Company, assuming that the conversion is fully undertaken and that no additional Shares are issued is as follows:

	Current		Post conversion of Convertible Notes <sup>1</sup>		Post conversion of Convertible Notes and issue of Interest Shares <sup>2</sup>	
	Ordinary Shares	%	Ordinary Shares	%	Ordinary Shares	%
Current Shareholders (excluding MPL)	67,076,995	40.75%	67,076,995	24.20%	67,076,995	20.93%
MPL	97,546,943	59.25%	210,046,943	75.80%	253,379,391	79.07%
Total Shares on issue	164,623,938	100%	277,123,938	100%	320,456,386	100%

### Notes:

1. This assumes that no Shares (other than Shares issued upon conversion of the Convertible Notes) are issued, interest on the Convertible Notes is repaid in cash and no additional Shares are issued (including on exercise of existing options). There are currently 9,050,000 existing options on issue.

2. This assumes that no Shares (other than Shares upon conversion of the Convertible Notes and Interest Shares) are issued, interest on the Convertible Notes is satisfied in full by the issue of Interest Shares and the conversion of the Convertible Notes occurs at the maturity date (5 years from issue), there are no adjustments to the price at which the Interest Shares are issued to that which applies as at the date of this Notice, no default interest is payable and no additional Shares are issued (including on exercise of existing options). There are currently 9,050,000 existing options on issue. If Convertible Notes are converted or redeemed sooner than the maturity date (it is noted that the Company anticipates that Convertible Note A will likely be converted shortly after Completion) or interest is paid in cash, fewer Interest Shares may be issued.

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- (h) Any other information that is reasonably required by Shareholders to make a decision and that is known to the Company or any of its Directors

Save as set out in this Explanatory Memorandum, the Directors are not aware of any other information that will be reasonably required by Shareholders to make a decision in relation to the benefits contemplated by Resolution 1.

## 2.4 Listing Rule 10.11

For the purposes of Listing Rule 10.13 and for all other purposes the following information is provided to Shareholders:

- (a) Name and relationship of the Related Party

Kagara and its wholly owned subsidiary MPL may be considered related parties of the Company (see section 2.2(b) for further details).

- (b) Maximum Number of Securities to be issued (if known) or the formula for calculating the number of Securities to be issued

While it is currently proposed that Convertible Notes will be issued, the maximum number of Shares into which the Convertible Notes may be converted (subject to adjustment in accordance with the terms of the Convertible Notes) will be 112,500,000 Shares on the basis that the Convertible Notes are converted in full into Shares in the Company.

In addition, the Company may issue Shares in satisfaction of its obligation to pay interest on the Convertible Notes. Interest is payable at a rate of 7.5% per annum. Interest accrues daily and is capitalised on a quarterly basis (a period of 3 consecutive months from 1 January, 1 April, 1 July or 1 October). Interest is payable within 5 Business Days of the earlier of 30 June of each year the Convertible Notes are on issue, the date of conversion or the date of redemption.

Assuming:

- all interest on the Convertible Notes is paid by the Company by way of the issue of Shares rather than cash;
- the Convertible Notes are not redeemed or converted in any respect until the maturity date (being 5 years after issue);
- the Interest Shares are issued at the conversion price that applies to the applicable Convertible Note. Convertible Note A has a conversion price (subject to adjustments in accordance with the terms of the Convertible Note) of \$0.10 per Share. Convertible Note B has a conversion price (subject to adjustments in accordance with the terms of the Convertible Note) of \$0.20 per Share and that there are no adjustments to the conversion price; and
- no default interest is payable by the Company,

the maximum number of Shares which may be issued in satisfaction of the Company's obligation to pay interest on the Convertible Notes is 43,332,448. If the Convertible Notes are converted or redeemed earlier than their maturity date (it is noted that the Company anticipates that Convertible Note A will be converted shortly after Completion) or interest is paid in cash, fewer Interest Shares may be issued.

- (c) Date by which the Securities will be issued

The Company will issue the Convertible Notes as soon as possible but in any event within one month following this Meeting.



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The Company may issue the Interest Shares within 5 Business Days of the earlier of 30 June of each year the Convertible Notes are on issue, the date of conversion or the date of redemption of the Convertible Notes. The Company has been granted a waiver of Listing Rule 10.13.3 extending the period in which the Company may issue the Interest Shares from the usual one month period to a period ending 5 years 1 month and 5 business days after the approval is given to issue the Interest Shares at the Meeting.

(d) Issue price and terms of the Securities

Each of the Convertible Notes will have a face value of \$7.5 million. Details regarding the terms of the Convertible Notes is set out in Schedule 2.

Convertible Note A has a conversion price (subject to adjustments in accordance with the terms of the Convertible Note) of \$0.10 per Share. The Company anticipates that Convertible Note A will likely be converted automatically shortly after Completion, as automatic conversion will occur five business days after any duty payable by the Company in respect of the HoA and the Sale Agreement are both fully discharged.

Convertible Note B has a conversion price (subject to adjustments in accordance with the terms of the Convertible Note) of \$0.20 per Share.

The Interest Shares are issued at the conversion price that applies to the applicable Convertible Note in respect of which the interest is being paid as at the date of issue of the relevant Interest Shares.

The Convertible Notes represent secured debt obligations and as such, rank in priority to a return of capital on the Shares on issue in the Company.

All Shares issued on conversion of the Convertible Notes and all Interest Shares will rank pari passu with all of the other fully paid ordinary shares on issue in the Company.

(e) Intended use of funds raised

No funds are being raised by the issue of the Convertible Notes. The Convertible Notes are being issued as consideration for the acquisition of the Northern Regions Assets. In addition, no funds will be raised by the issue of the Interest Shares.

(f) Voting exclusion statement

A voting exclusion statement is set out in Resolution 1.

## 2.5 Chapter 6, section 611 (Item 7) of the Corporations Act

Section 606 of the Corporations Act prohibits a person from acquiring a relevant interest in issued voting shares in a listed company if the acquisition would result in that person's voting power in the company increasing:

- from 20% or below to more than 20%; or
- from a starting point that is above 20% and below 90%.

However, there are certain specified exceptions to the takeover prohibition contained in the Corporations Act. In particular, under section 611 (Item 7) of the Corporations Act an acquisition will not contravene the takeover prohibition if shareholders approve the acquisition by passing a resolution at a general meeting, where:

- no votes were cast in favour of the resolution by the person proposing to make the acquisition or their associates; and

# Explanatory Memorandum

- shareholders were given all information known to the acquirer or the company that was material to the decision on how to vote.

ASIC has also specified certain information which it believes should be disclosed where a Company seeks an acquisition to be exempt under section 611 (Item 7).

The initial acquisition of the Convertible Notes will not result in Kagara or MPL (as the case may be) acquiring a relevant interest in issued voting shares in the Company. However on issue of any Shares on conversion of the Convertible Notes or the issue of the Interest Shares, Kagara and MPL will acquire a relevant interest in those Shares.

Therefore, the acquisition by Kagara or MPL (as the case may be) of any Shares issued upon conversion of the Convertible Notes and the issue of any Interest Shares to Kagara or MPL will result in Kagara or MPL (as the case may be) acquiring a relevant interest in issued voting shares which may cause MPL or Kagara's voting power in the Company to increase from a starting point that is:

- below 20% to more than 20%; or
- from a starting point that is above 20% and below 90%.

As MPL is a wholly owned subsidiary of Kagara, Kagara is deemed to have a relevant interest in all Shares held by MPL.

Accordingly, Resolution 1 seeks approval for the issue of Shares to MPL or Kagara upon conversion of the Convertible Notes and the issue of Interest Shares to MPL or Kagara under section 611 (Item 7).

In accordance with Listing Rule 7.2 (Exception 16), an issue of Securities approved for the purposes of section 611 (Item 7) does not require further approval under Listing Rule 7.1. Therefore, assuming Resolution 1 is passed, any Shares issued upon conversion of the Convertible Notes will not count towards the Company's 15% Capacity under Listing Rule 7.1 and in any event, it is noted that approval under Listing Rule 10.11 is being sought.

- (a) The identity of the person proposing to make the acquisition and their associates

The identity of the person proposing to make the acquisition and their associates is MPL and Kagara.

It should be noted that the approval obtained pursuant to Resolution 1 is only valid in respect of MPL and Kagara. Any on-sale by Kagara or MPL of the Convertible Notes to other parties (which is quite possible given that Kagara and MPL are in liquidation) requiring approval under section 611 (item 7) of the Corporations Act may require the Company to bear costs of re-convening another meeting in accordance with section 611 (item 7) of the Corporations Act.

- (b) The maximum extent of the increase in that person's voting power in the company that would result from the acquisition

Details regarding the current voting power of MPL and consequently Kagara and the potential voting power of MPL and Kagara if the Convertible Notes are fully converted and Interest Shares are issued are set out in section 2.3(g). In summary:

- MPL and Kagara currently have a relevant interest and voting power in 59.25% of the issued capital of the Company;
- the maximum extent of the increase in MPL and Kagara's relevant interest and voting power in the Company that would result from the full conversion of the Convertible Notes (assuming all interest on the Convertible Notes is paid in

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cash and no additional Shares are issued) is 16.55%, bringing the total relevant interest and voting power of Kagara and MPL to 75.80%; and

- the maximum extent of the increase in MPL and Kagara's relevant interest and voting power in the Company that would result from the full conversion of the Convertible Notes and full payment of all interest by way of issue of Interest Shares (assuming the conversion of the Convertible Note occurs at the maturity date (5 years from issue), there are no adjustments to the price at which the Interest Shares are issued to that which applies as at the date of this Notice, no default interest is payable and no additional Shares are issued) is 19.81%, bringing the total relevant interest and voting power of Kagara and MPL to 79.07%.

- (c) The voting power that the person would have as a result of the acquisition

MPL and Kagara would have a maximum voting power of 75.80% if there was full conversion of the Convertible Notes and assuming all interest on the Convertible Notes is paid in cash and no additional Shares are issued.

MPL and Kagara would have a maximum voting power of 79.07% if there was full conversion of the Convertible Notes and full payment of all interest on the Convertible Notes by way of issue of Interest Shares. This assumes the conversion of the Convertible Note occurs at the maturity date (5 years from issue), there are no adjustments to the price at which the Interest Shares are issued to that which applies as at the date of this Notice, no default interest is payable and no additional Shares are issued.

If any of the Convertible Notes are converted or redeemed earlier than their maturity date (it is anticipated that Convertible Note A is likely to be converted shortly after Completion upon payment of all duty on the Proposed Transaction), this will result in a lesser number of Interest Shares which may be issued and in such a case, the potential increase in the holding of Kagara and MPL in the Company will be less than that set out above.

It should be noted that in the event that MPL and Kagara's voting power exceeds 75%, Kagara and MPL would, together, have the power to pass a special resolution of Shareholders. The Corporations Act and the Constitution specify certain matters that require a special resolution of Shareholders. These include, without limitation, a change to the constitution, name or type of the Company, the voluntary winding up of the Company and distribution of assets to members on a winding up, approval of a selective share capital reduction or a selective share buy back and approval to vary class rights or dividend rights.

- (d) The maximum extent of the increase in the voting power of each of that person's associates that would result from the acquisition; and the voting power that each of that person's associates would have as a result of the acquisition.

MPL is the only subsidiary in the Kagara group that holds Shares in the Company. There are no other associates of Kagara or MPL that hold Shares or a relevant interest in the Company.

- (e) Acquirer's intentions regarding the future of the target entity if members approve the acquisition

Other than as disclosed in this Explanatory Statement, Kagara and MPL do not currently have an intention of:

- (1) requesting the Company to change its strategic direction or operational priorities;

# Explanatory Memorandum

- (2) seeking to change the Company's current employment arrangements or board structure;
- (3) seeking to acquire any of the Company's assets or otherwise redeploy the assets of the Company;
- (4) using its increased voting power to attempt to secure additional Board positions or vary the current balance of nominee and independent directors; or
- (5) injecting further capital into the Company to fund the Company's activities.

However, the Shareholders should note that both Kagara and MPL are in liquidation and as part of the liquidation process, the Corporations Act would ordinarily require the Liquidators to dispose of or distribute to creditors Kagara's and MPL's assets, including MPL's Shares in the Company and the Convertible Notes, which may occur at an appropriate time in the future.

Kagara and MPL have advised that they intend to appoint a financial advisor after completion of the Proposed Transaction to advise in relation to a process for the sale of some or all of the Convertible Notes or Shares (as the case may be) held by Kagara and MPL (**Sale Process**). The Sale Process would be run at an appropriate time in the future. The timing for this will be dependent on market conditions and the timing of any ultimate sale will be driven by a range of factors, including whether an appropriate offer is made to Kagara and MPL and the overall status of the liquidations of Kagara and MPL.

- (f) Intention of the acquirer to significantly change the financial or dividend distribution policies of the entity

Other than as disclosed in this Explanatory Statement, the Board is not aware of any intention by MPL or Kagara, as the case may be, to seek a change to the financial or dividend distribution policies of the Company.

- (g) The interests that any director has in the acquisition or any relevant agreement

The current directors' interests are set out above at 2.3(c).

- (h) Intended directors if members approve the acquisition

The Proposed Transaction does not provide for changes to the current Board of Directors and Kagara have advised the Company that it does not currently have an intention to change the current Board of Directors.

- (i) Other information

Details regarding the reasons for, timing of, conditions to and material terms of the Proposed Transaction are set out in this Explanatory Memorandum.

There are no other relevant agreements between the Company and either MPL or Kagara that are conditional on the approval of Resolution 1.

- (j) Recommendation of Disinterested Directors

Based on the information available, including the information contained in this Explanatory Memorandum and the Independent Expert's Report and the advantages and disadvantages outlined in this Explanatory Memorandum and the Independent Expert's Report, each of the Disinterested Directors consider that the Proposed Transaction is in the best interests of the Company and Non-Associated Shareholders. The Disinterested Directors unanimously recommend that Shareholders vote in favour of Resolution 1.

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A detailed explanation of the rationale for the Proposed Transaction is set out in section 2.1(d) and the advantages and disadvantages of the Proposed Transaction are set out in section 2.1(e).

Grant Thornton Corporate Finance Pty Ltd, in the Independent Expert's Report, has valued the consideration and concluded that the Proposed Transaction is not fair but reasonable to the Non-Associated Shareholders and the granting of the Security is fair and reasonable to the Non-Associated Shareholders.

As Mr Treacy is an Interested Director he provides no recommendation with respect to the Proposed Transaction or Resolution 1.

## 3. Interpretation

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The following terms used in the Notice of Meeting and the Explanatory Memorandum are defined as follows:

**ASIC** means the Australian Securities & Investments Commission;

**ASX** means the ASX Limited;

**Company** means Mungana Goldmines Limited ACN 136 606 338 (ASX: MUX);

**Completion** means completion of the Proposed Transaction in accordance with the HoA and Sale Agreement;

**Constitution** means the constitution of the Company from time to time;

**Convertible Note A** has the meaning set out in Schedule 2;

**Convertible Note B** has the meaning set out in Schedule 2;

**Convertible Notes** means the convertible notes to be issued by the Company to Kagara and MPL as consideration for the Proposed Transaction on the terms set out in Schedule 2;

**Corporations Act** means the *Corporations Act 2001* (Cth);

**Directors** means the board of directors of the Company as at the date of the Notice of Meeting being Mr Joseph Treacy, Mr John Fitzgerald and Mr Justin Wu;

**Disinterested Directors** means Mr Justin Wu and Mr John Fitzgerald;

**Explanatory Memorandum** means the explanatory memorandum accompanying this Notice;

**GGHG** means Guangdong Guangxin Holdings Group Ltd;

**Gold Rights Agreement** means the agreement entered on 16 April 2010 (as varied on 4 June 2010, 6 August 2010 and 22 December 2011) between the Company, Kagara and MPL, which provides the Company with the right to explore for and exploit gold and silver resources located within the tenements owned by Kagara in the Chillagoe region of Northern Queensland;

**HoA** means the Heads of Agreement entered on 27 December 2013 between the Company, MPL and Kagara and the Liquidators, the key terms of which are summarised in Schedule 1;

**Independent Expert** means Grant Thornton Corporate Finance Pty Ltd;

**Independent Expert's Report** or **IER** means the independent expert's report prepared by the Independent Expert and dated 23 May 2014 accompanying the Notice;

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**Interest Shares** means Shares issued by the Company in satisfaction of the obligation to pay interest under the terms of the Convertible Notes;

**Interested Director** means Mr Joseph Treacy;

**Kagara** means Kagara Limited (in liquidation) ACN 008 988 583 (ASX: KZL);

**Listing Rules** means the official listing rules of the ASX as amended from time to time;

**Liquidators** means Mark David Englebert, Michael Joseph Patrick Ryan, Quentin James Olde and Stefan Dopking in their capacity as joint and several liquidators of each of Kagara and MPL;

**Meeting** or **EGM** means the Extraordinary General Meeting to be held on Thursday, 24 July 2014 as convened by the accompanying Notice of Meeting;

**MPL** means Mungana Pty Ltd (in liquidation) ACN 101 738 096;

**Non-Associated Shareholders** means the holders of the Company's ordinary fully paid shares whose votes are not to be disregarded on Resolution 1;

**Northern Region Assets** has the meaning given to that term in Schedule 1;

**Notice of Meeting** or **Notice** means the notice of meeting giving notice to Shareholders of the Meeting, accompanying this Explanatory Memorandum;

**Ordinary Resolution** means a resolution passed by more than 50% of the votes cast at a general meeting of shareholders;

**OSR** means the Queensland Office of State Revenue;

**Proposed Transaction** means the transactions contemplated by the HoA and the Sale Agreement;

**Resolution** means a resolution set out in the Notice of Meeting;

**Sale Agreement** means the agreement for the sale of the Northern Region Assets entered on 18 February 2014 between the Company, MPL, Kagara and the Liquidators (as varied), the key terms of which are summarised in Schedule 1;

**Security** means the security to be granted by the Company to MPL and Kagara to secure the indebtedness associated with the Convertible Notes, the key terms of which are summarised in Schedule 3;

**Shares** means fully paid ordinary shares in the Company from time to time; and

**Subsidiaries** has the meaning given to that term in the Corporations Act.

Any term which is defined in Schedule 1 and which is not otherwise defined above, in the Notice or in the Explanatory Memorandum, has the meaning given to that term in Schedule 1.

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*Any inquiries in relation to the Resolutions or the Explanatory Memorandum should be directed to Ben-Louis Ludik (Company Secretary):*

*Office: Level 12, 500 Queen St, Brisbane, 4000  
Phone: +61 7 3835 0800*

## Schedule 1 – Summary of Terms of HoA and Sale Agreement

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### 1. Definitions:

- (a) **Contracts** means the contracts and commitments entered into by Kagara or MPL:
- (1) before the date of the Sale Agreement as specified in the Sale Agreement. This includes royalty agreements (under which private royalties are payable to a number of counterparties), conduct and compensation agreements with landholders, access agreements with QR Network and a Customer Connection Agreement with Ergon Energy; and
  - (2) between the date of the Sale Agreement and Completion which relate exclusively to the Northern Chillagoe Project where entry into such contract has been approved in writing by the Company, such approval not to be unreasonably withheld or delayed,
- which are not fully performed as at Completion;
- (b) **Environmental Authority** means each Queensland environmental authority (mining activities), environmental authority (prescribed ERA) or application for an environmental authority associated with the Tenements each of which is held by either Kagara or MPL;
- (c) **Northern Region Assets** means the Tenements, the Environmental Authorities, the Plant and Equipment, the Contracts, the Real Properties, the Mining Information relating to the Tenements which are owned by and in the possession of Kagara or MPL, the Records relating to the Northern Chillagoe Project which are owned by and in the possession of Kagara or MPL and any RD Claim;
- (d) **Old Stamp Duty Liability** means the duty (if any) payable arising directly from the execution of the Gold Rights Agreement, being the subject of previous assessments by the Office of State Revenue (**OSR**) dated 12 February 2013 plus interest and any additional penalties on those assessments (whether paid or unpaid) or otherwise as such amounts may be determined by the OSR or agreed between the Company and the OSR or such other amount remaining after discharge by payment (or any other means by which some or all of that liability is otherwise satisfied or reduced (directly or indirectly)) by any government agency;
- (e) **Plant and Equipment** means all of the plant, machinery and equipment physically located on the Tenements at Completion and owned by Kagara or MPL used in connection with the Northern Chillagoe Project together with such other plant, machinery and equipment as the Company and Kagara and MPL may agree prior to Completion;
- (f) **Tenements** means EPM 7672, EPM 12902, EPM 14104, EPM 14108, EPM 15458, EPM 15459, EPM 18530, ML 4798, ML 4910, ML 4911, ML 4921, ML 4928, ML 4977, ML 5176, ML 5319, ML 20640, MLA 20658;
- (g) **Real Properties** means Lot 15 on CP LD 29, Lot 80 on CP C5041, Lot 81 on CP C5041, Lot 82 on CP C5041, Lot 1 on CP MPH 24824, Lot 6 on CP LD4, Lot 2 on CP MPH24824, Lot 1 on CP MPH24671, Lot 2 on CP MPH24671, Lot 1 on CP MPH24951, Lot 600 on SP 101788, Lot 11 on SP 104550 and Lot 3 on SP 150971, Lot 163 on CP C5041, Lot 5 on CP LD4, Lot 302 on CP M4872, Lot 2 on RP 703296, Lot 1 on CP MPH 31443, Lot 1 on CP MPH24946, and Lot 1 on CP MPH1948;
- (h) **Mining Information** means all geophysical, geological and geochemical information and data including surveys, maps, mosaics, aerial photographs, electromagnetic tapes, sketches, drawings, memoranda, drill cores, logs of such drill cores, drill maps, sampling and assay reports, notes and other relevant information and data, and

# Explanatory Memorandum

copyright in them, in each case, relating exclusively to the Tenements or the rights to explore for and exploit certain gold resources located within the Tenements and the right to receive any royalty granted by Kagara to the Company pursuant to the Gold Rights Agreement, in any form;

- (i) **Proof of Debt** means any proof or proofs of debt lodged by the Company in any deed of company arrangement or liquidation with Kagara or MPL or any related body corporate of Kagara;
- (j) **Records** means originals and copies in any form of the following documentation and materials exclusively relating to or used in connection with the Northern Chillagoe Project:
  - (1) spreadsheets, financial models and other financial or technical records and documents;
  - (2) trading and financial records; and
  - (3) any records relating to the management of the Northern Chillagoe Project, but excluding any records of the liquidators of Kagara and MPL; and
- (k) **RD Claim** means the benefit of any right and/or claim that Kagara or MPL has in relation to the research and development associated exclusively with the Northern Chillagoe Project which have not been realised at 17 February 2013.

Any term which is defined in the Notice or in the Explanatory Memorandum and which is not otherwise defined above, has the meaning given to that term in the Notice or in the Explanatory Memorandum.

- 2. The Company agrees to purchase such right, title or interest that Kagara and MPL hold in the Northern Region Assets for a purchase price of \$15,000,000 payable through the issue of Convertible Notes, the terms of which are set out in Schedule 2.
- 3. The Proposed Transaction will be undertaken in the following manner:
  - (a) Kagara and MPL will sell, and the Company will acquire, the Northern Region Assets on the terms set out in the Sale Agreement;
  - (b) the Company will issue Convertible Notes as consideration for the purchase of the Northern Region Assets to Kagara and MPL on the terms set out in the Sale Agreement. Pursuant to the Sale Agreement, Kagara and MPL must subscribe for such value of Convertible Notes as is agreed between them and notified to the Company before Completion;
  - (c) any claims that the Company may have against Kagara, MPL or the Liquidators will be withdrawn. Accordingly, subject to Completion occurring, the Company will no longer have any right to claim or otherwise seek payment of any part of the Old Stamp Duty Liability from Kagara or MPL and the Company will be solely responsible for the payment of the Old Stamp Duty Liability. In addition, any inter-company receivables which would otherwise be payable to the Company by Kagara and MPL (currently totalling \$1,696,243 in favour of the Company) will be deemed to be satisfied; and
  - (d) the Company undertakes not to lodge any further Proof of Debt or rely upon any existing or further Proof of Debt in relation to Kagara or MPL or any related body corporate of the same.



# Explanatory Memorandum

4. Completion of the HoA and Sale Agreement is subject to the following conditions (**Conditions Precedent**):
- (a) in respect of the tenements, written notice from the Minister to Kagara and MPL providing indicative approval by the Minister under section 318AAV of the Mining Act, to the transfer of the tenements from Kagara or MPL (as the case may be) to the Company, whether or not subject to conditions. The Company and the Liquidators are currently progressing the applications for indicative approval with the Minister;
  - (b) the Company obtaining the approval of Shareholders in relation to the Proposed Transaction. These approvals are being sought at the Meeting;
  - (c) obtaining consent of Investec Bank (Australia) Limited to the Proposed Transaction in accordance with the terms of its financing facilities to Kagara and its subsidiaries. The Company has been instructed by the Liquidators that the consent of Investec Bank (Australia) Limited to the Proposed Transaction has been obtained;
  - (d) all approvals for the Proposed Transaction required to be obtained by the Company under the Corporations Act, ASX Listing Rules or any other law being obtained, which form the subject of this Meeting. It should be noted that ASIC is not required to and has not approved the Proposed Transaction. The Notice of Meeting and Explanatory Statement have been reviewed by ASX and ASIC. The ASX has reviewed a submission by the Company and has determined that the Company is not required to obtain Shareholder approval under Listing Rules 11.1.1 or 11.2. All relevant Shareholder approvals are being sought at the Meeting;
  - (e) an Independent Expert's Report being prepared and stating that the Proposed Transaction is reasonable to the Non- Associated Shareholders, being those shareholders who are entitled to vote on the Approving Resolution and excluding MPL and its associates. This condition has been satisfied. See attached Independent Expert's Report;
  - (f) all approvals required from ASIC and ASX and any other government agencies to complete the Proposed Transaction excluding any approvals required under the Mining Act, the approval of Shareholders in relation to the Proposed Transaction and the FIRB Condition (see below). Refer to comments above regarding review and determinations by ASIC and ASX. The FIRB condition has been satisfied as at the date of the Notice;
  - (g) all other approvals and resolutions of Shareholders necessary to complete the Proposed Transaction being obtained or passed. All relevant Shareholder approvals are being sought at the Meeting;
  - (h) any approvals from the Court necessary to complete the Proposed Transaction being obtained by Kagara or MPL. The Company has been instructed by the Liquidators that all approvals from the Court necessary to complete the Proposed Transaction have been obtained by Kagara and MPL; and
  - (i) receipt of notice by the Company from each of Kagara and MPL confirming that they each will be ready to provide reasonable evidence of compliance with their respective payment, lodgement and reporting obligations in respect of the tenements held by each of them. This remains to be provided by Kagara and MPL.
5. In addition, the Proposed Transaction is subject to the Company obtaining necessary approvals from the FIRB in relation to the Proposed Transaction (**FIRB Condition**). The FIRB Condition has been satisfied.
6. The Conditions Precedent must be satisfied by 31 July 2014 (**Cut Off Date**) and the Sale Agreement has an end date of 31 August 2014 (**End Date**). Either the Company or Kagara and MPL may terminate the agreement if any of the Conditions Precedent have not been

# Explanatory Memorandum

satisfied or waived by the Cut Off Date. In addition, the parties can terminate the agreement if the FIRB Condition is not satisfied by the Cut Off Date.

7. The Proposed Transaction will complete 5 business days after the satisfaction or waiver of the last of the Conditions Precedent and the FIRB Conditions or any other date agreed.
8. Until Completion, the Company must ensure that it and its related entities and employees or officers do not take any steps in relation to obtaining any third party proposal or offer, whether by takeover bid, scheme, shareholder approved acquisition or share subscription which would detrimentally impact the implementation of the Proposed Transaction.
9. The Company will be assigned various contractual obligations in relation to the Northern Region Assets, and in particular will be bound by the existing royalty deed with Niugini Mining (Australia) Pty Ltd. In addition, the existing first right of refusal to enter an offtake agreement granted by the Company to Guangdong Guangxin Holdings Group Ltd in April 2010 with respect to 50% of the copper concentrate to be produced from the mining operations the subject of the Mineral Rights, will be preserved.
10. Following Completion, the Company must put in place replacement financial assurances relating to the Northern Region Assets. The cash backing for the existing financial assurances provided by Kagara and MPL will be made available to the Company for the replacement financial assurances.
11. Kagara and MPL provide no express representations or warranties regarding the Northern Sale Assets, including without limitation, to title to, standing or condition of the Northern Region Assets. The Company acquires the Northern Region Assets on an 'as is, where is' basis in their present condition and subject to any defects.
12. If at Completion, Kagara or MPL does not have title or rights in relation to any asset forming part of the Northern Region Asset, subject to the following qualification, the purchase price will be reduced by the nominated auction realisable value as determined under the Sale Agreement. However, if Kagara or MPL is unable to transfer any Tenement which is a mining lease, EPM 15458 or EPM 7672, the Company may terminate the Sale Agreement.
13. The maximum liability of Kagara and MPL for any loss in connection with the Sale Agreement is \$50,000.
14. The Company will assume all responsibility for the Northern Region Assets from Completion. In addition, the Company is liable for all liabilities and costs in connection with any environmental clean up relating to the Tenements and remediation, rehabilitation and reclamation in relation to the Tenements, whether arising before or after Completion.
15. The Northern Region Assets are currently the subject of existing security in favour of Investec Bank (Australia Limited). This security is required to be released prior to Completion, however, other encumbrances may remain on the Northern Region Assets at Completion.
16. The Company will become the operator of the Northern Region Assets for the purposes of the *Mining and Quarrying Safety and Health Act 1999* (Qld).

# Explanatory Memorandum

## Schedule 2 – Summary of Terms of Convertible Notes

Issuer	The Company
Issue date	On Completion of the Sale Agreement (subject to Shareholder Approval) or any other date of issue of a Convertible Note.
Principal Amount	\$15,000,000, split into two tranches “Convertible Note A” and “Convertible Note B”, each of \$7,500,000. For completeness it is noted that the Independent Expert has assessed the total fair value of the Convertible notes as \$16,000,000 (refer to the IER for further details).
Interest Rate	7.5% per annum compounded quarterly.
Default Interest Rate	18% per annum compounded quarterly.
Payment of Interest	<p>If the interest accrues in the period following an event of a default but before the default is remedied, then interest must be paid in cash.</p> <p>If interest accrues at any other time, interest may be paid in cash or Shares, at the discretion of the Company.</p> <p>Interest is to be paid on the earlier of 30 June, the date of conversion, or the date of redemption.</p> <p>If paid in the Company's shares, the applicable share issue price is the relevant Conversion Price applicable to the Notes on which the interest is paid at that time.</p>
Maturity Date	5 years from the Issue Date.
Conversion Right	<p>Unless redeemed earlier:</p> <ul style="list-style-type: none"> <li>Convertible Note A will convert automatically five business days after the Old Stamp Duty Liability and any duty payable by the Company in respect of the HoA and the Sale Agreement are both fully discharged. Otherwise, the noteholder may elect to convert Convertible Note A on the Maturity Date; and</li> <li>the noteholder may elect to convert Convertible Note B at any time before the Maturity Date by notice given to the Company at least three business days prior to the anticipated conversion date.</li> </ul>
Denomination	Each Note will be in \$1,000 denominations.
Conversion Price	<p>Convertible Note A - \$7,500,000 worth of Notes, which, if converted, convert at \$0.10 per share.</p> <p>Convertible Note B - \$7,500,000 worth of Notes, which, if converted, convert at \$0.20 per share.</p> <p>The Conversion Price is to be adjusted for various events as set out below.</p>
Redemption Right	<p>The Company may, with 14 days notice, elect to redeem the Convertible Notes for cash at any time before the Notes are converted prior to maturity. However, the Company may not redeem Convertible Note B notes in respect of which a conversion notice has been given to the Company at least 3 business days before the notified date of the proposed redemption.</p> <p>The Company must redeem the Convertible Notes for cash if they</p>

# Explanatory Memorandum

	are not Converted or redeemed prior to the Maturity Date or subject to a conversion notice at least 3 business days prior to the maturity date.
Redemption Price	The principal owing by the Company on that Convertible Note plus any unpaid capitalised or uncapitalised interest on that Convertible Note, all in cash.
Security	The Convertible Notes are to be secured on the terms set out in the General Security Agreement and Featherweight Security Agreement, the key terms of which are summarised at Schedule 3. The Convertible Notes will be secured until the Old Stamp Duty Liability and any other duty payable in relation to the Proposed Transaction are both fully discharged.
Quotation	The Company will not apply for quotation on ASX of the Notes. The Company will apply for quotation of the resulting Shares to be issued upon conversion of the Notes and the Company is to take all steps required so that any Shares issued on conversion of the Notes are freely tradeable, including without limitation, issuing cleansing notices that comply with s708A(5)(e) of the Corporations Act.
Transferability	<p>The noteholder is permitted to transfer one or more of the Notes provided:</p> <ul style="list-style-type: none"> <li>the proposed transferee is within one or more of the categories of investors to whom disclosure is not required as specified in Section 708 of the Corporations Act;</li> <li>the noteholder complies with the terms of the Convertible Note conditions;</li> <li>a transfer form is executed in respect of the Convertible Notes to be transferred; and</li> <li>the noteholder complies with the requirements in relation to ceasing to be a beneficiary in the security trust deed entered by the Company, Kagara (as security trustee) and MPL and Kagara as initial note holders.</li> </ul>
Events of Default	<p>Customary events of default, including:</p> <ul style="list-style-type: none"> <li>the Company fails to comply with its payment obligations or any other obligation under the Convertible Note conditions;</li> <li>the Company becomes insolvent;</li> <li>the Company attempts to create an encumbrance over the Northern Region Assets, the Mineral Rights, the Third Party Assets and the Tenements and Tenement Applications;</li> <li>a creditor of the Company with indebtedness of over \$50,000 exercises acceleration rights; and</li> <li>the Company is subject to a change of control without noteholders' consent (other than by an acquisition of Shares from MPL).</li> </ul> <p>Upon an Event of Default occurring, the noteholder is entitled to</p>

# Explanatory Memorandum

	<p>provide the Company with notice that the remaining amount owing on the Notes is:</p> <ul style="list-style-type: none"> <li>• payable on demand; or</li> <li>• immediately to be converted (within 3 business days).</li> </ul>
Conversion Price Adjustments	<p>Subject to the Corporations Act and the ASX Listing Rules, the Conversion Price will be proportionately adjusted if the following events occur before conversion or redemption of a Convertible Note:</p> <ul style="list-style-type: none"> <li>• payment of any dividend or other distribution on Shares;</li> <li>• any buy back or redemption of Shares at a premium to the relevant volume weighted average share price which exceeds 5%;</li> <li>• any bonus issue of Shares;</li> <li>• a consolidation or subdivision of the Shares;</li> <li>• a pro rata issue of Shares or Share related securities or rights where the consideration is less than 95% or greater than 105% of the then current market price of a Share. This also applies to any securities or rights issued by any subsidiary of the Company;</li> <li>• a pro rata issue of other securities. This also applies to any securities or rights issued by any subsidiary of the Company;</li> <li>• any other issue of Shares or Share related securities or rights where the consideration is less than 95% or more than 105% of the then current market price of a Share or any change to the terms of a Share related security or right which has that effect on the consideration. This also applies to any securities or rights issued by any subsidiary of the Company; or</li> <li>• an issue of securities in a spin off or demerged entity.</li> </ul> <p>If either the Company or the noteholder, after consultation, determine that an adjustment should be made to a Conversion Price to give the intended result as a result of:</p> <ul style="list-style-type: none"> <li>• an event other than those listed above;</li> <li>• one or more adjustment events occurring within a short space of time; or</li> <li>• an adjustment event giving rise to more than one adjustment,</li> </ul> <p>then the Company will use its reasonable endeavours to procure an adjustment that is fair and reasonable to take account of the circumstances with the date of effect being determined by an independent expert.</p> <p>The Conversion Price adjustment events will not apply where</p>

## Explanatory Memorandum

	Share or other securities are issued or modified to or for the benefit of employees or former employees or officers or former officers of the Company or its subsidiaries pursuant to an employee share scheme or plan.
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### Schedule 3 - Key Terms of the Security

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1. Definitions:

- (a) **Mineral Rights** means the right to explore for and exploit certain gold resources located within the Tenements, granted by Kagara and MPL to the Company and the right to receive any royalty granted by Kagara to the Company pursuant to the Gold Rights Agreement;
- (b) **Third Party Assets** means all assets in the possession of Kagara or MPL immediately prior to Completion and transferred to the Company under the Sale Agreement which are on loan, subject to lease, hire purchase, conditional sale, rental, contract hire or other agreements which do not pass title to Kagara or MPL, or of which it is for any reason, bailee; and
- (c) **Tenement Applications** means application MLA 20658 and any other tenement application now or in the future made in respect of the land the subject of the Tenements together with any extensions, renewals, consolidations, replacements or amendments to or grants of those applications and all rights associated with each of those applications.

2. The Company will enter into a general security agreement and mining mortgage (**GSA**) and featherweight security agreement (**FSA**) with Kagara and MPL, the key terms of which are set out below.

3. The Company grants a security interest in:

- (a) the Northern Region Assets, the Mineral Rights, the Third Party Assets and the Tenements and Tenement Applications (**Collateral**); and
- (b) the Company's present and future property (other than the Collateral) (**Featherweight Collateral**),

to Kagara and MPL to secure payment of all money in connection with the Convertible Notes and the Security on the terms set out in the GSA and FSA (whether or not of a type within the contemplation of the parties at the date of signing of the GSA and FSA):

- (a) the Company is or may become actually or contingently liable to pay to Kagara or MPL;
- (b) Kagara or MPL has advanced or paid on the Company's behalf or at the Company's request;
- (c) Kagara or MPL is liable to pay by reason of any act or omission on the Company's part, or that Kagara or MPL has paid or advanced in protecting or maintaining the Collateral or Featherweight Collateral or any security interest in the GSA or FSA following an act or omission on the Company's part; and
- (d) the Company would have been liable to pay Kagara or MPL but the amount remains unpaid by reason of the Company's insolvency.

4. Where the security interest is granted over the Tenements or any Tenement Applications, it is a mortgage. The security interest in respect of the balance of the Collateral will be a charge.

5. The Security is to be released once, upon request from the Company, Kagara is satisfied that the Old Stamp Duty Liability and any duty payable under the Sale Agreement have both been fully discharged. Given the Old Stamp Duty Liability has been discharged, the Company anticipates that it is likely that the Security will be released shortly after Completion, upon payment of any duty relating to the Sale Agreement.

# Explanatory Memorandum

6. The Company provides various representations and warranties and undertakings in favour of Kagara and MPL on terms standard to a transaction of this type.
7. The Company is restricted in its dealings with the Collateral, in particular, the Company must not create or allow any encumbrances over the Collateral except on the terms set out in the GSA and FSA.
8. Various events are specified as events of default including, without limitation:
  - (a) non-compliance with obligations in respect of the Convertible Notes or there is an event of default under the terms of the Convertible Note;
  - (b) certain insolvency events;
  - (c) an event which has a material adverse effect on the ability of the Company to comply with the terms of the Convertible Notes or the business, operations, property, condition, cashflows or prospects of the Company and its subsidiaries (taken as a whole); or
  - (d) there is a change in control of the Company (other than by an acquisition of Shares from MPL).
9. If an event of default occurs, Kagara and MPL may, amongst other things, sue the Company for the secured money, appoint one or more receivers or may otherwise deal with or dispose of the Collateral in accordance with the terms of the GSA and FSA.



# Explanatory Memorandum

## **Schedule 4 – Independent Experts Report**

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## Proxies and representatives

Shareholders are entitled to appoint a proxy to attend and vote on their behalf. Where a shareholder is entitled to cast two or more votes at the meeting, they may appoint two proxies. Where more than one proxy is appointed, each proxy may be appointed to represent a specific proportion or number of votes the shareholder may exercise. If the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes. The proxy may, but need not, be a shareholder of the Company.

Shareholders who are a body corporate are able to appoint representatives to attend and vote at the meeting under Section 250D of the *Corporations Act 2001* (Cth).

The proxy form must be signed by the shareholder or his/her attorney duly authorised in writing or, if the shareholder is a corporation, in a manner permitted by the *Corporations Act*.

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be **deposited at, posted to, or sent by facsimile transmission to the address listed below , or the Share Registry, at the address listed below** not less than 48 hours before the time for holding the meeting, or adjourned meeting as the case may be, at which the individual named in the proxy form proposes to vote.

Link Market Services

Locked Bag A14, Sydney South NSW 1235

Tel: 1300 554 474 (toll free) or +61 28280 7111

Fax: +61 2 9287 0303 or +61 2 9287 0309 (for proxy voting)

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate may be obtained from the Company's share registry.

A proxy form is attached to this Notice.

## Voting entitlement

For the purposes of determining voting entitlements at the Meeting, shares will be taken to be held by the persons who are registered as holding the shares at 7.00pm Tuesday, 22 July 2014. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

## Signing instructions

You must sign the proxy form as follows in the spaces provided:

- |                    |   |
|--------------------|---|
| Individual:        | Where the holding is in one name, the holder must sign.   |
| Joint Holding:     | Where the holding is in more than one name, all of the security holders should sign.  |
| Power of Attorney: | To sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.                    |
| Companies:         | Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the <i>Corporations Act 2001</i> ) does not have a Company Secretary, a Sole Director can also sign alone. |

Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary.

Please indicate the office held by signing in the appropriate place.



**MUNGANA  
GOLDMINES**

**Mungana Goldmines Ltd**  
ABN 15 136 606 338

## LODGE YOUR VOTE



**ONLINE**

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)



**By mail:**  
Mungana Goldmines Ltd  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235 Australia



**By fax:** +61 2 9287 0309



**All enquiries to: Telephone:** +61 1300 554 474

## SHAREHOLDER PROXY FORM

I/We being a member(s) of Mungana Goldmines Ltd and entitled to attend and vote hereby appoint:

### STEP 1

#### APPOINT A PROXY

☐

**the Chairman  
of the Meeting  
(mark box)**

**OR** if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy and to vote for me/us on my/our behalf at the Extraordinary General Meeting of the Company to be held at **10:00am (Brisbane time) on Thursday, 24 July 2014, at the offices of HopgoodGanim, Level 7, Waterfront Place, 1 Eagle Street, Brisbane, Queensland** and at any adjournment or postponement of the meeting. Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman of the Meeting becomes my/our proxy by default), I/we expressly authorise the Chairman of the Meeting to exercise my/our proxy on Resolution 1 (except where I/we have indicated a different voting intention below) even though the Chairman has an interest in the outcome of Resolution 1.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 1.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting. Please read the voting instructions overleaf before marking any boxes with an **X**

### STEP 2

#### VOTING DIRECTIONS

##### Resolution 1

Approval of transactions within Kagara Ltd (in liquidation) and Mungana Pty Ltd (in liquidation) to acquire the Northern Region Assets

**For**

☐

**Against**

☐

**Abstain\***

☐

**i** \* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

### STEP 3

#### IMPORTANT - VOTING EXCLUSIONS

If the Chairman of the Meeting is appointed as your proxy, or may be appointed by default and you do not wish to direct your proxy how to vote as your proxy in respect of Resolution 1 above, please place a mark in this box.

☐

By marking this box, you acknowledge that the Chairman of the Meeting may exercise your proxy even though he has an interest in the outcome of Resolution 1 and that votes cast by him for Resolution 1, other than as proxyholder, would be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on Resolution 1 and your votes will not be counted in calculating the required majority if a poll is called on this Resolution.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 1, subject to compliance with the Listing Rules.

### STEP 4

#### SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Sole Director and Sole Company Secretary

Joint Shareholder 2 (Individual)

Director/Company Secretary (Delete one)

Joint Shareholder 3 (Individual)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

**MUX PRX402**



## HOW TO COMPLETE THIS PROXY FORM

### Your Name and Address

This is your name and address as it appears on the Company's Share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

### Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you appoint someone other than the Chairman of the Meeting as your proxy, you will also be appointing the Chairman of the Meeting as your alternate proxy to act as your proxy in the event the named proxy does not attend the meeting. If you have directed your proxy how to vote on a Resolution and your named proxy either does not attend the Meeting or attends the Meeting but does not vote on a poll on the Resolution, the Chairman of the Meeting will become your proxy in respect of that Resolution on a poll. A proxy need not be a Shareholder of the Company. A proxy may be an individual or a body corporate.

### Votes on Items of Business - Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your Shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of Shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

### Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together. The appointment of the Chairman of the Meeting as your alternate proxy also applies to the appointment of the second proxy.

To appoint a second proxy you must:

- on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of Shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- return both forms together.

### Signing Instructions

You must sign this form as follows in the spaces provided:

**Individual:** where the holding is in one name, the holder must sign.

**Joint Holding:** where the holding is in more than one name, either shareholder may sign.

**Power of Attorney:** to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

### Corporate Representatives

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry.

## Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am (Brisbane time) on Tuesday, 22 July 2014**, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy Forms may be lodged using the reply paid envelope or:



**ONLINE** > [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Login to the Link website using the holding details as shown on the proxy form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the proxy form).



**by mail:**

Mungana Goldmines Ltd  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235  
Australia



**by fax:**

+61 2 9287 0309



**by hand:**

delivering it to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

**If you would like to attend and vote at the Extraordinary General Meeting, please bring this form with you.  
This will assist in registering your attendance.**

# Mungana Goldmines Limited

Independent Expert's Report and Financial Services Guide

23 May 2014

Grant Thornton Corporate Finance has concluded that:

- The Proposed Transaction is NOT FAIR but REASONABLE to the Non-Associated Shareholders; and
- The granting of the Security is FAIR and REASONABLE to the Non-Associated Shareholders.



**Grant Thornton**  
An instinct for growth™

The Independent Directors  
Mungana Goldmines Limited  
Level 12  
500 Queen Street  
Brisbane QLD 4000

**Grant Thornton Corporate Finance Pty Ltd**  
ABN 59 003 265 987  
AFSL 247140

Level 17, 383 Kent Street  
Sydney NSW 2000  
PO Locked Bag Q800  
QVB Post Office  
Sydney NSW 1230  
T + 61 2 8297 2400  
F + 61 2 9299 4445  
E [info@gtntsw.com.au](mailto:info@gtntsw.com.au)  
W [www.grantthornton.com.au](http://www.grantthornton.com.au)

23 May 2014

Dear Independent Directors

## **Independent Expert's Report and Financial Services Guide**

### **Introduction**

Mungana Goldmines Limited ("MUX" or the "Company") is listed on the Australian Securities Exchange ("ASX") and primarily focuses on the development and exploration of gold in Queensland, South Australia and New South Wales.

Kagara Ltd (in Liquidation) ("KZL")<sup>1</sup> is an ASX listed company primarily engaged in the exploration, development and production of base metals in North Queensland and Western Australia. KZL is currently the largest shareholder of MUX, holding approximately 59.25% of the issued capital of MUX through its wholly owned subsidiary Mungana Pty Ltd (in Liquidation) ("MPL") (accordingly, from here on MPL and KZL may be collectively referred to as "KZL").

For the purpose of an initial public offering ("IPO") of MUX, MPL and KZL entered into a Gold Rights Agreement ("GRA") in April 2010 under which KZL and MPL granted MUX the right to explore for and exploit gold and silver dominant resources ("the GRA Rights") within various tenements of the Chillagoe region, Queensland ("GRA Tenements"). Under the GRA, KZL and MPL retained legal tenure of the GRA Tenements and the rights to all base and other dominant resources ("KZL's GRA Assets").

Since KZL and MPL were placed into voluntary administration in April 2012, a number of disputes and concerns over certain rights and obligations under the GRA have emerged. The key disputes and concerns included:

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<sup>1</sup> KZL and MPL were placed into Voluntary Administration in April 2012 and subsequently into liquidation on 16 December 2013.

- *Stamp Duty Liability (including interest and penalties)* – on 14 February 2013, MUX announced that it had received a duty assessment, including penalties and interest, from the Queensland Office of State Revenue (“QOSR”) for A\$12.19 million in respect of the GRA (“Stamp Duty Liability”). In response, MUX lodged an objection to the Stamp Duty assessment on 12 April 2013. This dispute has been recently resolved as on 7 May 2014 MUX received a favourable decision from the QOSR on its objection to the Stamp Duty Liability assessment. The QOSR reduced the stamp duty assessment of A\$12.19 million to nil and will refund approximately A\$1.2 million in stamp duty assessment payments that MUX has made to date<sup>2</sup>.
- *Proof of Debt* – MUX Management and its legal representatives have been in discussions with KZL and the Administrators/ Liquidators in relation to potential breaches of the GRA by KZL, including the payment of the Stamp Duty Liability (now resolved). As at the date of this Report, MUX has lodged two proof of debt claims against KZL for the Stamp Duty Liability (now withdrawn), over-mining and dewatering damages in relation to the GRA, intercompany loans and other items totalling approximately A\$44.7 million. This gross amount will be reduced to A\$32.5 million if the Stamp Duty Liability is excluded (“the Proof of Debt” – excluding the Stamp Duty Liability).

Since the appointment of voluntary administrators to KZL, MUX has engaged with KZL and MPL to find a mutually acceptable resolution to the outstanding concerns and disputes between the companies.

### **Proposed Transaction**

On 18 February 2014<sup>3</sup>, KZL, MPL, the Liquidators and MUX entered into a sale agreement (“Sale Agreement”) for the sale and purchase of the GRA Tenements, KZL’s GRA Assets and other related assets<sup>4</sup> (“Northern Region Assets”) between KZL and MUX for a consideration of A\$15.0 million payable via the issue by MUX of secured convertible notes (“the Convertible Notes”) in two tranches of A\$7.5 million each (“the Proposed Transaction”).

The transaction structure under the Sale Agreement is summarised below:

- MUX will acquire the Northern Region Assets from KZL and MPL.
- MUX will issue the Convertible Notes as consideration for the Northern Region Assets to KZL and MPL. The Convertible Notes are split into two Tranches maturing 5-years from the date of issue as set out below:
  - (i) Tranche A - convert at A\$0.10 per share at the earlier of 5 years or 5 business days after the Stamp Duty Liability and any duty payable by the Company in respect of the HOA and Sale Agreement are both fully discharged. Given the Stamp Duty Liability has recently been fully discharged and MUX will pay the new duty in relation to the HOA and Sale Agreement shortly after completion, the Tranche A Notes will convert at A\$0.10 on or around completion.

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<sup>2</sup> This refund occurred on 21 May 2014.

<sup>3</sup> On 30 December 2013, the above parties announced that they had entered into a binding HOA in relation to the Proposed Transaction.

<sup>4</sup> Other related assets include an incomplete processing and crushing plant, buildings, camp site and vehicles.

- (ii) Tranche B - convert at A\$0.20 per share.
- The Company grants a general security interest in the Northern Region Assets, and a 'featherweight' security<sup>5</sup> interest in all its other current and future assets to KZL and MPL to secure payment of the indebtedness associated with the Convertible Notes until the Stamp Duty Liability and any new duty in relation to the Proposed Transaction is fully discharged ("Security"). Based on the discussion above in relation to discharge of the Stamp Duty Liability and the new duty, the Security will be granted at completion but released shortly after.
- All claims between KZL, MPL, the Liquidators and MUX shall be fully and finally discharged and released, and any proof of debt lodged will be withdrawn.
- MUX undertakes not to lodge any further proof of debt in relation to KZL or MPL.

We note that the parties have not proceeded with a renegotiation of the terms of the Proposed Transaction after the Stamp Duty Liability was fully discharged on 7 May 2014.

The Independent Directors (being Mr Fitzgerald and Mr Wu) recommend the shareholders of MUX not associated with KZL and MPL ("Non-Associated Shareholders") to vote in favour of the Proposed Transaction.

### **Purpose of the report**

The Independent Directors of MUX have engaged Grant Thornton Corporate Finance Pty Limited ("Grant Thornton Corporate Finance") to prepare an independent expert's report to state whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders for the purposes of Chapter 10 of the ASX Listing Rules, Item 7 of Section 611 of the Corporations Act, 2001 ("the Corporations Act") and Chapter 2E of the Corporations Act.

For the purpose of this report, an independent technical specialist, SRK Consulting (Australasia) Pty Limited ("SRK"), was engaged to prepare an independent technical report ("the Technical Report") in relation to the exploration and pre-development assets owned by MUX and the Northern Region Assets. SRK's report is included as Appendix D to this report.

In addition, Australian Auctions Pty Ltd ("Hassalls") was engaged to provide an independent valuation report in relation to the plant, equipment and infrastructure assets which form part of the Northern Region Assets to be purchased by MUX. Hassalls Report is included as Appendix E to this report.

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<sup>5</sup> Featherweight security interest means that the proceeds from the sale of MUX's other current and future assets (i.e. excluding the Northern Region Assets) in the event of an insolvency cannot be used by KZL or MPL to discharge the indebtedness under the Convertible Notes.



## Summary of opinion in relation to the Proposed Transaction

**Grant Thornton Corporate Finance has concluded that the Proposed Transaction is NOT FAIR BUT REASONABLE to the Non-Associated Shareholders. In the absence of a superior alternative proposal emerging, we are of the opinion that the advantages of completing the Proposed Transaction outweigh the disadvantages.**

We are of the opinion that the Proposed Transaction is not fair but reasonable, and that in the absence of a superior alternative proposal emerging, the advantages of the Proposed Transaction outweigh the disadvantages to Non-Associated Shareholders due to the following key reasons (refer to the reasonableness assessment section for further details):

- KZL already holds approximately 60% of the issued capital of MUX. Accordingly, it already owns a controlling interest over the Company. However, in accordance with the requirements of RG111, we have considered the Proposed Transaction a change of control transaction. Accordingly, in our fairness assessment, Grant Thornton Corporate Finance has compared the fair market value per MUX Share before the Proposed Transaction on a control basis with the fair market value per MUX Share after the Proposed Transaction on a minority basis. Specifically, in our valuation assessment of MUX after the Proposed Transaction, we have applied a full minority discount between 17% and 29% in accordance with the fairness assessment requirement of RG111 even if KZL already owns control of MUX.

We note that paragraph 27 of ASIC RG111 indicates that if the expert believes that the allottee of shares under a transaction requiring shareholders' approval under Section 611 (7) has not increased its control over the company as a practical matter, then the expert could take this outcome into account in assessing whether the transaction is reasonable if it has assessed that the transaction is not fair.

- The conversion price of the Convertible Notes is at a substantial premium to the current trading prices of MUX and the trading prices before the announcement of the Proposed Transaction as summarised below:
  - Tranche A conversion price of A\$0.10 per share is at a premium of 47% to the current trading price and of 81% to the share trading before the announcement of the Proposed Transaction.
  - Tranche B conversion price of A\$0.20 per share is at a premium of 194% to the current trading price and of 263% to the share trading before the announcement of the Proposed Transaction.

However, as discussed in section 7.9, the depth and liquidity in MUX's trading is limited.

- If the Proposed Transaction is completed, the GRA will be terminated removing a significant impediment towards the development of the Northern Region Assets. As a result, MUX will likely become a more attractive investment proposition for potential acquirers or investors as the uncertainty surrounding the legal ownership of the Northern Region Assets under the GRA will be resolved.

- In the absence of the Proposed Transaction or an alternative transaction, all other things being equal, it is likely that MUX Shares will trade at prices lower than the prices achieved in the trading period since the announcement of the Proposed Transaction.

### ***Fairness assessment of the Proposed Transaction***

In forming our opinion in relation to the fairness of the Proposed Transaction to the Non-Associated Shareholders, we have analysed the Proposed Transaction as a whole. Specifically, Grant Thornton Corporate Finance has compared the fair market value per MUX Share before the Proposed Transaction on a control basis with the fair market value per MUX Share after the Proposed Transaction on a minority basis.

As part of the Proposed Transaction to secure the indebtedness associated with the Convertible Notes, MUX will grant a general security interest in the Northern Region Assets, and a ‘featherweight’ security<sup>6</sup> interest in all its other current and future assets to KZL and MPL. Under ASX Listing Rules this is considered equivalent to the sale of material assets to a related party. Grant Thornton Corporate Finance has undertaken a separate fairness test in relation to the granting of the Security. However, based on the discussion above in relation to discharge of the Stamp Duty Liability and the new duty, we note that the Security will be granted at completion but released shortly after.

The following table and graph summarise our fairness assessment:

Fairness assessment	Section reference	Low Cents	High Cents
Fair market value per MUX Share before the Proposed Transaction on a control basis	7.0	18.95	23.56
Fair market value per MUX Share after the Proposed Transaction on a minority basis	8.0	14.84	18.24
Increase/(decrease) in value per MUX Share		(4.11)	(5.32)
Increase/(decrease) in value per MUX Share (%)		(21.7%)	(22.6%)

*Source: Grant Thornton Corporate Finance Calculations*

The fair market value per MUX share on a minority basis after the Proposed Transaction is lower than the fair market value per MUX share prior to the completion of the Proposed Transaction on a control basis. Accordingly, we have concluded that the Proposed Transaction is not fair to the Non-Associated Shareholders.

MUX Shareholders should be aware that our assessment of the value per MUX Share does not reflect the price at which MUX Shares will trade if the Proposed Transaction is completed. The price at which MUX Shares will ultimately trade depends on a range of factors including the liquidity of MUX Shares, macro-economic conditions, gold price, exchange rate and the underlying performance of the MUX business.

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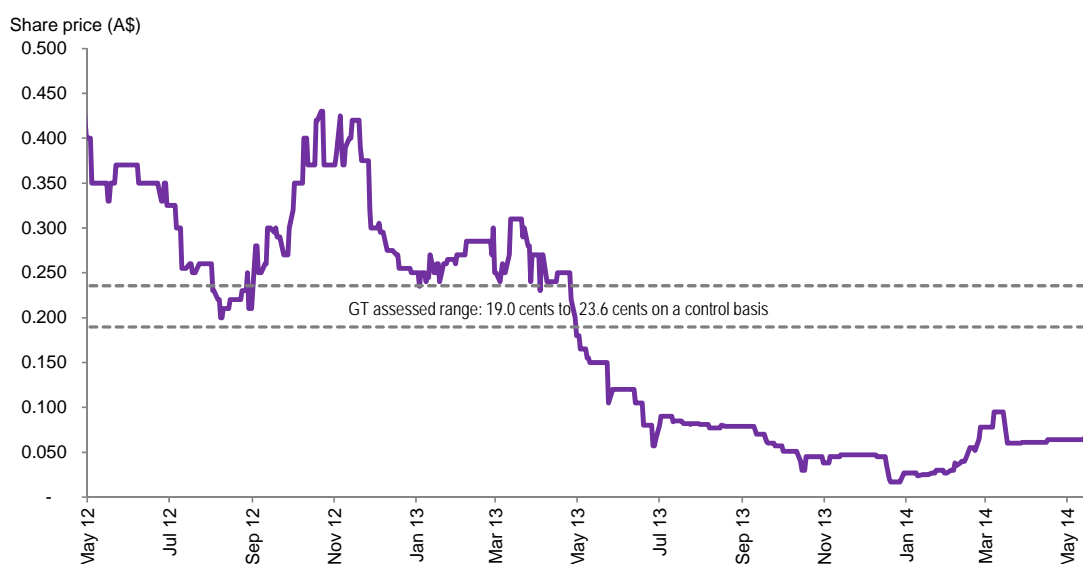
<sup>6</sup> Featherweight security interest means that the proceeds from the sale of MUX’s other current and future assets (i.e. excluding the Northern Region Assets) in the event of an insolvency cannot be used by KZL or MPL to discharge the indebtedness under the Convertible Notes.

Please note these sensitivities do not represent a range of potential values of the GRA Assets, but intends to show to non-Associated Shareholders the sensitivity of our valuation assessment to changes in certain variables.

#### *Comparison with the trading prices*

We note that our assessment of the fair market value of MUX before the Proposed Transaction between 19.0 cents and 23.6 cents is materially higher than the recent share trading.

Set out below is a graphical representation of our valuation assessment compared with historical trading prices:



*Source: Capital IQ and GTCF calculations*

In our opinion, this pricing differential between our valuation assessment of MUX on a control basis before the Proposed Transaction and the recent share trading is due to the following:

- Our valuation assessment is based on a 100% basis and incorporates a premium for control.
- The depth and liquidity of MUX trading Our valuation assessment is limited and accordingly based on the trading prices may not reflect the underlying fair market value concept (willing but not anxious parties) and it does not consider the of the Company. We note that following the announcement of the full discharge of the Stamp Duty Liability on 7 May 2014, MUX<sup>7</sup> T, however, likely in the trading share price did not change for the 4 business days following the announcement. We note that at the time announcement, MUX's market capitalisation was approximately A\$11 million and as a result of the discharge of the Stamp Duty Liability, the equity value of MUX should have increased (all other things being the same) by approximately

<sup>7</sup> We note that the Company's cash balance was A\$2 million as at 31 December 2013. In addition, the reviewed accounts as at 31 December 2013 included an emphasis of matter in relation to the ability of the Company to continue as a going concern

A\$13.4 million (being the sum of A\$12.2 million of stamp duty liability discharge and A\$1.2 million refund of interest payment).

- Our valuation assessment may not fully reflect that uncertainty in relation to the ability of MUX to progress/fund/divest its GRA Assets given the complexities of the GRA, including its legal framework, and KZL's Voluntary Administration and subsequent Liquidation.

Our valuation assessment may not fully reflect that in relation to MUX's share price after the announcement of the Proposed Transaction, whilst it is still at a significant discount to our valuation assessment, there recently been a substantial uplift which seems to indicate a potential re-rating of MUX if the Proposed Transaction is completed. However, the limitations discussed above in relation to the lack of liquidity in MUX's trading may materially impact the reliability of the share price as proxy for fair market value.

### ***Fairness assessment of the granting of the Security***

If the Proposed Transaction is completed, the Company will grant a general security interest in relation to the Northern Region Assets and a 'featherweight' security<sup>8</sup> in relation to all other current and future assets of MUX (including the Northern Region Assets) to KZL and MPL to secure payment of the indebtedness associated with the Convertible Notes

Under ASX Listing Rule 10.1 and based on the specific circumstances of MUX and KZL, the granting of the Security is considered the disposition of a material asset to a related party. We note that KZL will be able to call upon the Security only under specific circumstances and if MUX is in breach of its obligations under the Convertible Notes Deed. This is only likely to occur if the Company ceases to be a viable going concern. Given in our above assessment of the fairness of the Proposed Transaction we have assumed that the Company will continue to operate as a going concern, in this section of the report we have specifically dealt with the fairness of granting the Security to KZL.

In analysing whether or not the granting of the Security to KZL as part of the Proposed Transaction is fair to the Non-Associated Shareholders we have considered the following:

- If the Northern Region Assets are sold in the event of a default to satisfy the Company's liabilities under the Convertible Notes, KZL will receive a maximum amount equal to the total amount owing to it under the Convertible Notes Tranche B (the Convertible Notes Tranche A are expected to convert on or around completion of the Proposed Transaction).
- If KZL and MPL call upon the Security, the disposal of the secured assets are required to be dealt with in a manner which attempts to realise market value as at the time of the sale having regard to the state of the asset at that time

**Based on the above, we have concluded that the granting of the Security is fair to the Non-Associated Shareholders.**

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<sup>8</sup> Featherweight security interest means that the proceeds from the sale of MUX's other current and future assets (i.e. excluding the Northern Region Assets) in the event of an insolvency cannot be used by KZL or MPL to discharge the indebtedness under the Convertible Notes.

### ***Reasonableness assessment***

ASIC Regulatory Statement 111 “Content of expert reports” (“RG111”) establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite being not fair, there are sufficient reasons for the security holders to accept the offer in the absence of any higher bid before the offer closes. In assessing the reasonableness of the Proposed Transaction and granting of the Security, we have considered the following advantages, disadvantages and other factors.

### **Advantages**

#### *KZL already controls MUX*

In relation to the Proposed Transaction and KZL’s interest in MUX, we note the following:

- As set out in the Notice of Meeting and Explanatory Memorandum, KZL has advised the Company that it does not currently have an intention to change the current Board of Directors of MUX.
- KZL has also indicated to the Company that it does not currently have an intention of:
  - requesting the Company to change its strategic direction or operational priorities;
  - seeking to change the Company’s current employment arrangements or board structure;
  - seeking to acquire any of the Company’s assets or otherwise redeploy the assets of the Company;
- KZL and MPL have advised that they intend to appoint a financial advisor after completion of the Proposed Transaction to advise in relation to a process for the sale of some or all of the Convertible Notes or Shares (as the case may be) held by KZL.

#### *Conversion price*

As discussed above and more extensively in section 7.9, the depth and liquidity in MUX’s trading is limited and we are of the opinion that MUX trading prices may not be reflective of fair market value. However, we note that the conversion price of the Convertible Notes is at a substantial premium to the current trading prices of MUX and the trading prices before the announcement of the Proposed Transaction as summarised below:

- Tranche A conversion price of A\$0.10 per share is at a premium of 47% to the current trading price and of 81% to the share trading before the announcement of the Proposed Transaction.
- Tranche B conversion price of A\$0.20 per share is at a premium of 194% to the current trading price and of 263% to the share trading before the announcement of the Proposed Transaction

### *Termination of the GRA*

Under the GRA, MUX has the right to explore for and exploit certain gold/silver resources within various tenements of the Chillagoe region, Queensland, while KZL and MPL are the legal owners of the tenements. This arrangement has created uncertainty in the past in relation to the rights of each party and several disputes have emerged between MUX, and KZL and MPL. Given the complexity of the legal framework surrounding the GRA Tenements, in our opinion, MUX may find significant challenges to raise the required funds to further advance the development of the GRA Assets.

If the Proposed Transaction is completed, the GRA will be terminated removing a significant impediment towards the development of the Northern Region Assets. As a result, MUX will likely become a more attractive investment proposition for potential acquirers or investors as the uncertainty surrounding the legal ownership of the Northern Region Assets under the GRA will be resolved.

In addition, we note that given MUX has recently fully divested its interest in the Tunkillia and Tarcoola Projects, the GRA Assets will likely be MUX's only pre-development asset in the short to medium term and core driver of value for the Company.

### *Ability of MUX Shareholders to continue to participate in the future prospects of the GRA Assets*

If the Proposed Transaction is completed, MUX Shareholders will retain exposure to the development of the MUX GRA Assets (i.e. the Mungana Gold Project).

### *Creation of a more diversified Australian gold and base metals company*

The acquisition of the Northern Region Assets will enable shareholders of MUX to benefit from being part of a more diversified Australian gold and base metals company. If the Proposed Transaction is completed, MUX will acquire the base metals and other resource rights to complement the gold and silver resources acquired under the GRA in 2010. This will provide MUX 100% ownership of the Northern Region Assets which contain a large number of early to advanced stage exploration assets that have significant exploration targets.

### *Simplifies the development potential of the MUX's GRA Assets*

The addition of KZL base metals resources will simplify the development of MUX's GRA Assets as Management will be free to develop the region and to pursue exploration targets without the complexity of the GRA. Further, Management of MUX will be able to review the base metal potential of certain KZL assets such as the King Vol deposit where a significant amount of pre-feasibility work has been undertaken. Management of MUX believe a feasibility study of King Vol could be finalised in the short to medium term.

While significant funding will be required to progress any development activities, the consolidation of the GRA assets and termination of the GRA will place MUX in a significantly improved position to raise funds from potential investors.

### *Alternative transactions*

Since the appointment of Administrators to KZL, MUX has engaged with KZL and MPL to find a mutually acceptable resolution to GRA. However, due to low commodity prices and poor market sentiment, all negotiations have been unsuccessful to date. Specifically, we note that the following transactions were proposed between MUX and KZL/MPL under Administration / Liquidation but did not complete:

- In November 2012, KZL, MPL, the Administrators and MUX entered into a binding Heads of Agreement (“HOA”) pursuant to which MUX was supposed to buyback 95,563,135 MUX Shares from MPL, terminate the GRA, settle any net intercompany balance and accept any new stamp duties in relation to the proposed transaction. However, in March 2013 the transaction was terminated as some of the key condition precedents were not able to be met.
- In May 2013, KZL, MPL, the Administrators and MUX entered into another binding HOA for the joint sale of the GRA Tenements, MUX’s GRA Assets and KZL’s GRA assets and other GRA related assets (“the Joint Sale”). In conjunction with the Joint Sale, MUX intended to buy back up to 97,546,943 MUX Shares from MPL with its allocation of the sale proceeds from the Joint Sale. In August 2013, the transaction was terminated.

Taking into account the above unsuccessful transactions, the current market conditions, the complexities of the GRA and the limited funds of the Company, it is unlikely a more favourable alternative proposed transaction will become available to the Non-Associated Shareholders in a timely manner.

### *Terms of the Convertible Notes*

Given the current circumstances of the Company, it is unlikely that MUX would be able to raise capital to fund the acquisition of the Northern Region Assets on more favourable terms than the Convertible Notes.

The conversion price of the Convertible Notes is A\$0.10 per share and A\$0.20 per share for Tranche A and Tranche B respectively. The conversion price represents a significant premium over recent trading prices of MUX.

### **Disadvantages**

#### *Proof of Debt Claim*

If the Proposed Transaction is completed, MUX will withdraw its Proof of Debt Claim of approximately A\$44.7 million (or A\$32.5 million if the discharge of the Stamp Duty Liability is taken into account) and lose the right to submit any future claims. However, we note that based on discussions with the Liquidators, the expected return to Unsecured Creditors is currently expected at less than 10 cents in the dollar. Further, as discussed in more details in section 7.3, the Proof of Debt Claim lodged by MUX is likely to be legally disputed by the Liquidators.



*Dilution from the shares issued to KZL upon the conversion of convertible notes*

If the Proposed Transaction is completed, KZL will have the ability to increase its shareholding interest in MUX from 59.25% up to 75.80%<sup>9</sup>. As a result, the ability of the Non-Associated Shareholders to influence the future strategic decision of the Company will diminish.

Furthermore, MUX may elect to pay all interest owing on the Convertible Notes in MUX Shares. In this case, up to a further 43,332,448 MUX Shares may be issued which would increase MPL's interest in MUX to approximately 79.07% from 75.80% if both Convertible Notes Tranches A and B are fully converted into MUX Shares. However, we note that given the Convertible Notes Tranche A are expected to convert shortly after completion, the potential additional shares to be issued to satisfy the interest owing on the Tranche A Convertible Notes will be minimal

*Increased control by KZL*

The increase in control of MUX by KZL through the conversion of the Convertible Notes may reduce the likelihood of the Company receiving a takeover or control offer from other external parties in the future. This may limit the equity funding options of MUX also considering that KZL and MPL have no ability to provide any equity funding to the Company. However, as set out in Notice of Meeting, we note KZL and MPL have advised that they intend to appoint a financial advisor after completion of the Proposed Transaction to advise in relation to a process for the sale of some or all of the Convertible Notes or Shares (as the case may be) held by KZL.

*Overhang effect*

KZL is not expected to retain its ownership interests in MUX in the medium to long term as the company is in Liquidation, and conversion of the Convertible Notes could result in the issue of an additional 112.5 million shares. The willingness/ requirement of KZL to monetise its investment in MUX in the short term may have an overhang effect on the share price of MUX and potentially depress the share price. However, these circumstances will not be materially different if the Proposed Transaction does not proceed.

*One-off Transaction costs*

We have been advised by MUX Management that the costs associated with the Proposed Transaction borne by MUX is approximately A\$1.0 million if the Proposed Transaction is successful. Transaction costs include approximately A\$0.8 million in stamp duty fees in relation to the Northern Region Assets to be acquired by MUX under the HOA. We have included these Proposed Transaction costs in our valuation of a MUX Share.

**Other considerations***Prospect of a superior proposal*

We have discussed with the Company potential alternative proposals to the Proposed Transaction and we have been informed that MUX is not aware of any alternatives. We note that KZL already

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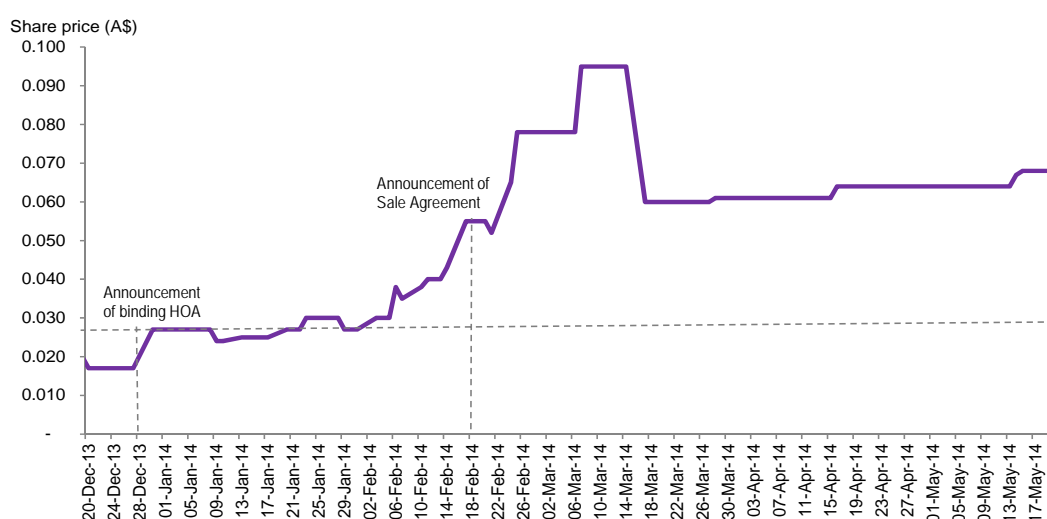
<sup>9</sup> Assumes the conversion of Tranche A and B and interest on the Convertible Notes is paid in cash.



owns 59.25% of MUX's issued capital and accordingly any superior proposal for MUX's GRA Assets is likely to require the support of KZL as the largest shareholder and also as the legal owner of the tenements of MUX's GRA Assets.

#### *MUX Share price in the absence of the Proposed Transaction*

In the absence of the Proposed Transaction or an alternative transaction, all other things being equal, it is likely that MUX Shares will trade at prices lower than the prices achieved in the trading period since the announcement of the Proposed Transaction. The graph below illustrates the price of MUX Shares after the announcement of the Proposed Transaction.



Source: CapitalIQ

#### *Non-Associated Shareholders position if the Proposed Transaction is not approved*

If the Proposed Transaction is not approved, it would be the current Directors' intention to continue operating the Company in line with its objectives. Non-Associated Shareholders will continue to share in any benefits and risks in relation to MUX's GRA Assets.

In addition, we note the following:

- The Proof of Debt Claim will not be withdrawn and MUX will be entitled to lodge additional claims (if any) into the KZL liquidation.
- The complexity of the legal framework of the GRA Assets will remain which may hinder the ability of MUX to further develop/fund the GRA Assets. In particular we note that given MUX have divested its interest in the Tunkillia and Tarcoola Projects, the GRA Assets will likely be MUX's only pre-development asset in the short to medium term.
- MUX and KZL may renegotiate the terms of a new transaction, however there is no certainty that they will be on better terms for the Non-Associated Shareholders.
- Given MUX's current cash balance and its limited on-going operating expenditures, the Independent Directors may have a less impending requirement to enter into a transaction with KZL in relation to the Northern region assets. Accordingly, they may adopt a more passive position and try to extract a better transaction with KZL for the Non-Associated Shareholders.

***Reasonableness conclusion***

Based on the qualitative factors identified above, it is our opinion that the Proposed Transaction is reasonable to the Non-Associated Shareholders.

**Overall conclusion**

After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that:

- The Proposed Transaction is NOT fair BUT reasonable to the Non-Associated Shareholders.
- The granting of the Security is fair and reasonable to the Non-Associated Shareholders.

Each MUX Shareholder should decide whether or not to accept the Proposed Transaction based on their own views of value of MUX and expectations about future market conditions, commodity prices, MUX's performance, risk profile and investment strategy.

**Other matters**

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision of whether or not to accept the Proposed Transaction is a matter for each MUX Shareholder to decide based on their own views of value of MUX and expectations about future market conditions, MUX's performance, risk profile and investment strategy. If MUX Shareholders are in doubt about the action they should take in relation to the Proposed Transaction, they should seek their own professional advice.

Yours faithfully

GRANT THORNTON CORPORATE FINANCE PTY LTD



ANDREA DE CIAN  
Director



LIZ SMITH  
Director

23 May 2014

## **Financial Services Guide**

### **1 Grant Thornton Corporate Finance Pty Ltd**

Grant Thornton Corporate Finance Pty Ltd (“Grant Thornton Corporate Finance” or “GTCF”) carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by MUX to provide general financial product advice in the form of an independent expert’s report in relation to the proposed acquisition of the Northern Region Assets by MUX from KZL and MPL with the issue of Convertible Notes. This report is included in the Notice of Meeting and Explanatory Memorandum.

### **2 Financial Services Guide**

This Financial Services Guide (“FSG”) has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

### **3 General financial product advice**

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

### **4 Remuneration**

When providing the report, Grant Thornton Corporate Finance’s client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the Report, Grant Thornton Corporate Finance will receive from MUX fees in the order of A\$60,000 plus GST, which is based on commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.



## **5 Independence**

Grant Thornton Corporate Finance is required to be independent of MUX in order to provide this report. The guidelines for independence in the preparation of an independent expert's report are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("ASIC"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

*"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with MUX (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the Proposed Transaction.*

*Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the transaction, other than the preparation of this report.*

*Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the transaction. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.*

*Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC."*

## **6 Complaints process**

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Ombudsman Service (membership no. 11800). All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West  
Melbourne, VIC 8007  
Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for this report and FSG. Complaints or questions about the General Meeting should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

## **Compensation arrangements**

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

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## 1 Overview of the Proposed Transaction

### 1.1 The Proposed Transaction

On 27 December 2013, KZL, MPL, the Liquidators<sup>10</sup> and MUX entered into a binding HOA for the sale and purchase of the Northern Region Assets between KZL and MUX for a consideration of A\$15.0 million payable via the issue by MUX of secured Convertible Notes in two tranches of A\$7.5 million each. Subsequently on 18 February 2014, KZL, MPL, the Liquidators and MUX entered into the Sale Agreement on terms consistent with the binding HOA.

The Proposed Transaction is subject to a number of conditions as summarised below, including the approval by the shareholders of MUX not associated with KZL and MPL (“Non-Associated Shareholders”).

The transaction structure under the Sale Agreement is set out below:

- MUX will acquire the Northern Region Assets from KZL and MPL. The Northern Region Assets includes:
  - KZL’s GRA Assets over base metals and other resources within the GRA Tenements.
  - Legal tenure over all GRA Tenements.
  - Other related GRA assets consisting of an incomplete processing and crushing plant, buildings, camp site and vehicles.
- MUX will issue the Convertible Notes as consideration for the Northern Region Assets to KZL and MPL. For the key terms of the Convertible Notes refer to section 1.2.
- MUX will accept responsibility to pay and discharge the Stamp Duty Liability. However, we note that the Stamp Duty Liability of A\$12.19 million was fully discharged by the QOSR in May 2014. Management have represented that all parties have agreed to maintain the terms of Sale Agreement.
- All claims<sup>11</sup> between KZL, MPL, the Liquidators and MUX will be fully and finally settled and released, and any Proof of Debt lodged<sup>12</sup> will be withdrawn.
- MUX undertakes not to lodge any further proof of debt in relation to KZL or MPL.

The Directors of MUX not associated with KZL or MPL (“the Independent Directors”) unanimously recommend that Non-Associated Shareholders vote in favour of the Proposed Transaction. Each Independent Director intends to vote in favour of the Proposed Transaction.

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<sup>10</sup> The Liquidators of KZL (and MPL) being FTI Consulting (Formerly Taylor Woodings).

<sup>11</sup> Claims include a net intercompany balance of approximately A\$1.7 million owing by KZL to MUX.

<sup>12</sup> As at the date of this Report, MUX has lodged a proof of debt claim against KZL for the Stamp Duty, and mining and dewatering damages and other items totalling A\$44,692,797 (A\$32.5 million net of the Stamp Duty Liability).

## 1.2 Terms of the Convertible Notes

Key terms of the Convertible Notes are summarised in the table below:

Key terms	Tranche A	Tranche B
Issuer	MUX	
Issue date	Completion of the Proposed Transaction or any other date of issue of the Convertible Notes	
Maturity date	5 years from issue date	
Principal amount	A\$7,500,000	A\$7,500,000
Interest rate	7.5% p.a (compounding quarterly and payable on the earlier of 30 June each year or the date of conversion or the date of redemption in cash or MUX Shares at MUX's option)	
Default Interest rate	18% p.a (compounding quarterly and payable on the earlier of 30 June each year or the date of conversion or the date of redemption in cash)	
Payment of Interest	If the Convertible Notes are converted, any accrued interest is to be satisfied by issue of MUX shares or payment in cash at the discretion of MUX.	
Conversion price	A\$0.10 per share	A\$0.20 per share
Conversion condition	Convert automatically 5 business days after the Stamp Duty Liability and any duty payable by the Company in respect of the HOA and Sale Agreement are both fully discharged. Otherwise, the noteholder may elect to convert on maturity date	Convertible at any time before or on maturity date
Security	General security in relation to the Northern Region Assets and a 'featherweight' security <sup>13</sup> interest in relation to all other MUX's current and future assets. The Convertible Notes will be secured by the Security until the Stamp Duty <sup>1</sup> and any other duty payable in relation to the Proposed Transaction are both fully discharged	
Redemption right	MUX may elect to redeem notes for cash at any time before the notes are converted prior to maturity. However, MUX may not redeem Tranche B notes in respect of which a conversion notice has been given at least 3 business days before the notified date of the proposed redemption	
Redemption price	Principal amount owing by MUX on the Convertible Notes plus outstanding interest	

Source: Sale Agreement

Note (1): the Stamp Duty of A\$12.19 million was fully discharged by the QOSR in May 2014. Accordingly, the security granted in relation to the tranche A of the Convertible Notes is expected to be released shortly after completion of the Proposed Transaction upon full payment of any new stamp duties arising.

<sup>13</sup> Featherweight security interest means that the proceeds from the sale of MUX's other current and future assets (i.e. excluding the Northern Region Assets) in the event of an insolvency cannot be used by KZL or MPL to discharge the indebtedness under the Convertible Notes.



### 1.3 Conditions Precedent

The Proposed Transaction is subject to a number of conditions, including but not limited to the following as set out in clause 3.1 of the Sale Agreement:

- MUX obtaining shareholder approval for the Proposed Transaction.
- An independent expert concluding that the Proposed Transaction is reasonable to the Non-Associated Shareholders.
- All necessary government and regulatory approvals in relation to the Proposed Transaction.
- KZL obtaining consent from its financier, Investec Bank (Australia) Limited (“Investec”) in relation to the Proposed Transaction in accordance with the terms of its financing facilities to KZL and its subsidiaries. On 18 February 2014, KZL announced that consent from Investec has been obtained.
- Other conditions precedent customary for a transaction of this type.

Refer to the Notice of Meeting for further details in relation to the conditions of the Proposed Transaction.

### 1.4 Effects of the Proposed Transaction

If the Proposed Transaction is approved by the Non-Associated Shareholders, then:

- MUX will own 100% of the Northern Region Assets and the GRA will be terminated. For further details on the GRA refer to section 4.3.
- MUX will be solely responsible for the payment and discharge of any new stamp duties arising from the Proposed Transaction<sup>14</sup>.
- The existing Proof of Debt will be withdrawn and MUX will not be able to make any further proof of debt claims in relation to KZL and MPL.
- Current intercompany balance of A\$1.7 million payable by KZL to MUX be considered finally and fully settled.
- Upon full conversion of the Convertible Note tranche A, MPL’s interest in MUX would increase from 59.25% to approximately 72.01%. Management have represented that given the Stamp Duty Liability has been fully discharged by the QOSR, tranche A of the Convertible Notes is expected to automatically convert shortly after the Proposed Transaction upon payment of any new stamp duty that may arise.

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<sup>14</sup> We note the old Stamp Duty Liability of A\$12.19 million has already been fully discharged by the QOSR in May 2014.



- Upon full conversion of the Convertible Note tranche B, MPL's interest in MUX would increase from 59.25% to approximately 66.81%.
- Upon full conversion of the Convertible Note tranche A and Convertible Note tranche B, MPL's interest in MUX would increase from 59.25% to approximately 75.80%.
- In addition, if the Company elects to pay all interest owing on the Convertible Notes in MUX Shares, up to a further 43,332,448 MUX Shares may be issued which would increase MPL's interest in MUX to approximately 79.07%.
- If MUX exercises its option to fully redeem the Convertible Notes prior to conversion, MPL's interest in MUX would remain at 59.25%.

## 2 Purpose and scope of the report

### 2.1 Purpose

#### Chapter 10 of the ASX Listing Rules

Chapter 10 of the ASX Listing Rules requires the approval from the non-associated shareholders of a company if the company proposes to acquire or dispose a substantial asset from a related party or a substantial holder.

ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration, is 5% or more of the equity interest of the entity as set out in the latest financial statement provided to the ASX. Based on ASX Listing Rule 10.1.3, a substantial holder is a person who has a relevant interest, or had a relevant interest at any time in the six months before the transaction, in at least 10% of the voting power of the company.

ASX Listing Rule 10.10.2 requires that the Notice of Meeting and Explanatory Memorandum be accompanied by a report from an independent expert stating whether the transaction is fair and reasonable to the non-associated shareholders.

It is noted that KZL and MPL are related parties to MUX as they own more than 30% interest in MUX and have common directors. The Proposed Transaction involves the acquisition of the Northern Queensland Assets which represents the purchase of a material asset from a related party.

Furthermore, we note that pursuant to ASX Listing Rule 19, the definition of ‘dispose’ includes using an asset as collateral. As a result, the granting of the current and future assets of MUX (including the Northern Region Assets) as the Security for the Convertible Notes is considered the disposition of a material asset to a related party.

Accordingly, the Independent Directors of MUX have requested Grant Thornton Corporate Finance to prepare an independent expert’s report stating, whether in its opinion, the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

#### Chapter 2E of the Corporation Act

Section 208 of Chapter 2E of the Corporations Act requires a company to seek shareholder approval before giving a financial benefit to a related party unless the benefit falls within an exception provided for in section 210 of the Corporations Act.

Regulatory Guide 76 “Related party Transactions” (“RG 76”) states that it is necessary for entities to include a valuation from an independent expert with a notice of meeting for member approval under Chapter 2E of the Corporations Act where:

- The financial benefit is difficult to value.
- The transaction is significant from the point of view of the entity (see RG 76.112).



- The independent directors do not have the expertise or resources to provide independent advice to members about the value of the financial benefit.

It is noted that the Proposed Transaction may result in various financial benefits which are directly and indirectly provided to KZL<sup>15</sup>. Accordingly, shareholder approval for the purposes of Chapter 2E of the Corporations Act is required.

The Independent Directors of MUX have engaged Grant Thornton Corporate Finance to prepare an independent expert's report stating whether, in its opinion, the Proposed Transaction is fair and reasonable to MUX Shareholders for the purpose of Chapter 2E of the Corporations Act.

Item 7 of Section 611 of the Corporations Act

Section 606 of the Corporations Act prohibits the acquisition of a relevant interest in the issued voting shares of a company if the acquisition results in the person's voting power in the company increasing from either below 20% to more than 20%, or from a starting point between 20% and 90%, without making an offer to all shareholders of the company.

Item 7 of Section 611 of the Corporations Act allows the shareholders not associated with the acquiring company to waive this prohibition by passing a resolution at a general meeting. Regulatory Guide 74 "Acquisitions agreed to by shareholders" ("RG 74") and Regulatory Guide 111 "Content of expert reports" ("RG 111") issued by ASIC set out the view of ASIC on the operation of Item 7 of Section 611 of the Corporations Act.

RG 74 requires that shareholders approving a resolution pursuant to Section 623 of the Corporations Act (the predecessor to Item 7 of Section 611 of the Corporations Act) be provided with a comprehensive analysis of the proposal, including whether or not the proposal is fair and reasonable to the Non-Associated Shareholders. The Directors may satisfy their obligations to provide such an analysis by either:

- Commissioning an independent expert's report; or
- Undertaking a detailed examination of the proposal themselves and preparing a report for the non-associated shareholders.

If the Proposed Transaction is completed, KZL will be issued the Convertible Notes and may increase its current shareholding interest in the Company from 59.25% up to:

- 72.01% on an undiluted basis if tranche A of the Convertible Notes is issued and converted.
- 66.81% on an undiluted basis if tranche B of the Convertible Notes is issued and converted.

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<sup>15</sup> The proposed financial benefits include, without limitation the purchase of the Northern Region Assets, the issue of the Convertible Notes to satisfy the purchase price, the issue of MUX Shares to satisfy the obligation of the Company to pay interest on the Convertible Notes, and the release of various claims which the Company has or may have against KZL and MPL.

- 75.80% on an undiluted basis if both tranche A and B of the Convertible Notes are issued and converted.
- 79.07% on an undiluted basis if MUX elects to pay all interest owing on the Convertible Notes in MUX Shares.

Accordingly, the Independent Directors of MUX have engaged Grant Thornton Corporate Finance to prepare an independent expert's report stating whether, in its opinion, the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders for the purposes of Item 7 of Section 611 of the Corporations Act.

## 2.2 Basis of assessment

In preparing our report, Grant Thornton Corporate Finance has had regard to the Regulatory Guides issued by ASIC, particularly RG 111, which states that an issue of shares requiring approval under Item 7 of Section 611 of the Corporations Act should be analysed as if it were a takeover bid. Accordingly, we have assessed the Proposed Transaction with reference to Section 640 of the Corporations Act.

In relation to Chapter 10 of the ASX Listing Rules, Grant Thornton Corporate Finance has also had regard to RG 111. RG 111 establishes certain guidelines in respect of independent expert's reports prepared for the purposes of the Corporations Act. RG 111 is framed largely in relation to reports prepared pursuant to Section 640 of the Corporations Act and comments on the meaning of "fair and reasonable" in the context of a takeover offer. RG 111 does not however, provide any direct guidance on transactions under Chapter 10 of the ASX Listing Rules.

RG 111 states that:

- an offer is considered fair if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison should be made assuming 100% ownership of the target company and irrespective of whether the consideration offered is scrip or cash and without consideration of the percentage holding of the offeror or its associates in the target company;
- an offer is considered reasonable if it is fair. If the offer is not fair it may still be reasonable after considering other significant factors which justify the acceptance of the offer in the absence of a higher bid. ASIC has identified the following factors which an expert might consider when determining whether an offer is reasonable:
  - The offeror's pre-existing entitlement, if any, in the shares of the target company.
  - Other significant shareholding blocks in the target company.
  - The liquidity of the market in the target company's securities.
  - Taxation losses, cash flow or other benefits through achieving 100% ownership of the target company.

- Any special value of the target company to the offeror, such as particular technology and the potential to write off outstanding loans from the target company.
- The likely market price if the offer is unsuccessful.
- The value to an alternative offeror and likelihood of an alternative offer being made.

In considering whether the Proposed Transaction is fair to the Non-Associated Shareholders we have compared the fair market value per MUX share (on a control basis) before the Proposed Transaction to the fair market value per MUX share (on a minority basis) after the Proposed Transaction. In considering whether the Proposed Transaction is reasonable to the Non-Associated Shareholders, we have considered a number of factors, including:

- Whether the Proposed Transaction is fair.
- The implications of KZL potentially increasing its holdings to above 59.25% of the total issued capital of MUX through the conversion of the Convertible Notes.
- The implications to MUX and the Non-Associated Shareholders if the Proposed Transaction is not approved.
- Other likely advantages and disadvantages associated with the Proposed Transaction as required by RG111.
- Other costs and risks associated with the Proposed Transaction that could potentially affect the Non-Associated Shareholders of MUX.

#### Independent technical specialists

For the purpose of this Report, the following independent technical specialists were engaged:

- SRK Consulting (Australasia) Pty Limited (“SRK”) was engaged to provide an independent valuation report in relation to the GRA Tenements and other mineral assets owned by MUX and KZL (“the SRK Report”). The SRK Report is included as Appendix D.
- Australian Auctions Pty Ltd (“Hassalls”) was engaged to provide an independent valuation report in relation to the plant, equipment and infrastructure assets which form part of the Northern Region Assets to be purchased by MUX. The Hassalls Report is included as Appendix E.

### 2.3 Independence

Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to the Proposed Transaction with reference to the ASIC Regulatory Guide 112 “Independence of Experts” (“RG 112”).

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Proposed Transaction other than that of independent expert. Grant Thornton

Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

Except for these fees, Grant Thornton Corporate Finance will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this report. The payment of this fee is in no way contingent upon the success or failure of the Proposed Transaction.

We note that Grant Thornton Corporate Finance was previously engaged by MUX to provide independent expert's reports on the following transaction which did not eventuate:

- In November 2012, KZL, MPL, the Administrators and MUX entered into a HOA pursuant to which MUX will buyback 95,563,135 MUX Shares from MPL, terminate the GRA, settle the net intercompany balance and accept any new stamp duties in relation to the proposed transaction. The HOA was terminated in March 2013.

## 2.4 Consent and other matters

Our report is to be read in conjunction with the Notice of Meeting and Explanatory Memorandum dated on or around 6 June 2014 in which this report is included, and is prepared for the exclusive purpose of assisting the Non-Associated Shareholders in their consideration of the Proposed Transaction. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Notice of Extraordinary General Meeting and Explanatory Memorandum.

This report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Proposed Transaction to the Non-Associated Shareholders as a whole. We have not considered the potential impact of the Proposed Transaction on individual shareholders. Individual shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Proposed Transaction on individual shareholders.

The decision of whether or not to accept the Proposed Transaction is a matter for each MUX Shareholder based on their own views of the value of MUX and expectations about future market conditions, MUX's performance, risk profile and investment strategy. If shareholders are in doubt about the action they should take in relation to the Proposed Transaction, they should seek their own professional advice.

### 3 Profile of the gold mining industry

MUX is mainly engaged in the exploration and pre-development of gold in Chillagoe, Queensland. Accordingly, we have focused this section on the gold mining industry in Australia.

#### 3.1 Overview

Gold is a precious metal used primarily in the fabrication of jewellery, electronics and other industrial applications and as an investment asset for store of value and hedging. Gold is actively traded on the international commodity markets and experiences daily price fluctuations as determined by global demand and supply factors.

Since 2007, volatility in global financial markets (resulting from the Global Financial Crisis (“GFC”)) and concerns in relation to European sovereign debt levels (“European Debt Crisis”) significantly increased the demand for gold as an investment asset. The price of gold peaked at US\$1,730/oz in mid-2012, triggering an expansion of existing mines as well as the development of new gold exploration projects. However, as a result of the continued gradual stabilisation of the global economy since mid-2012, the gold price has decreased to below US\$1,250/oz in 2014.

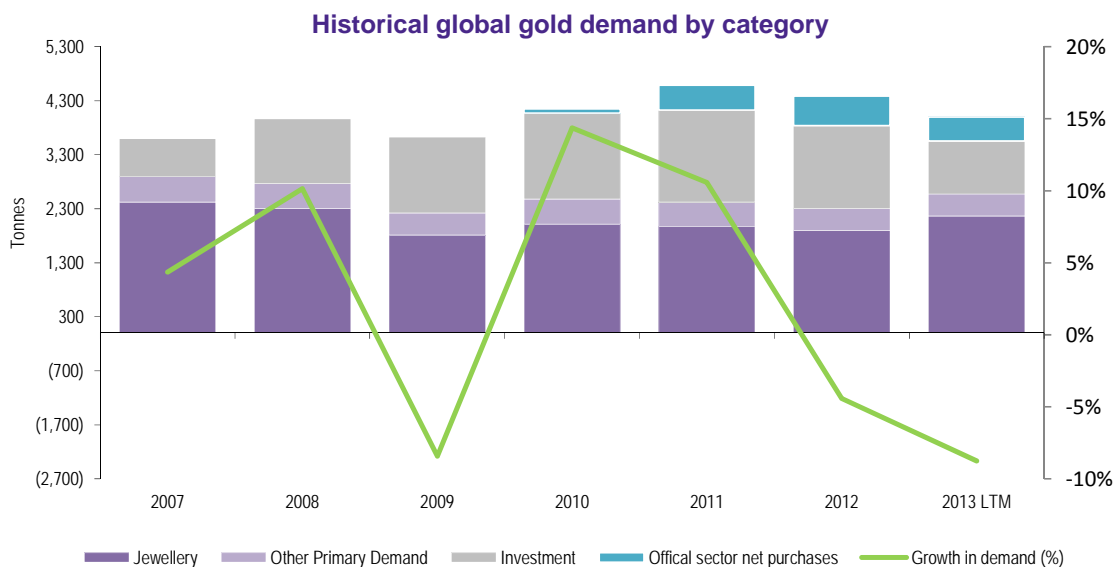
#### 3.2 Key drivers affecting gold exploration and development

The key drivers affecting gold exploration and development include:

- Demand for gold – the demand for gold exploration and development is derived from investment demand and the demand for related end products such as jewellery.
- Gold prices – low gold prices tend to have a negative impact on the level of gold exploration and development activities and vice versa.
- Exchange rates – gold is usually traded in US dollars, therefore relative exchange rates are an important factor affecting the level of global gold trading and demand.
- Political and regulatory factors – gold exploration activities are considered high risk undertakings as there is a considerable amount of risk and uncertainty surrounding the commercial viability of such projects. Tenements located in countries with well-defined regulatory processes and a stable political environment may be more attractive to gold explorers and producers as they are less risky than unregulated and politically unstable countries.
- Funding requirements – given the inherent riskiness of the gold industry, the availability and cost of capital to fund gold projects can significantly impact on the level of gold exploration and development activities being undertaken.

### 3.3 Demand

Demand for gold is mainly driven by gold fabrication and global investment trends and market/economic conditions. The graph below illustrates historical gold demand by category.



Source: World Gold Council

#### *Fabrication*

The demand for gold has historically been driven by the demand for fabrication of jewellery and industrial equipment (“Primary Demand”). However, Primary Demand as a proportion of total demand has declined significantly from approximately 80.6% in 2007 to 64% in 2013 due primarily to increasing interest in gold as an investment asset<sup>16</sup>.

The level of Primary Demand is highly seasonal as demand in India and China is strongly linked to traditional festivities. China and India are the largest consumers in terms of volume in 2013, together accounting for approximately 58%<sup>16</sup> of global gold demand for jewellery.

#### *Investment*

Investors generally consider gold as a relatively safe investment asset mainly because the price of gold has historically been negatively correlated to movements in the general global economy and other main financial assets. As a result, gold is often used for hedging and as a store of wealth. Volatility caused by the GFC, political unrest in the Middle East, foreign exchange fluctuations and the European Debt Crisis have caused investors to sell off other riskier assets to purchase gold for its unique properties as an investment asset.

<sup>16</sup> Gold Demand Trends Third Quarter 2013, World Gold Council, November 2013



Increasing interest in gold as an investment asset has also led to an increase in the variety of gold investment products, such as gold exchange traded funds (“ETFs”), which are publicly listed investment funds that hold gold as their primary asset.

Investment demand of gold has recently also included the net purchase of gold by central banks and official sector institutions<sup>17</sup> (“Official Sector”). The Official Sector became net buyers of gold in 2010. In a number of developing countries experiencing rapid economic growth, the significant expansion of foreign exchange reserves has required central banks to increase gold holdings in order to hedge against adverse movements in foreign exchange reserve movements. Also, the GFC and the European Debt Crisis have raised concerns in relation to the dominance of the Euro and the US dollar in foreign exchange reserves and has prompted many central banks to diversify reserve assets holdings through the purchase of gold.

Since 2003, investment has represented the strongest source of growth in demand. However, in 2013 the gold demand for investment decreased by approximately 36% from 2012 mainly due to actual and expected improvement in global economic conditions, particularly in the US.

### 3.4 Supply

The supply of gold is mainly sourced from mine production and the recycling of scrap gold. The graph below illustrates historical gold supply by category.

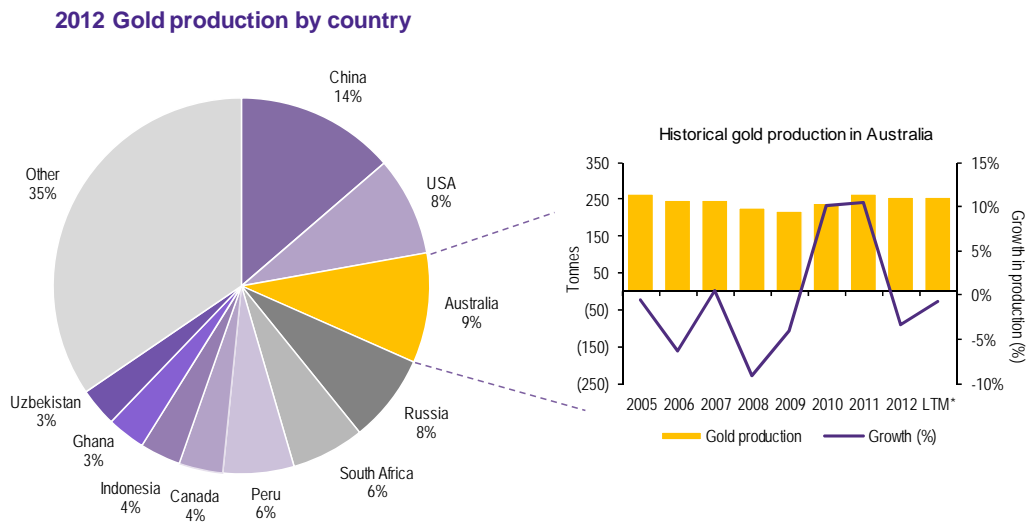


Source: World Gold Council

The supply in gold decreased by approximately 1.4% in 2012 and a decreased a further 3% in 2013. This was primarily due to the contraction in the supply of gold from recycling. In the US, recycling is in decline having shrunk significantly in recent quarters. Conditions in the US are less conducive to recycling as economic indicators improve and gold prices remain below their previous peaks. Among developing countries, India was the sole country to see an increase in recycling activity.

<sup>17</sup> Official sector institutions include all departments and agencies of national governments such as exchange authorities and fiscal agents that undertake activities similar to those of treasury, central bank or stabilisation funds.

The gold production by country in 2012 is illustrated in the graph below:



Source: IBISWorld and the Australian Bureau of Statistics and the Bureau of Resources and Energy Economics

Reducing rates of gold exploration success in traditional mining areas has created a shift in the global production profile for gold over the last five years. As recently as 1970, South Africa accounted for over 70% of the world's gold production. Since then, heavy mining of the area and, in more recent times, the declining political stability has shifted the focus of production to China, Australia and the USA.

In Australia, domestic mine production fell marginally by two tonnes to 256 tonnes in 2012 and it remained significantly higher than the recent low of 215 tonnes in 2008. However, this level of production is still lower than the average production of 310 tonnes in the late 1990s. A majority of gold production (i.e., approximately 70%) is sourced from Western Australia, while New South Wales accounts for the second highest contribution (i.e., approximately 12%) of gold production in Australia.

### 3.5 Gold prices

Set out below is the daily historical price of gold in US\$ between May 2007 and May 2014:



Source: Capital IQ, Calculations

The price of gold has increased at an annualised 4.1% over the past five years. Prices increased significantly as the GFC hit in 2007-08 and peaked at over US\$1,730/oz during 2011-12 due to ongoing concern over the US and European debt crises. During 2012-14, gold prices began declining as economic conditions and interest rates improved, reducing the relative attractiveness of gold as an investment asset. As at 20 May 2014, the gold spot price traded at US\$1,295/oz.

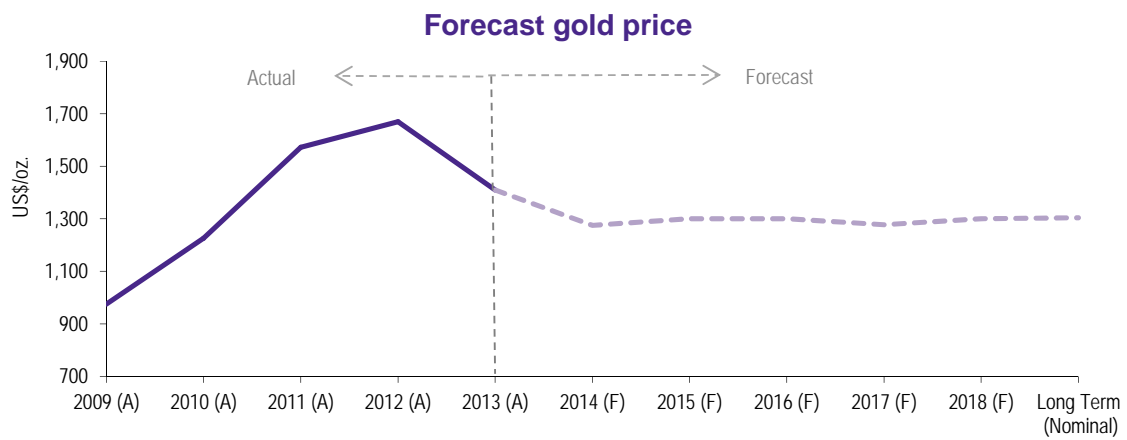
### 3.6 Gold outlook

In the short to medium term, the price of gold is forecast to gradually decrease in line with the expected recovery and stabilisation of the global economy and financial markets, and increased supply levels.

Future long term growth in demand is expected to be driven by the Chinese market mainly due to increasing economic prosperity and high levels of savings. However, China is also the world's largest producer of gold. While currently China's gold mining industry consists of mostly small-scale unsophisticated producers that are unable to operate on a global platform, it is expected that in the medium to long term these producers will be able to acquire more sophisticated technology and mining techniques, and expand their supply across China and to global markets.

The relatively high price of gold in recent years has also provided an incentive for producers to re-examine techniques aimed at exploiting lower grade ores. As a result, the average size of existing gold mines is expected to increase in the medium term. Accordingly, the long term price of gold is expected to remain below current price levels.

Set out below is a summary of broker forecasts for the price of gold for 2014 to 2018:



Source: Consensus Economics, April 2014

## 4 Profile of MUX

### 4.1 Company overview

MUX was listed on the ASX in June 2010 following its spin-off from KZL. MUX is mainly focused on the development and exploration of gold in Australia. The Company's current asset portfolio includes the following key projects:

- *MUX's GRA Assets* (subject to the GRA), a gold, silver and copper pre-development and exploration project located in Chillagoe, Queensland. For further details on the GRA refer to section 4.3.

We note MUX has also recently completed the sale of the following projects in May 2014:

- *Tunkillia Project* (70% owned), a gold and silver pre-development and exploration project located in Adelaide, South Australia.
- *Tarcoola Project* (100% owned), a gold and silver pre-development and exploration project located in Tarcoola, South Australia.
- *North Queensland exploration assets*, a number of gold exploration tenements located in northern Queensland and not subject to the GRA.

Set out below is a brief overview of the recent corporate history of the Company:

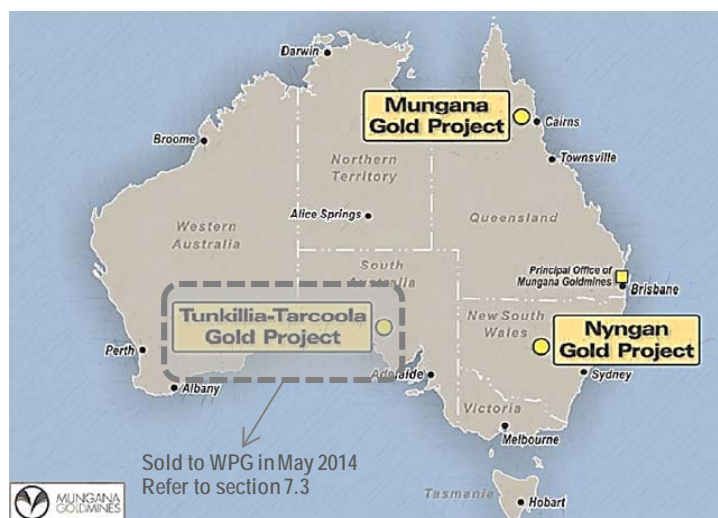
Date	Summary
Apr 2010	MUX, KZL and MPL entered into the GRA under which the right to explore for and exploit certain identified and unidentified gold and silver resources within the tenements of MUX's GRA Assets were transferred to MUX for a deferred consideration conditional on the IPO of MUX. For further details on the GRA please refer to section 4.3.
Apr 2010	KZL's largest shareholder, Guangdong Foreign Trade Group Ltd ("GFTG") entered into a share subscription agreement ("GFTG Subscription Agreement") with MUX to subscribe for 16.0% of the total issued share capital of MUX upon its listing on the ASX. Under the GFTG Subscription Agreement, GFTG has the right to appoint a director to the board of MUX and have a first right of first refusal to enter into an offtake agreement with MUX on normal commercial terms with respect to 50.0% of any copper produced by MUX from MUX's GRA Assets.
June 2010	MUX was listed on the ASX through the issue of 59.5 million shares at A\$0.95 per share, raising a total of A\$56.5.  In addition, MPL was issued a total of 97.5 million shares in MUX (77.0 million shares plus an additional 20.5 million shares in MUX) as consideration for the transfer of GRA rights to MUX.
Dec 2011	MUX, KZL and MPL signed a deed of amendment to the GRA for the transfer, from MUX to KZL, the exploration and exploitation rights to the newly discovered Red Dome Copper Zone, located directly beneath the eastern end of the Red Dome Deposit.
Dec 2011	MUX signed a binding conditional agreement to acquire 55% stake in the Tunkillia Project from Minotaur Exploration Limited for a total consideration of approximately A\$5.8 million in cash and shares. Helix Resources Ltd ("HLX") held the remaining 45% interest of the Tunkillia Project. As at the date of this report, MUX holds 70% interest in the Tunkillia Project.
Apr 2012	KZL entered into voluntary administration and the trading of its ordinary fully paid shares was suspended from the ASX.

Apr 2012	MUX issued a statutory demand to KZL in relation to KZL's breach of the GRA for the non-payment of the consideration for the transfer of, from MUX to KZL, the exploration and exploitation rights to the Red Dome Copper Zone in December 2011. For further detail refer to section 5.3.1.
Jun 2012	HLX elected not to contribute to the 2012 calendar year exploration expenditure for the Tunkillia Project, allowing MUX to earn an additional 25% interest in the Tunkillia Project. In December 2012, MUX increased its interest in the Tunkillia Project to 70%.
Jul 2012	MUX announced a partial write-down of MUX's GRA Assets to A\$46 million from A\$126 million as part of a reassessment of the project and risks associated with KZL being in Voluntary Administration.
Jul 2012	MUX acquired the Tarcoola Project from Stellar Resources Ltd and Low Impact Diamond Drilling Services Pty Ltd for a consideration of A\$750,000 in cash and further conditional payments.
Nov 2012	MUX and KZL entered into a binding HOA for the main purpose of the termination of the GRA through the Proposed Share Buyback under which MUX will repurchase up to 95,563,135 MUX shares from KZL. The HOA had a number of conditions, including the approval of MUX's Shareholders.
Dec 2012	MUX entered into a farm-in joint venture with AngloGold Ashanti Australia Limited ("AngloGold") on MUX's gold exploration project, Nyngan Project located in New South Wales consisting of exploration licenses 7751, 7752, 8053 and 8055 (EL7751, EL7752, EL8053 and EL8055). AngloGold may earn up to 70% share of the Nyngan Project and form a joint venture by completing expenditure of A\$4 million prior to 31 December, 2017.
14 Feb 2013	MUX received a duty assessment, including penalties and interest from QOSR for A\$12.19 million in respect of the GRA over the GRA Tenements entered into between MUX and KZL in 2010. For further details refer to section 4.4.3.
Mar 2013	The HOA was terminated by both MUX and KZL by mutual agreement as conditions precedent were not satisfied, specifically the positive outcome to an ATO private ruling and discussions with the QOSR.
May 2013	MUX entered into a new HOA with KZL and MPL to implement a joint sale process for the Northern Region Assets (including the GRA). MUX was expected to earn 75% of sale proceeds after sale costs. In conjunction with the sale process, MUX intended buy back up to 97,546,943 ordinary shares in MUX currently owned by MPL.
June 2013	MUX entered into an HOA to sell its mineral rights under the GRA in respect of the Northern Region Assets to Lucky Metals Pty Ltd ("LM"). Subsequently in July 2013, MUX announced that the deposit of A\$4.9 million payable by LM on 3 July 2013 had not been paid. As a result, the HOA was terminated in September 2013.
Nov 2013	MUX has reached an agreement with the QOSR to extend the payment terms for the A\$12.19 million duty assessments until 28 February 2015.
Dec 2013	MUX, KZL and its wholly owned subsidiary MPL entered into a binding HOA under which the Northern Region Assets owned by KZL and MPL would be sold to MUX.
Feb 2014	MUX, KZL and its wholly owned subsidiary MPL executed agreements for the sale of the Northern Region Assets as contemplated by the binding HOA.
Apr- May 2014	MUX received a R&D refund of A\$2.27 million.  MUX entered into a binding term sheet with WPG for the sale of the Tunkillia and Tarcoola Projects. (For further details refer to section 4.2.3) The sale of the Tunkillia and Tarcoola Projects was executed under substantially the same terms in May 2014.
May 2014	MUX received a favourable decision from OSR in relation to the Stamp Duty. The full assessment amount of A\$12.19 million was discharged. (For further details refer to section 4.4.3).  MUX announced completion of the sale of Tunkillia and Tarcoola Projects to WPG

Source: ASX

## 4.2 Assets overview

The map below illustrates the location of the MUX's key projects and the table below summarises MUX's total attributable JORC<sup>18</sup> defined mineral resources ("Resources").



Source: Management

Project	Attributable resources <sup>1</sup> (Mt)	Resource grade			Attributable contained resources <sup>2</sup>		
		Gold (g/t)	Silver (g/t)	Copper (%)	Gold (koz)	Silver (koz)	Copper (kT)
<b>Mungana Gold Project (subject to GRA)<sup>3</sup></b>							
Measured	38.8	0.79	11.61	0.30%	894	12,100	108
Indicated	43.3	0.58	7.01	0.18%	879	11,700	80
Inferred	40.8	0.58	5.95	0.15%	804	9,000	66
<b>Total*</b>	<b>122.9</b>	<b>0.65</b>	<b>8.11</b>	<b>0.21%</b>	<b>2,577</b>	<b>32,800</b>	<b>254</b>

Note:

- (1) *Attributable resources = total resources × percentage of ownership in project*
- (2) *Attributable contained resource = attributable resources × grade of resources (approx. calculation)*
- (3) *Under the GRA, MUX has 100% rights to explore and exploit the gold/silver dominant resources in MUX's GRA Assets.*
- (4) *The Resource Statement for MUX as reviewed here relates to an interim update completed by H&S Consultants, 2012. The publicly quoted figure corresponds to the original resource estimate prepared for evaluation block caving mining scenarios in December 2010. SRK has reviewed the MUX Resource on the basis of the 2012 estimate, which was considered for the valuation.*

Source: SRK Report

Set out below is a brief description of the above key projects. Please refer to the SRK Report set out in Appendix D for further details.

### 4.2.1 MUX's GRA Assets

MUX's GRA Assets covers an area of approximately 814 sq. km located in the Chillagoe region of northern Queensland. MUX's GRA Assets consist of two key deposits; the Red Dome and Mungana Deposits, situated 3 km apart and both on granted mining leases.

<sup>18</sup> A reported Mineral Resource as defined in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code – 2004 Edition)

In April 2010, for the anticipated IPO of MUX, MUX and KZL entered into the GRA which transferred the right to explore for and exploit gold and silver dominant resources and identified gold and silver resources (including the Mungana and Red Dome deposits) within the tenements of MUX's GRA Assets from KZL to MUX. MUX was subsequently listed on the ASX in June 2010 with MUX's GRA Assets as its sole project. We note that as at the date of this report, there are still some ore bodies part of MUX's GRA Assets (under the GRA) that are yet to be categorised as gold dominant (MUX holds right to exploit) or base metal dominant (KZL holds right to exploit). For further details of the GRA please refer to section 4.3.

The tenements in relation to MUX's GRA Assets were initially acquired by KZL in March 2003 and the Red Dome Deposit was historically developed as an open-pit mining operation between 1985 and 1997, producing approximately 1 million oz of gold, 4.3 million oz of silver and 30,000 tonnes of copper. Since acquiring the GRA Rights to MUX's GRA Assets, MUX has conducted further exploration and resource definition programs to increase the project's total resources to approximately 131 million tonnes as set in the previous page.

In late 2010, an initial scoping study ("Scoping Study") of MUX's GRA Assets was undertaken, which indicated potential for the development of an open pit mine at Red Dome and selective underground mining at both Mungana and Red Dome deposits. The Scoping Study estimated an overall mine life of 10 years, producing approximately 120,000 oz of gold, 1.5 million oz of silver and 20,000 tonnes of copper per annum ("pa").

Following the Scoping Study, MUX commenced stage 1 of a Bankable Feasibility Study ("BFS") to perform detailed mining, metallurgical and engineering studies, and further evaluate the mining options and designs proposed by the Scoping Study. Stage 1 of the BFS was completed in December 2011 and the key technical outcomes are summarised in the table below:

Stage 1 BFS summary	Red Dome deposit		Mungana deposit		Total
	Open pit	Underground	Open pit	Underground	
Project life (years)					10.0
Processed material (Mt)	22.8	2.4	3.4	7.9	42.2
Grade					
Gold (g/t)	0.72	1.04	1.02	1.04	0.79
Copper (%)	0.28	0.68	0.44	0.34	0.33
Silver (g/t)	5.50	13.50	48.00	22.00	12.00
Total production over life of project					
Gold (Koz)					955
Copper (Kt)					98
Silver (Koz)					13,900
Cash operating costs (A\$/oz) <sup>1,2</sup>					883
Upfront capital (A\$m) <sup>3</sup>					291

Note:

(1) Cash operating costs are net of by-product credits (based on average Bloomberg consensus numbers as at 6 December 2011 from 2012 – 2015, copper price of USD\$8,500/t, silver price of USD\$35/oz., and \$1.00 USD/AUD exchange rate)

(2) Excludes royalties

(3) Includes ~\$36 million in contingencies, purchase of second hand equipment will be investigated to further reduce costs

Source: MUX Annual Report, June 2012

The stage 1 BFS proposed an open pit mine followed by subsequent underground mining at both Red Dome and Mungana and utilising a conventional flotation and cyanide leaching treatment method to recover the gold, silver and copper. This method is similar to the process previously utilised in the open pit mine at the Red Dome deposit in the 1980's and 1990s.





Based on the stage 1 BFS, the proposed mines at MUX's GRA Assets have a target annual production rate of approximately 100,000 oz of gold, 10,000 tonnes of copper and 1.5 Moz of silver with a throughput or plant treatment processing capacity of 4 million tonnes pa. The main operation would be at the Red Dome deposit, estimated to contribute 3 million of the 4 million tonnes pa of resources treated. An additional 1 million tonnes pa is expected to be produced from a moderate sized open pit and underground mines at Mungana deposit.

In December 2011, MUX, KZL and MPL amended the GRA for the transfer of the exploration and exploitation rights, from MUX to KZL, of a copper dominant resource identified within the Red Dome Deposit, the Griffiths Hill High Grade Copper Zone ("Griffiths Hill Project") for a 4% net smelter royalty and approximately A\$3.6 million in cash.

As a part of the amendment to the GRA, KZL and MUX also agreed to waive the requirement for MUX to pay KZL a consideration of A\$25.0 million for the use of a mine decline (underground mine access infrastructure) located at the Mungana Deposit ("Mungana Mine Decline"). For further details refer to section 4.3 and 5.2.1.

The Directors of MUX have approved the commencement of stage 2 (final) of the BFS which was initially scheduled for completion in the September quarter of 2012 but has since been put on hold due to KZL entering into voluntary administration in April 2012.

On 31 December 2012, MUX announced the suspension of further exploration at MUX's GRA Assets.

#### **4.2.1.1 Off-take Agreements/ commitments in relation to MUX's GRA Assets**

- *Transamine Letter of Intent* – in November 2009, KZL, MPL and Transamine Trading S.A. ("Transamine")<sup>19</sup> signed a letter of intent ("Transamine Letter of Intent") under which Transamine agreed to purchase 50% of copper and the first 25,000 Mt of any copper-zinc or lead concentrate, or similar product produced from MUX's GRA Assets.
- *GFTG Share Subscription Agreement* – in April 2010, GFTG and MUX entered into a share subscription agreement (GFTG Subscription Agreement) under which GFTG has the first right of refusal to enter into an off take agreement with MUX on normal commercial terms with respect to 50% of any copper produced by MUX from MUX's GRA Assets.
- *Prosperity Principle of Agreement* – in May 2010, MUX entered into a principle of agreement with Prosperity Steel United<sup>20</sup> ("Prosperity") under which Prosperity agreed to purchase 100% of all zinc, lead and molybdenum produced from the Mungana and Red Dome Deposits on terms to be negotiated when quantities and specifications are known.

<sup>19</sup> Transamine is a full service company providing worldwide raw material sourcing, marketing, financing, and investment.

<sup>20</sup> Prosperity engages in trade of ores, steels, pig iron, ferroalloys, scraps steels, and equipment in steel mill. Prosperity Steel United Singapore Pte. Ltd. operates as a subsidiary of Rgl Group Co., Ltd.

#### 4.2.2 Nyngan Project

In November 2012, MUX entered into a farm-in agreement with AngloGold Ashanti Australia Ltd (“AngloGold”) on the Nyngan Project (a gold exploration project located in central NSW near the township of Nyngan). There has been limited exploration undertaken at the Nyngan Project to date, and detailed geophysical techniques will be required to further define potential targets prior to drilling.

AngloGold will be the manager of the farm-in and may earn up to 70% share and form a joint venture by completing expenditure of A\$4 million prior to 31 December 2017, with a minimum A\$500,000 (at least A\$250,000 to be spent on geophysical surveys) in the first year. After the 31 December 2017, MUX can elect to contribute to project expenditure or further dilute its interest in the Nyngan Project.

#### 4.2.3 Tunkillia and Tarcoola Projects and the WPG Transaction

On 29 May 2014, MUX completed the sale of its wholly owned subsidiary, Tunkillia Gold Pty Ltd which holds 70% and 100% interests in the Tunkillia and Tarcoola Projects, respectively (“WPG Transaction”).

Under the WPG Transaction, the total consideration paid consisted of:

- The A\$0.15 million non-refundable deposit in cash.
- A\$1.35 million in cash on completion of acquisition.
- 7.5 million shares in WPG (“WPG Shares”). Based on the WPG Share price as at 15 April 2014 of A\$0.032 per share, 7.5 million WPG are valued at approximately A\$0.24 million.
- Deferred consideration of A\$1.0 million in cash or WPG Shares at the election of WPG upon the achievement of certain milestones, including defining at least 100,000 oz of gold probable ore reserves, and commencement of mine construction and mining.
- WPG will pay MUX a net smelter return royalty for gold and silver produced from certain areas within the Tunkillia Project in the range of 1.0% to 1.5% based on the level of gold prices prevalent at the time of production.

We understand the funds from the sale of the Tarcoola and Tunkillia Projects will be utilised by MUX to advance the GRA Assets which are subject to the Proposed Transaction.

#### 4.3 Overview of the Gold Rights Agreement (GRA)

The GRA relates to various tenements owned by KZL located in Chillagoe, Queensland (the GRA Tenements) and was entered into between KZL, MPL and MUX (collectively referred to as “the Parties”) in April 2010 and subsequently amended in November 2011. The main purpose of the GRA is to grant MUX the right to explore and exploit identified and unidentified gold/silver resources from certain tenements constituting MUX’s GRA Assets. The key terms of the GRA are summarised below:

Term	Summary
<i>Ownership and Resource Allocation</i>	<ul style="list-style-type: none"> <li>KZL will retain legal ownership of all GRA Tenements regardless of which party holds the rights to explore and exploit the resources of each tenement.</li> <li>Any indicated mineral resource identified by a party has to be categorised, based on the expected dominant source of revenue, as a Gold Resource (gold and/or silver), a Base Metal Resource (copper, lead, zinc and/or molybdenum), or an Other Resource (neither a Gold nor Base Metal Resource).</li> <li>The right to explore and exploit the deposits (the GRA Rights) identified as a Base Metal or Other Resource belongs to KZL and deposits identified as a Gold Resource belong to MUX. Where a resource or ore body is identified as a Gold Resource or a Base Metal Resource, MUX and KZL will have respectively the right to dispose of all the minerals extracted from the resource whether gold, base metal or other metals. As at the date of this report, of all the GRA Tenements, the Mungana Deposit and the Red Dome Deposit have been identified as Gold Resources and the right to exploit the resources belong to MUX.</li> <li>In relation to the other resources yet to be identified as a Gold Resource or Base Metal Resource, if MUX identifies a Base Metal Resource or an Other Mineral Resource as a result of its exploration, KZL has the option to acquire that resource by paying 200% of exploration costs incurred by MUX in relation to identifying that resource and granting MUX a 1.0% net smelter royalty. Where KZL identifies a Gold Resource as a result of its exploration, MUX has the option to acquire that resource under similar payment terms.</li> </ul>
<i>Mine Decline Rights</i>	<ul style="list-style-type: none"> <li>MUX is granted the right to utilise KZL's underground development and access infrastructure at the Red Dome Deposit when constructed ("Red Dome Mine Decline") and 350,000 tonnes per annum of capacity from the already constructed underground development and access infrastructure at the Mungana Deposit (Mungana Mine Decline).</li> <li>If MUX exercise its rights to the declines, KZL will manage, mine and deliver all of MUX's ore accessible from the declines to MUX at operating cost plus a management fee of 10%.</li> <li>At such time that KZL no longer requires the use of the declines, the operation of the declines will be handed over to MUX at nil cost.</li> </ul>
<i>License to KZL infrastructure</i>	<ul style="list-style-type: none"> <li>MUX has the non-exclusive right to use KZL's infrastructure to the extent KZL determines that there is excess capacity.</li> <li>MUX will be required to pay KZL a charge at operating cost plus 10% basis for using the infrastructure and any associated services.</li> </ul>

Other terms of the GRA are summarised below:

Term	Summary
<i>Tenement costs</i>	<ul style="list-style-type: none"> <li>KZL has primary responsibility for maintaining the GRA Tenements in good standing through compliance with all relevant laws and payment of all required fees, rents, rates and other amounts payable when due, and do all things necessary to enable MUX to fully exercise and exploit its rights. MUX will reimburse 50% of all the costs incurred by KZL in relation to such expenses.</li> <li>KZL is responsible for the payment of all stamp duty arising under the GRA.</li> <li>If KZL is unable to comply with the above, MUX may undertake any obligation on behalf of KZL and either deduct the associated expenses from any amount owing to KZL or claim those expenses from KZL as a debt due and owing.</li> </ul>

<i>Tenement status</i>	<ul style="list-style-type: none"> <li>Any mining tenement applied for by MUX will not form part of the GRA Tenements. Prior to the application, renewal, surrender or expiry of a GRA Tenement by KZL, the Parties will confer to agree on the proposed action to be taken. If the Parties are unable to reach agreement, the Parties are to undertake the dispute resolution procedures set out in the GRA (refer to bottom of table for further details).</li> <li>If KZL wishes to surrender any GRA Tenement, KZL must give prior notice to MUX and at MUX's request, assign the tenement to MUX for a consideration of A\$1.00.</li> </ul>
<i>Exploration Rights</i>	<ul style="list-style-type: none"> <li>Each Party must present its exploration program to the other Party for review prior to commencement. Each Party must also seek approval from the other Party if the exploration program is over an area of existing mining operations or associated infrastructure.</li> <li>Each party will keep the other party fully informed in relation to its exploration and mining programs and results obtained from those programs.</li> </ul>
<i>Mining Rights</i>	<ul style="list-style-type: none"> <li>Each Party must submit any plans for a feasibility study or mining operation to the other Party for review and approval prior to commencement. The other Party may raise any objections or request alterations to the submitted plans which must be promptly resolved between the Parties.</li> <li>If the Parties are unable to resolve any matters in relation to the above, the matter will be referred to an independent expert (refer to bottom of table for further details).</li> </ul>
<i>Tenement Access Rights</i>	<ul style="list-style-type: none"> <li>MUX must keep KZL fully informed of its access routes to its GRA Tenements and comply with all the appropriate laws and KZL's standards and procedures in relation to its access routes.</li> <li>KZL may at its discretion, deny MUX personnel access to the GRA Tenements if they fail to comply with the above requirements.</li> </ul>
<i>Royalties</i>	<ul style="list-style-type: none"> <li>Each Party will be responsible for any royalty payment liabilities arising from the mining of its respective resources.</li> <li>MUX will assume all of KZL's rights and obligations arising under the Niugini Royalty Deed with Niugini Mining (Australia) Pty Ltd ("Niugini"). Under the Niugini Royalty Deed, MUX must deliver to Niugini 3.0% of the amount of gold contained in any gold dore produced from certain GRA Tenements.</li> </ul>
<i>Assignment or Rights/ Obligations</i>	<ul style="list-style-type: none"> <li>If a Party intends to offer to assign any of its rights and/or obligations under the GRA, wholly or in part, to a third party, the Party must first make a cash equivalent offer to the other Party. The other Party may accept the offer and acquire the rights and/or obligations.</li> </ul>
<i>Red Dome Copper Zone</i>	<ul style="list-style-type: none"> <li>In the amendment to the GRA in December 2011, KZL agreed to acquire the rights to the copper dominant zone within the Red Dome Deposit, the Griffiths Hill High Grade Copper Zone (Red Dome Copper Zone) from MUX for 4% net smelter royalty and A\$3,640,893.30 in cash being: <ul style="list-style-type: none"> <li>200% of exploration expenditure incurred by MUX for the Red Dome Copper Zone prior to 5 December 2010.</li> <li>100% of the exploration expenditure incurred by MUX for the Red Dome Copper Zone from 5 December 2010.</li> </ul> </li> </ul>



<i>Dispute Resolution and Expert Determination</i>	<ul style="list-style-type: none"><li>• In the event of a dispute between the Parties, the matter will be first referred to a panel consisting of a director, chief executive officer or the chairman from each of the parties ("the Panel"). If a dispute is unable to be resolved by the Panel, the Parties must appoint a mediator from the panel kept by LEADR<sup>21</sup> before commencing proceedings in any court in respect to the dispute.</li><li>• The parties may elect to have any disputes or disagreements resolved by an expert independent of the Parties and has the appropriate qualifications and experience to settle the disputes or disagreements</li></ul>
<i>Default</i>	<ul style="list-style-type: none"><li>• Events of default include a breach by a Party of its obligations under the GRA and if a Party becomes insolvent.</li><li>• The non-defaulting Party may under the GRA:<ul style="list-style-type: none"><li>- Sue the defaulting Party for damages for breach of contract and/or specific performance.</li><li>- Terminate the GRA and sue the defaulting Party for breach of contract. The termination of the GRA will not affect the rights and liabilities of the Parties in relation to any cause of action accruing prior to the termination.</li></ul></li></ul>

*Source: GRA*

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<sup>21</sup> LEADR is an Australasian, not-for-profit organisation mainly engaged in the promotion and facilitation of the use of dispute resolution processes including mediation.

## 4.4 Financial information

### 4.4.1 Financial performance

The historical consolidated income statements of MUX for the years ended 30 June 2012 (“FY12”), 30 June 2013 (“FY13”) and year to date ended 31 March 2014 (“YTDMar14”) are set out in the table below:

MUX	FY12	FY13	YTDMar14
	Audited	Audited	Management
Consolidated statements of comprehensive income	(A\$'000)	(A\$'000)	(A\$'000)
Revenue	1,456	435	71
Administration costs	(3,744)	(3,943)	(2,445)
Share based payments	(2,291)	(186)	762
Exploration assets written off	(80,037)	-	(37,624)
Stamp duty	-	(12,196)	-
Impairment losses (trade receivables)	(3,825)	18	-
Other	-	-	246
<b>EBITDA</b>	<b>(88,441)</b>	<b>(15,872)</b>	<b>(39,061)</b>
Depreciation	(73)	(135)	(102)
<b>EBIT</b>	<b>(88,514)</b>	<b>(16,007)</b>	<b>(39,163)</b>
<b>Profit/(Loss) before tax</b>	<b>(88,514)</b>	<b>(16,007)</b>	<b>(39,163)</b>
Income tax (expense)	-	-	-
<b>Profit/(Loss) after income tax</b>	<b>(88,514)</b>	<b>(16,007)</b>	<b>(39,163)</b>

Source: MUX Annual Report 2013 and Management Accounts for YTDMar14

We note the following in regards to the consolidated income statements of MUX.

#### FY12

- Revenue relates to interest received on short term deposits and operating bank accounts.
- During the year, exploration assets of A\$80.0 million were written off as a result of an impairment review of the recoverable amount of each projects' carrying value. The main asset affected by the impairment relates MUX's GRA Assets.
- The impairment loss of A\$3.8 million is in relation to the trade receivables from KZL. Subsequent to KZL entering into Voluntary Administration, this amount was written off by MUX.

#### FY13

- Expenses consist of mainly cost of employment and consultants.
- On 12 February 2013, MUX received a duty assessment (including penalties and interest) from the QOSR for \$12.2 million arising from the initial establishment of the GRA in April 2010. For further details refer to section 4.4.3.

## YTDMar14

- Exploration assets written off of A\$37.6 million are mainly in relation to the mine properties at the Red Dome Deposit, and the Tarcoola and Tunkillia Projects based on an independent valuation of the projects conducted during the period.

### 4.4.2 Financial position

The consolidated balance sheets of MUX as at 30 June 2013 and 31 March 2014 are set out in the table below:

MUX	30-Jun-13 Audited (A\$'000)	31-Mar-14 Management (A\$'000)
Consolidated statements of financial position		
<b>Current assets</b>		
Cash and cash equivalents	4,200	1,333
Trade and other receivables	150	19
<b>Total current assets</b>	<b>4,350</b>	<b>1,352</b>
<b>Non-current assets</b>		
Capitalised exploration expenditure	62,024	25,154
Property, plant & equipment	437	326
Other non-current assets	168	28
<b>Total non-current assets</b>	<b>62,629</b>	<b>25,508</b>
<b>Total assets</b>	<b>66,979</b>	<b>26,860</b>
<b>Current liabilities</b>		
Trade and other payables	2,398	2,281
Provisions	106	376
OSR liability	11,740	11,282
<b>Total current liabilities</b>	<b>14,244</b>	<b>13,939</b>
<b>Total liabilities</b>	<b>14,244</b>	<b>13,939</b>
<b>Net assets</b>	<b>52,735</b>	<b>12,921</b>

Source: MUX Annual Report 2013 and Management Accounts for YTDMar14

We note the following in relation to the consolidated balance sheet as at 31 March 2014:

- We note that the audit report attached to the financial statements for FY13 include an emphasis of matter in relation to the uncertainty on the ability of MUX to continue as a going concern.
- Trade and other receivable include A\$3.8 million owing from KZL which has been fully provided for in doubtful debts following KZL entering into voluntary administration in April 2012.
- Capitalised exploration expenditure is mainly in relation to MUX's GRA Assets, Tunkillia and Tarcoola Projects. We note that MUX's GRA Assets was put on care and maintenance subsequent to KZL entering into voluntary administration in April 2012 and MUX recognised an impairment of A\$80.0 million in FY2012 against the capitalised expenditure for the Mangana



Project. A further impairment of A\$37.6 million was recognised in YTDMar14 mainly in relation to the Red Dome Deposit, and the Tarcoola and Tunkillia Projects based on an independent valuation of the projects conducted during the period.

- Current liabilities of approximately A\$13.9 million consist mainly of the QOSR liability of \$11.3 million in relation to Stamp Duty Liability for the GRA. Trade and other payables also consist of approximately A\$2.1 million in payables owing to KZL/MPL. However, we note that as at 2 May 2014, the Stamp Duty Liability has been fully discharged by the QOSR and MUX expects a refund of circa A\$1.2 million in stamp duty assessment payments made to date (received on 21 May 2014).

#### 4.4.3 Stamp Duty Liability

The Stamp Duty Liability arose from the transfer of the GRA Rights under the GRA. Prior to entering into the GRA, KZL had applied to the QOSR for an advanced ruling as whether the transfer of the GRA Rights would be exempt from stamp duty under the corporate reconstruction exemption (“the Exemption”) and further whether the proposed IPO of MUX would trigger a reassessment of the duty exempted.

On or about 6 May 2010, the QOSR determined that the transfer of the GRA Rights would be exempt but the QOSR could not comment on whether the proposed IPO of MUX would trigger a reassessment of the dutiable transaction as this was not a matter that could be concluded as part of the corporate reconstruction exemption.

In June 2010, the IPO of MUX was completed and a notice of reassessment was submitted to QOSR in July 2010. The determination of the reassessment was not provided until February 2013, after KZL had already entered into Voluntary Administration. The QOSR had determined that the transfer of the GRA Rights had failed the Exemption tests and a Stamp Duty Liability of approximately A\$12.19 million (including fees, penalties and interest) was due and payable to the QOSR.

The QOSR solely issued MUX with the Stamp Duty Liability assessment of A\$12.19 million. Given the extent to which KZL/MPL are responsible (if at all) for payment of the Stamp Duty Liability under the GRA was under dispute, MUX lodged an objection to the stamp duty assessment on 12 April 2013.

Subsequently, on 7 May 2014 MUX received a favourable decision from the QOSR on its objection to the Stamp Duty Liability assessment. The QOSR reduced the stamp duty assessment of A\$12.19 million to nil and will refund approximately A\$1.2 million in stamp duty assessment payments that MUX has made to date (received on 21 May 2014).



#### 4.4.4 Proof of debt claim

As at the date of this Report, MUX has lodged two Proof of Debts totalling approximately A\$32.5 million<sup>22</sup> (net of the Stamp Duty Liability or A\$44.7 million gross) against KZL consisting of the following key claims:

- *Dewatering Claims* – In July 2012, the Administrators ceased dewatering of a mine decline (underground mine access infrastructure) located at the Mungana Deposit (“the Mungana Mine Decline”) without the prior consent of MUX. The Management of MUX have considered this a breach under the GRA which provides that KZL must use all reasonable endeavours to not interfere with MUX’s GRA Rights and its allocated rights to use the Mungana Mine Decline.<sup>23</sup>
- *Over-mining Claims* – for over-mining of resources by KZL within deposits that MUX considers it holds the GRA Rights. There have been issues between MUX and KZL in relation to the mining rights over certain resources due to uncertainty associated with the setting of boundaries around resources under the GRA.<sup>23,23</sup>
- *Intercompany debt* – net company receivable of approximately A\$1.7 million. We note that MUX has already fully provided for the intercompany receivable of A\$3.8 million in doubtful debt, but has retained the intercompany liability of A\$2.1 million on its balance sheets as at 31 December 2013.

If the Proposed Transaction is completed, MUX has agreed to withdraw the Proof of Debt and not to lodge any further proof of debt in relation to KZL (or MPL). If the Proposed Transaction is not completed, MUX will be entitled to lodge an uncapped proof of debt as an unsecured creditor. However, we note that there is high level of uncertainty in regards to the timing and amount of the final distribution to MUX under any proof of debt claim. Furthermore, based on discussions with the Liquidators, it is the current intention of the Liquidators to dispute the current Proof of Debt which may lead to potential litigation.

#### 4.5 Capital Structure

As at the date of our report, MUX has the following securities on issue:

- 164,623,938 MUX Shares.
- 9,050,000 unlisted options (“MUX Options”) exercisable at prices between A\$0.50 and A\$2.50 per option expiring during the period between 15 April 2015 and 1 July 2016.

##### 4.5.1 MUX Shares

The top ten shareholders of MUX as at 26 May 2014 are set out below:

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<sup>22</sup> Takes into consideration that approximately A\$12.19 million in Stamp Duty Liability was fully discharged by the QOSR in May 2014. For further details refer to section 4.4.3.

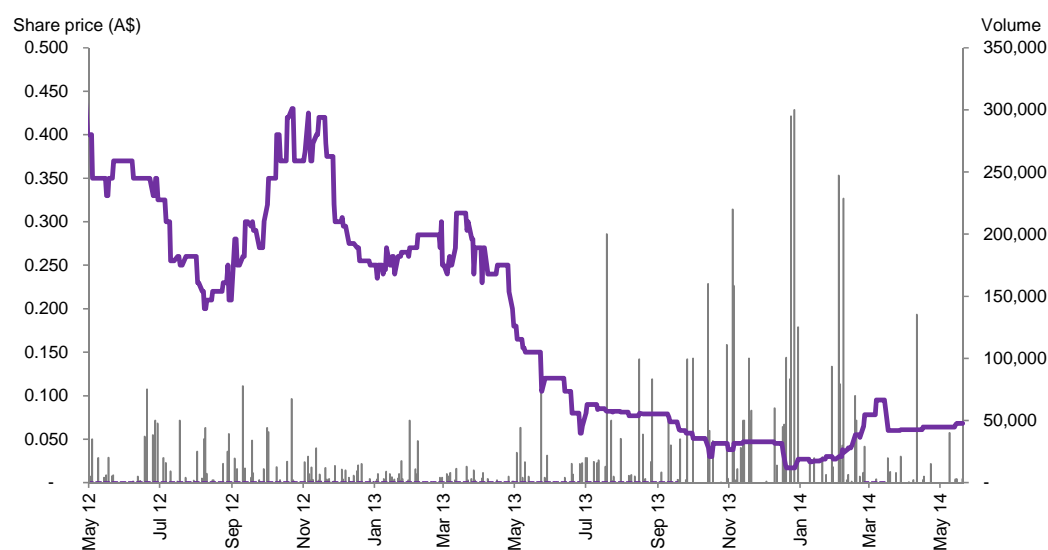
<sup>23</sup> Due to the high level of uncertainty associated with the amount and timing of the claims that may be admitted and paid by KZL, MUX has not recognised the claims as an liability for financial reporting purposes as they do not satisfy the recognition criteria under the relevant accounting standards.

Name	No of shares	Interest
Mungana Pty Ltd	97,546,943	59.25%
GHG Mungana Co Ltd	25,120,000	15.26%
UOB Kay Hian Private Ltd	13,564,786	8.24%
National Nominees Ltd	4,012,000	2.44%
Low Impact Diamond Drilling Specialists Pty Ltd	3,393,543	2.06%
Minotaur Resources Investments Pty Ltd	3,076,923	1.87%
JP Morgan Nominees Australia Ltd	1,664,546	1.01%
Parkrange Nominees Pty Ltd	1,378,950	0.84%
Houghton Waterville Pty Ltd	1,067,705	0.65%
HSBC Custody Nominees (Australia) Ltd	1,059,950	0.64%
<b>Total Top 10 Shareholders</b>	<b>151,885,346</b>	<b>92.26%</b>
Other Shareholders	12,738,592	7.74%
<b>Total</b>	<b>164,623,938</b>	<b>100.00%</b>

*Note: Total number of MUX Shares outstanding includes 418,215 shares issued to AKB Mining Geology Services as consideration for ordinary course of business consulting work. The shares were issued at A\$0.03985 per share (A\$16,116 in total value).*

*Source: MUX Management*

The daily movements in MUX's share price and volumes for the period from May 2012 to May 2014 is set out below:



*Source: Capital IQ*

We note the following with regard to the share price history since April 2012:

Date	Comments
19 Apr 2012	MUX announced positive results from the Scoping Study undertaken for the Tunkillia Project. The Scoping Study confirmed MUX's decision to proceed with a BFS for the Tunkillia Project. Share price closed at A\$0.470.
30 Apr 2012	In response to KZL entering into voluntary administration, MUX announced that it expected to continue operations in the ordinary course of business notwithstanding the voluntary administration. Share price closed at A\$0.400.
24 May 2012	MUX announced the commencement of drilling program consisting of 8,000m of diamond and RC drilling at the Tunkillia Project in South Australia. Share price closed at A\$0.370.
26 Jun 2012	HLX elected not to contribute to the 2012 calendar year exploration expenditure for the Tunkillia Project, allowing MUX to earn an additional 25% interest in the Tunkillia Project to 70% by December 2012. Share price closed at A\$0.330.

6 Jul 2012	MUX announced a partial write-down of MUX's GRA Assets to A\$46 million from A\$126 million as part of a reassessment of the project. Share price closed at A\$0.300.
19 Jul 2012	MUX announced its agreement to acquire the Tarcoola Project from Stellar and LID for a consideration of A\$750,000 in cash and further conditional payments. Share price closed at A\$0.250.
2 Nov 2012	MUX announced initial results from its Tarcoola Project confirming the possibility of a high grade resource. Share price closed at A\$0.370.
26 Nov 2012	MUX, MPL and MUX signed a binding heads of agreement for the main purpose of the termination of the GRA over the GRA Tenements in North Queensland. Share price closed at A\$0.375.
3 Dec 2012	MUX and its wholly owned subsidiary Nyngan Gold Pty Ltd entered into a farm-in agreement with AngloGold on MUX's Nyngan Project in NSW. AngloGold will be the manager of the farm-in and may earn up to 70% share in the Nyngan Project. Share price closed at A\$0.300.
24 Jan 2013	MUX announced an initial Resource estimate for the Tarcoola Project of approximately 0.97 Mt of resources with a gold grade of 3.12 g/t for 97.5 koz of contained gold. Share price closed at A\$0.265.
14 Feb 2013	MUX received a duty assessment, including penalties and interest from QOSR for A\$12.2 million in respect of the GRA over the GRA Tenements entered into between MUX and KLZ in 2010. Share price closed at A\$0.285.
13 Mar 2013	MUX, KLZ and MPL mutually agreed to terminate the heads of agreement between them that was announced on 26 November 2012 due to certain conditional requirements of the heads of agreement that were not successfully attained, in particular not achieving a positive outcome to the ATO private ruling. Share price closed at A\$0.310.
6 May 2013	MUX, KLZ and MPL entered into a new binding heads of agreement to implement a joint sale process for the Northern Region Assets (including the GRA) owned by KLZ and MPL and MUX. Share price closed at A\$0.165.
28 Jun 2013	MUX entered into an asset sale agreement to sell its mineral rights under the GRA to LM. Share price closed at A\$0.065.
17 Sep 2013	MUX announced that the conditions of the heads of agreement with KZL and MLP for the Northern Region Assets has been terminated as a result of a breach by the purchaser and its guarantor. Share price closed at A\$0.070.
6 Nov 2013	MUX has reached an agreement with QOSR to extend the payment terms for the A\$12.19 million Stamp Duty assessments until 28 February 2015. Share price closed at A\$0.045.
30 Dec 2013	MUX, KZL and its wholly owned subsidiary MPL have entered into a binding heads of agreement under which the Northern Region Assets owned by KZL and MPL will be sold to MUX (Proposed Transaction). Share price closed at A\$0.027.
18 Feb 2014	MUX announced that it had entered into a sale agreement with KZL and MPL in relation to the Proposed Transaction. KZL also announced that the condition precedent to the binding heads of agreement regarding consent from Investec has been satisfied. Share price closed at A\$0.055.
2 Apr 2014	MUX entered into a binding term sheet with WPG Resources Ltd for the sale of MUX's interests in the Tarcoola and Tunkillia Projects for a consideration consisting of A\$1.5 million cash, A\$0.23 million in WPG shares and A\$1.0 million <sup>1</sup> in deferred consideration contingent on the achievement of certain milestones. Share price closed at A\$0.061.
16 April 2014	MUX announced a R&D refund of A\$2.27 million.
23 April 2014	MUX applied to the South Australian Government and its regulatory authorities for a mining lease approval for its Tunkillia Project. Share price closed at A\$0.064.
7 May 2014	MUX announced that its Stamp Duty Liability of circa A\$12.19 million had been fully discharged by the QOSR and that it expects to receive a refund of A\$1.2 million in stamp duty assessment payments made to date (received on 21 May 2014). Share price closed at A\$0.064.
14 May 2014	MUX announced that WPG has agreed to proceed with the purchase of the Tunkillia and Tarcoola Projects. Share price closed at A\$0.067.  A Sale and Purchase Agreement was signed on the 21 May 2014.
29 May 2014	MUX announced completion of the WPG Transaction.

*Note (1): We note per the ASX announcement on 2 April 2014 the deferred component of the WPG Offer is A\$1.25 million. However, we note that per the signed binding term sheet the deferred consideration is A\$1.0 million, which Management has confirmed.*

Set out below is the share price performance of MUX since April 2013:

MUX	Share Price			Average weekly volume 000'
	High A\$	Low A\$	Close A\$	
<b>Month ended</b>				
Apr 2013	0.270	0.180	0.180	5
May 2013	0.170	0.105	0.120	45
Jun 2013	0.110	0.057	0.065	14
Jul 2013	0.090	0.080	0.081	86
Aug 2013	0.080	0.077	0.079	59
Sep 2013	0.079	0.057	0.057	55
Oct 2013	0.054	0.030	0.038	98
Nov 2013	0.050	0.038	0.047	173
Dec 2013	0.047	0.017	0.027	264
Jan 2014	0.030	0.024	0.027	39
Feb 2014	0.078	0.030	0.078	189
Mar 2014	0.095	0.060	0.061	14
Apr 2014	0.066	0.061	0.064	36
<b>Week ended</b>				
31 Jan 2014	0.030	0.027	0.027	106
7 Feb 2014	0.038	0.030	0.035	585
14 Feb 2014	0.043	0.038	0.043	9
21 Feb 2014	0.055	0.052	0.052	125
28 Feb 2014	0.078	0.060	0.078	37
7 Mar 2014	0.095	0.095	0.095	3
14 Mar 2014	-	-	0.095	-
21 Mar 2014	0.060	0.060	0.060	29
28 Mar 2014	0.061	0.060	0.061	29
4 Apr 2014	0.061	0.061	0.061	1
11 Apr 2014	0.066	0.061	0.061	137
18 Apr 2014	0.064	0.064	0.064	7
25 Apr 2014	0.064	0.064	0.064	15
2 May 2014	-	-	0.064	-
9 May 2014	0.065	0.064	0.064	40
16 May 2014	0.068	0.067	0.068	6

Source: Capital IQ, Calculations

#### 4.5.2 Options

MUX currently has 9.05 million Options on issue. However, we have been instructed by Management that only 3.85 million Options may be exercised<sup>24</sup>.

The following table summarises the key terms of the 3.85 million Options issued to the directors and key management personnel of the Company for nil consideration as a part of their remuneration:

Option	Issue date	Vesting date <sup>1</sup>	Expiry date <sup>2</sup>	Exercise Price (\$A)	No. of Options
Option 1	02/08/2010	01/08/2012	10/03/2014	\$1.50	400,000
Option 2	02/08/2010	01/08/2013	10/03/2014	\$2.00	400,000
Option 3	02/08/2010	01/08/2014	10/03/2014	\$2.50	400,000
Option 4	01/10/2010	30/09/2012	01/10/2015	\$1.55	400,000
Option 5	01/10/2010	30/09/2013	01/10/2015	\$2.00	400,000
Option 6	01/10/2010	30/09/2014	01/10/2015	\$2.50	400,000
Option 7	20/09/2010	19/09/2012	10/04/2014	\$1.52	400,000
Option 8	20/09/2010	19/09/2013	10/04/2014	\$2.00	400,000
Option 9	20/09/2010	19/09/2014	10/04/2014	\$2.50	400,000
Option 10	17/11/2010	16/11/2012	17/11/2015	\$2.00	250,000
<b>Total</b>					<b>3,850,000</b>

Note:

(1) Option holders must remain in the employment of MUX to exercise Options and the Options automatically vest when there is a change in control of the Company.

(2) Option 1 to 3 and 7 to 9 expiry dates are based on 3 month post redundancy expiry period.

Source: MUX Management

<sup>24</sup> Options that may not be exercised relate to the departure of the employee from the Company.

## 5 Overview of the Northern Region Assets

### 5.1 Introduction

Under the Proposed Transaction, MUX intends to acquire 100% of the Northern Region Assets owned by KZL and MPL consisting of:

- Legal ownership of the GRA Tenements.
- KZL/MPL's rights to base metal and other resources under the GRA (KZL's GRA Assets) (Refer to section 4.3 for key terms of the GRA).
- Other GRA related assets including any plant and equipment, water permits, contracts, real properties, mining information and environmental authorities which KZL/MPL have obtained.

### 5.2 GRA Tenements

The legal ownership to the following GRA Tenements will be acquired by MUX under the Proposed Transaction:

Tenement	Deposit/ Project	Stage	Owner	Sq km	Expiration
EPM7672	Red Cap	Advanced exploration	KZL	81.99	21/01/2018
EPM12902	Chillagoe exploration	Exploration	KZL	45.74	27/03/2015
EPM14104	Chillagoe exploration	Exploration	KZL	16.4	Renewal lodged
EPM14108	Chillagoe exploration	Exploration	KZL	78.71	25/08/2014
EPM15458	Red Cap	Advanced exploration	MPL	281.63	03/07/2014
EPM15459	Chillagoe exploration	Exploration	MPL	104.76	01/05/2015
EPM18530	Chillagoe exploration	Exploration	MPL	6.55	19/09/2016
ML4798	Chillagoe exploration	Exploration	KZL	0.07	31/01/2019
MLA20658	King Vol	Pre-development	KZL	6.14	Application
ML4910	Shannon-Zillmanton	Advanced exploration	MPL	0.08	31/10/2023
ML4911	Shannon-Zillmanton	Advanced exploration	MPL	0.08	31/01/2019
ML4921	Shannon-Zillmanton	Advanced exploration	MPL	0.12	31/03/2024
ML4928	Griffiths/ Red Dome/ Red Dome Leach Pad	Pre-development/ advanced exploration	MPL	1.28	Renewal lodged
ML4977	Griffiths/ Red Dome/ Red Dome Leach Pad	Pre-development/ advanced exploration	MPL	0.65	30/11/2019
ML5176	Red Dome Leach Pad	Advanced exploration	MPL	12.39	31/10/2027
ML5319	Mungana/ Mungana Base Metal Lode	Pre-development/ advanced exploration	MPL	1.26	Renewal lodged
ML20640	Mungana/ Mungana Base Metal Lode	Pre-development/ advanced exploration	MPL	1.93	30/09/2029

Source: SRK Report

### 5.3 Mineral resources attributable to KZL/MPL

Under the GRA, KZL/MPL have the sole right to develop and commercialise deposits located within the GRA Tenements classified as 'base metal' or 'other resources'. Pursuant to the Proposed Transaction, MUX will acquire KZL/MPL's rights to the 'base metal' and 'other resources' deposits.

The table below summarises KZL/MPL's total attributable JORC defined mineral resources and estimated exploration targets<sup>25</sup>.

<sup>25</sup> Exploration targets are not JORC defined resources.

Project	Attributable resources¹ (Mt)	Resource grade					Attributable contained resources²				
		Zinc (%)	Lead (%)	Copper (%)	Gold (g/t)	Silver (g/t)	Zinc (Kt)	Lead (Kt)	Copper (Kt)	Gold (koz)	Silver (koz)
JORC defined resources											
Griffiths Hill											
Inferred	1.07	0.8%	-	2.9%	0.6	58	8.0	-	31.5	21.4	2,199.9
King Vol											
Indicated	0.90	16.0%	0.9%	0.9%	-	42	143.8	8.1	8.1	-	1,331.9
Inferred	1.86	9.9%	0.4%	0.6%	-	24	183.9	7.4	11.1	-	1,572.9
Total JORC defined resources	3.83	8.8%	0.4%	1.3%	0.2	38	335.8	15.5	50.8	21.4	5,104.7
Estimated exploration targets											
Mungana Base Metal Lode	0.04	10.5%	0.1%	1.9%	1	124	4.6	0.0	0.8	1.4	192.5
Montevideo³	0.72	7.7%	0.2%	-	-	7	55.4	1.4	-	-	177.8
Red Cap³	7.25	4.9%	0.1%	0.8%	0.1	21	357.0	9.1	61	21	5,287.2
Total estimated exploration targets	8.02	5.2%	0.1%	0.8%	0.1	20	417.0	10.6	62.0	22.2	5,657.4
Total JORC and estimated exploration targets	11.84	6.4%	0.2%	1.0%	0.1	26	752.9	26.1	112.8	43.6	10,762.2

Note:

(1) *Attributable resources = total resources × percentage of ownership in project*

(2) *Attributable contained resource = attributable resources × grade of resources (approx. calculation)*

(3) *We note that the Montevideo and Red Cap resource estimates have been disclosed by MUX as inferred resources, however due to lack of supporting information; these estimated resources have been considered by SRK as exploration targets*

Source: SRK Report

Below is a brief description of the mineral projects set out above.

### 5.3.1 Griffiths Hill

The Griffiths Hill Project (or the Red Dome Copper Zone) consist of a polymetallic deposit mainly prospective for copper and zinc. The Griffiths Hill Project was initially discovered as a part of an exploration project conducted at MUX's GRA Assets. However, it was determined that ownership of the Griffiths Hill Project was subject to the terms of the GRA and it was resolved that KZL would assume ownership of the project.

In December 2011, MUX, KZL and MPL amended the GRA for the transfer of the Griffiths Hill Project from MUX to MPL. For details on the consideration paid refer to section 4.3.

### 5.3.2 King Vol

The King Vol Project consists of a polymetallic deposit mainly prospective for high-grade zinc. The King Vol Project was one of KZL's key pre-development projects with detailed drilling and geological interpretation having been performed before KZL entered into Voluntary Administration in April 2012.

Given the significant amount of pre-feasibility work already conducted at the King Vol Project, MUX has indicated that a feasibility study at the project could be finalised within 18 months.

### 5.3.3 Advanced exploration projects

KZL/MPL owns a number of advanced exploration projects under the GRA including:

- *Mungana Base Metal Lode* – a polymetallic exploration area mainly prospective for zinc.



- *Montevideo Project* – a polymetallic exploration area mainly prospective for zinc located adjacent to the King Vol Project.
- *Red Cap Project* – is located approximately 5 km from a partially completed Mungana processing plant facility, and consist of four key polymetallic exploration areas; Penzance, Victoria, Queenslander and Morrisons mainly prospective for zinc and copper.

#### 5.4 Other GRA Related Assets

Other GRA related assets consist of the following:

- *Processing plant (crushing and floatation plant)* – We note that the plant is incomplete and was put on care and maintenance due to KZL entering into Voluntary Administration in April 2012. Many of the required items are in storage.
- *Buildings* – consisting of transportable site offices, chemical sheds and containers.
- *Camp site* – consist of transportable site accommodation units, water treatment plant and ploy tanks.
- *Vehicles*.
- *Sundry plant* – consist of drill, welder and air compressor.

##### 5.4.1 Contracts/ royalty deed

We note that in conjunction with the proposed acquisition of the Northern Region Assets, MUX will also be required to be bound by any existing contractual commitments in relation to the assets being acquired whether by novation of such rights or in a manner otherwise agreed. In particular, we note that the Niugini Mining Royalty Deed (applicable to tenements ML4910, ML4911, ML4921, ML4928, ML4977, ML5176, ML5319, ML20640, EPM18530, EPM15458, EPM15459) will be transferred to MUX under the Proposed Transaction. The Niugini Mining Royalty Deed provides for a 3% royalty on gold dore once 300,000oz has been produced to Niugini Mining (Australia) Pty Ltd.



## 6 Valuation methodologies

### 6.1 Introduction

In accordance with our adopted valuation approach set out in section 2.2, our fairness assessment involves comparing the fair market value of MUX Shares before the Proposed Transaction with the fair market value of MUX Shares after the Proposed Transaction.

Grant Thornton Corporate Finance has assessed the value of MUX Shares using the concept of fair market value. Fair market value is commonly defined as:

*“the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm’s length.”*

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

### 6.2 Valuation methodologies

RG 111 outlines the appropriate methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:

- Discounted cash flow (“DCF”) method and the estimated realisable value of any surplus assets.
- Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets.
- Amount available for distribution to security holders on an orderly realisation of assets.
- Quoted price for listed securities, when there is a liquid and active market.
- Any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.

Further details on these methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

RG111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert’s skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.



### 6.3 Selected valuation methodology

Grant Thornton Corporate Finance has selected the market value of net assets as the primary method to assess MUX's equity value. The market value of net assets is based on the sum-of-parts of MUX's assets and liabilities as set out in MUX's unaudited balance sheet as at 31 March 2014.

RG111 requires the fairness assessment to be made assuming 100% ownership of the target company and irrespective of whether the consideration offered is script or cash and without consideration of the percentage holding of the offeror or its associates in the target company. The valuation of exploration assets for independent expert's report purposes are typically carried out in conjunction with an independent technical specialists with expertise in the relevant minerals in accordance with RG112 and generally accepted market practice.

For the purposes of this report, Grant Thornton Corporate Finance has engaged SRK to prepare a valuation of the exploration and pre-development assets of MUX which was completed in accordance with the VALMIN Code<sup>26</sup>. A copy of the SRK Report is included as Appendix D to this report. In addition, we note that MUX and Grant Thornton Corporate Finance have engaged Hassalls to provide a fair market valuation of the other GRA related assets.

Grant Thornton Corporate Finance has not used the DCF methodology to assess the market value of MUX's mineral assets due to the following reasons:

- Development of MUX's GRA Assets (including completion of stage 2 BFS) has been put on hold pursuant to KZL entering into Voluntary Administration, and there is significant uncertainty as to the progression of the project to a revenue generating stage since KZL is the legal tenement holder and owner of the mine decline access at the Mungana Deposit.
- The development of both MUX's GRA Assets requires significant financing. Given the uncertainty associated with the economic feasibility of the project and its complex legal structure, it may be extremely difficult for MUX to raise the required equity and debt financing to develop the project

#### 6.3.1 Cross check methodology

Prior to reaching our valuation conclusions, we have considered the reasonableness of our valuation having regard to:

- The market approach, specifically a rule of thumb valuation methodology based on a multiple of resources.
- The quoted share price of MUX.

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<sup>26</sup> The VALMIN Code is binding on members of the Australasian Institute of Mining and Metallurgy when preparing public independent expert reports required by the Corporations Act concerning mineral and petroleum assets and securities. The purpose of the VALMIN Code is to provide a set of fundamental principles and supporting recommendations regarding good professional practice to assist those involved in the preparation of independent expert reports that are public and required for the assessment and/or valuation of mineral and petroleum assets and securities so that the resulting reports will be reliable, thorough, understandable and include all the material information required by investors and their advisers when making investment decisions.

As discussed more extensively in section 7.8, we are of the opinion that the current share price of the Company is adversely affected by the uncertainty in relation to the ability of MUX to maintain and develop the GRA Assets given the liquidation of KZL and current market conditions. In addition, we note the liquidity of MUX shares is extremely low and accordingly, in our opinion, the current share price of MUX does not reflect the fair market value of MUX. Accordingly, based on the requirements of RG 111, we have placed no reliance on the share price.

## 7 Valuation assessment of MUX before the Proposed Transaction

As outlined in section 6.3, Grant Thornton Corporate Finance (“GTCF”) has adopted the market value of net assets methodology to assess the equity value of MUX before the Proposed Transaction. Set out below is a summary of our valuation assessment of MUX before the Proposed Transaction on a control basis:

MUX before the Proposed Transaction	Section Reference	Low A\$'000	High A\$'000
Adjusted fair value of MUX's GRA Assets	7.1.1	21,630	27,810
Fair value of Nyngan Project	7.1.2	800	800
Fair value of other exploration assets	7.1.2	1,020	1,020
Add: Adjusted other assets/(liabilities)	7.2	6,137	6,137
Add: Value of scrip and deferred component of WPG Offer	7.3	1,704	2,112
Add: Proof of Debt Claim	7.4	-	1,000
Less: Value of Options	7.5	(0.1)	(0.1)
Less: Transaction costs	7.6	(100)	(100)
<b>Equity value of MUX on a control basis</b>		<b>31,192</b>	<b>38,780</b>
Number of MUX Shares ('000s)	4.5.1	164,624	164,624
<b>Value per share on a control basis (cents)</b>		<b>18.95</b>	<b>23.56</b>

Source: Grant Thornton Corporate Finance Calculation, SRK Report and Management

Note: Total may not add due to rounding.

### 7.1 Fair value of MUX's mineral assets

In our assessment of MUX before the Proposed Transaction, we have had regard to the SRK's preferred value for MUX's mineral projects due to the following:

- The high end of the range of the MUX GRA Assets is more than four times the low end of the range as at out in Section 7.1.1. This results in an extremely wide market value range for MUX. Similar broad value ranges are applied to other assets.
- RG111 states that an expert should usually provide a range of values which should be as narrow as possible, as a broad range of values undermines the usefulness of the report.
- The preferred value is SRK's view of the most likely value of MUX's mineral projects.
- As indicated in the SRK Report, preferred values take into account the current market conditions, mineralisation, grade and depth of the deposits.

### 7.1.1 Fair value of MUX's GRA Assets

SRK's valuation of MUX's GRA Assets is summarised below:

Value of the MUX's GRA Assets assessed by SRK			Valuation (attributable to MUX)		
Status	% attributable to MUX		Low A\$'000	High A\$'000	Preferred A\$'000
<b>MUX's GRA Assets<sup>1</sup></b>					
Mungana deposit	Pre-development	100%	7,100	28,400	12,000
Red Dome deposit	Pre-development	100%	10,500	41,800	17,600
Red Dome leach pad	Advanced exploration	100%	300	1,500	500
Shannon-Zhilmanton deposit	Advanced exploration	100%	200	1,100	400
Other exploration assets under GRA	Early exploration	50% <sup>2</sup>	300	2,600	400
<b>Total MUX's GRA Assets</b>			<b>18,400</b>	<b>75,400</b>	<b>30,900</b>

Note (1): While MUX holds the GRA Rights, KZL retains legal tenure of all the GRA Tenements including those under MUX's GRA Assets.

Note (2): The Chillagoe exploration tenements are subject to the GRA but have not yet had any resources categorised under the GRA as belonging to KZL or MUX. Accordingly, SRK has assumed 50% of the rights to the tenements are attributable to MUX. For further details on the GRA refer to section 4.3.

Source: SRK Report

We note that the fair valuation assessment of MUX's GRA Assets undertaken by SRK is based on the resources in ground and it does not take into account the potential project funding and legal risks associated with the complexities of the legal framework of the GRA. For the purpose of our valuation assessment of MUX's GRA Assets, we have considered the following risks associated with the GRA:

- Whilst MUX has the mining rights over the relevant deposits under the GRA, KZL holds the legal title to all the GRA Tenements.
- There are various resources or ore bodies within the GRA Tenements which have not yet been categorised as Gold, Base Metal or Other Resource and rights to exploit have not yet been assigned to either MUX or KZL.
- Historically, there have been issues between MUX and KZL in relation to the mining rights over certain resources due to uncertainty associated with the setting of boundaries around resources under the GRA.
- If MUX identifies a Base Metal or Other Resource, KZL has the option to acquire the resource by paying 200% of exploration costs incurred by MUX in relation to identifying that resource and a 1.0% net smelter royalty. This may not compensate for the potential loss in value of the resources ultimately commercialised.
- MUX must first confer and come to an agreement with KZL prior to the application or renewal of any GRA Tenements, and commencement of an exploration program or mining operation on a GRA Tenement.
- Any disputes between MUX and KZL would need to be referred to a panel of MUX and KZL directors, and then an independent mediator before any legal action can be taken. An

independent expert may also be appointed to resolve any disagreements. This may potentially lead to significant loss of time and/or resources.

- The development of MUX's GRA Assets requires significant project funding (expected capital costs of approximately A\$291.6 million based on stage 1 BFS). Given the inherent uncertainty associated with the economic feasibility of pre-development mineral assets and the complex legal structure of the GRA, it may be particularly difficult for MUX to raise the required equity and debt financing to develop the project.

In order to account for the above factors, Grant Thornton Corporate Finance has applied a discount factor of 10% and 30% to the fair value assessment of MUX's GRA Assets undertaken by SRK as set out below:

Assessed fair value of the MUX's GRA Assets	Low A\$'000	High A\$'000
Preferred value of MUX's GRA Assets assessed by SRK	30,900	30,900
Discount factor	30%	10%
<b>Assessed fair value of the MUX's GRA Assets</b>	<b>21,630</b>	<b>27,810</b>

Source: SRK Report and calculations

For avoidance of doubt, the above discount factor applied by Grant Thornton Corporate Finance only takes into consideration the additional risks directly in relation to the legal framework of the GRA and does not reflect the current financial conditions of MUX. In our opinion, the GRA discount factor will be applicable whether MUX is financially robust or financially distressed.

Given the selected level of discount applied in the valuation of the GRA Assets is subject to a high degree of subjectivity, we have set out below a sensitivity analysis of our assessed fair value of MUX's GRA Assets in conjunction with the level of discount of the GRA Assets before the Proposed Transaction between 0% and 50%<sup>27</sup>.

	Discount factor to GRA Assets										
	0%	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
	30,900	29,355	27,810	26,265	24,720	23,175	21,630	20,085	18,540	16,995	13,905

Source: calculations

### 7.1.2 Fair value of the MUX's other mineral assets

SRK's valuation of MUX's other mineral assets is summarised below:

<sup>27</sup> We note that in our valuation assessment of the GRA Assets after the Proposed Transaction, we have not applied any discount given the consolidation of the base metals, precious metals and other deposits into MUX (i.e. cancellation of the GRA)

Value of MUX's other mineral assets assessed by SRK			SRK valuation (attributable to MUX)		
Status	% attributable to MUX		Low A\$'000	High A\$'000	Preferred A\$'000
<b>Nyngan Project</b>					
Nyngan deposit	Early exploration	100% <sup>1</sup>	200	2,600	800
<b>Total Nyngan Project</b>			<b>200</b>	<b>2,600</b>	<b>800</b>
<b>North Queensland exploration assets</b>					
Laura	Early exploration	100%	200	600	400
OK Mines	Early exploration	100%	20	20	20
Chillagoe assets not under GRA	Early exploration	100%	400	800	600
<b>Total North Queensland exploration assets</b>			<b>620</b>	<b>1,420</b>	<b>1,020</b>
<b>Total MUX's other mineral assets</b>			<b>820</b>	<b>4,020</b>	<b>1,820</b>

Note (1): AngloGold is the manager of the Nyngan Project and may earn up to 70% share by completing expenditure of A\$4 million prior to 31 December 2017

Source: SRK Report

## 7.2 Other assets and liabilities

Grant Thornton Corporate Finance has assessed the fair market value of other assets and liabilities of MUX as set out below:

Adjusted Other assets/(liabilities)	Note	A\$'000 (Reviewed)
Adjusted cash balance	1	6,303
Adjusted trade and other receivables	2	19
Plant & Equipment		326
Adjusted trade and other payables	2	(134)
Stamp Duty Liability	1	-
Provisions		(376)
<b>Adjusted other net assets/(liabilities)</b>		<b>6,137</b>

Source: Management and calculations

### Note 1 – Cash balance

Cash balance of approximately A\$1.3 million as at 31 March 2014 has been adjusted to take into consideration:

- **R&D Claim of A\$2.3 million** – In April 2014, Mux received notification from the ATO that the Company had been granted an A\$2,269,336.05 research and development tax refund claim ("R&D Claim") under the Federal Governments' Research and Development Tax Concession Scheme. Accordingly, we have adjusted the other assets and liabilities to reflect the granting of the R&D Claim
- **Stamp Duty Liability refund of A\$1.2 million** – In May 2014, the QOSR fully discharged the Stamp Duty Liability. As a result, MUX will be refunded A\$1.2 million in stamp duty assessment payments already made to date in relation to the Stamp Duty Liability. This refund was received by the Company on 21 May 2014. For further details refer to section 4.4.3.
- **WPG Offer upfront cash payment of A\$1.5 million** – On 29 May 2014, MUX completed the WPG Transaction in relation to the sale of its interests in the Tunkillia and Tarcoola Projects. Under

the terms of WPG SPA, MUX received approximately A\$0.15 million in deposit and a further A\$1.35 million in cash on completion (For further details refer to section 4.2.3).

*Note 2 – Net intercompany receivables*

Trade and other receivables have been adjusted to exclude approximately A\$3.8 million<sup>28</sup> owing from KZL which are taken into consideration in our assessment of the Proof of Debt. Likewise, trade and other payables have been adjusted to exclude approximately A\$2.1 million owing to KZL.

### 7.3 Scrip and Deferred Component of the WPG Transaction

On 21 May 2014, MUX entered into a SPA with WPG for the sale of its interests in the Tunkillia and Tarcoola Projects for a total consideration (the WPG Offer) consisting of the following components:

- A\$0.15 million non-refundable deposit in cash.
- A\$1.35 million in cash and 7.5 million WPG Shares upon completion of acquisition.
- Deferred consideration of A\$1.0 million in cash or WPG Shares at the election of WPG upon the achievement of certain milestones, including defining at least 100,000 oz of gold probable ore reserves, and commencement of mine construction and mining.
- WPG will pay MUX a net smelter return royalty for gold and silver produced from certain areas within the Tunkillia Project in the range of 1.0% to 1.5% based on the level of gold prices prevalent at the time of production.

Given we have already included the upfront cash component of the WPG Offer totalling A\$1.5 million in our adjusted cash balance for MUX as set out in section 7.2, we have separately valued the deferred and scrip component of the WPG Offer to MUX as summarised below:

Deferred and scrip component of WPG Offer		Low	High
	Reference	A\$'000	A\$'000
Scrip on completion (7.5 million WPG Shares at A\$0.032 as at 15 April 2014)		240	240
Deferred consideration of A\$1.0 million cash/ WPG Shares	Note 1	505	569
Net smelter royalty (1.0% to 1.5%)	Note 2	959	1,303
<b>Total assessed deferred and scrip component of WPG Offer</b>		<b>1,704</b>	<b>2,112</b>

Source: Grant Thornton Corporate Finance calculations

Source: ASX announcements, Management and GTCF calculations

#### Note 1 – Deferred consideration

Under the sale and purchase agreement, the total deferred considerations of A\$1.0 million is payable in a number of stages upon the achievement of certain milestones as summarised below:

- Milestone 1: A\$0.25 million in cash or WPG Shares on the date a JORC compliant probable reserve of 100,000 oz or more gold is identified within the Tunkillia and Tarcoola Projects.

<sup>28</sup> Intercompany receivables of A\$3.8 million was already fully provided for in doubtful debt as at 31 December 2013



- Milestone 2: A\$0.25 million in cash at the earlier of commencement of mine construction and mining operations at the Tunkillia or Tarcoola Projects.
- Milestone 3: A\$0.50 million in cash or WPG Shares at the earlier of commencement of mine construction and mining operations at the Tunkillia Project<sup>30,30</sup>.

Based on discussions with Management and the PFS completed on the Tunkillia and Tarcoola Projects we have calculated the net present value of these deferred payments with regard to the following key assumptions:

- Milestone 1, 2 and 3 to be achieved in FY2015, FY2016 and FY2018, respectively in accordance with the PFS.
- Discount rate<sup>29</sup> of 20% and 25% to reflect:
  - The significant uncertainty inherent in pre-development mining projects of this nature in terms of resource quality, recognition, identification and eventual realisation.
  - The current volatility of gold price which may affect the ability of WPG to develop the Tunkillia Project and result in a deferral of the planned/envisaged development timeline.

## **Note 2 – Net smelter royalty**

The WPG Offer includes a net smelter royalty (“NSR”) for gold and silver produced from the Tunkillia Project<sup>30</sup> based on the following sliding scale:

- If gold price per oz is below US\$1,750/oz, the NSR will be 1.0%.
- If gold price per oz is between US\$1,750/oz to US\$2,000/oz, the NSR will be 1.25%.
- If gold price per oz is above US\$2,000/oz, the NSR will be 1.50%.

Based on our analysis of broker and consensus forecasts (as set out in section 3.6), the gold price is not expected to reach or exceed US\$1,750/oz. Accordingly, we have assumed a NSR of 1.0% and calculated the net present value of the NSR based on the production profile indicated by the PFS and discussions with Management as summarised below:

- Mining at the Tunkillia Project is expected to commence in FY2019 and cease in FY2024 (a mine life of approximately 5.5 years).
- Average gold produced is projected by Management to be approximately 64 koz of gold per annum, totalling approximately 350 koz of gold to be produced over the life of the mine.<sup>31</sup>

<sup>29</sup> The calculation of the discount rate is based on the CAPM method and the following variables: risk free rate of approximately 4.5%, beta of 1.1, market risk premium of 6% and specific risk premium between 10% and 15%. (Note discount rate is rounded to 20% and 25%).

<sup>30</sup> Specifically within Mineral Claim 4347(MC4347) or the area of any tenement succeeding or replacing MC4347 which overlaps MC4347

- Gold prices based on consensus forecast as summarised below:

Gold (US\$/ounce)	2014 (F)	2015 (F)	2016 (F)	2017 (F)	2018 (F)	Long Term (Nominal)
Median of consensus forecast	1,274	1,300	1,300	1,277	1,300	1,303

Source: Consensus economics, April 2014

Consistent with our assessment of the deferred consideration we have applied a discount rate of 20% and 25%

#### 7.4 The Proof of Debt

As discussed in section 4.4.4, MUX has lodged two Proof of Debts against KZL and MPL for approximately A\$32.5 million<sup>32</sup> (or A\$44.7 million gross of the Stamp Duty Liability).

If the Proposed Transaction is completed, MUX has agreed to withdraw the Proof of Debt and not to lodge any further claim in relation to KZL (or MPL). If the Proposed Transaction is not completed, MUX will be entitled to lodge additional claims as an unsecured creditor to the KZL and MPL Liquidations.

Based on discussions with the Liquidators, we understand that if the Proposed Transaction is not completed and a commercial agreement is not reached between the Liquidators and MUX in relation to the Proof of Debt, then:

- It is the current intention of the Liquidators to dispute the quantum of the Proof of Debt which may trigger lengthy and costly litigation for both MUX and KZL.
- There are significant uncertainties in relation to the amount of the Proof of Debt Claim which will be admitted (if any) for dividend purposes in the KZL and MPL liquidations (“Unsecured Creditors”).

In addition to the above, we note that there is a high level of uncertainty in regards to the timing and amount of the final distribution (if any) to Unsecured Creditors which will depend on factors including but not limited to the following (assuming the Proposed Transaction is completed):

- KZL being able to monetise its interests in MUX (both MUX Shares and Convertible Notes).
- The sale of KZL’s other assets, which is still in progress.
- The pool of Unsecured Creditors.
- The liquidation expenses.

<sup>31</sup> We note this estimate is circa 10% lower than the PFS estimate of 386 koz of gold which is conservative but does not appear unreasonable given the NSR is restricted to MC4347 and the inherent uncertainty in relation to mining.

<sup>32</sup> Takes into consideration that approximately A\$12.19 million in Stamp Duty Liability was fully discharged by the QOSR in May 2014. For further details refer to section 4.5.3.



- Future market conditions.

If the Proposed Transaction is not completed, the following additional uncertainties should be considered in relation to the Unsecured Creditors distribution:

- MUX and KZL need to find an acquirer/alternative solution to the Northern Region Assets and the GRA which in the current form are difficult to be realised.
- The amount of the Proof of Debt Claim admitted to the pool of Unsecured Creditors will have a material impact on the final distributions.

As evident from the above discussions, there is a significant uncertainty in relation to forecasting a future dividend to Unsecured Creditors. In the circular issued to creditors and employees in October 2013, the Liquidators have provided some preliminary indications that a dividend of less than 10 cents in the dollar was projected for Unsecured Creditors. However the Liquidators indicated that this estimate was subject to the outcome of the asset sale programs and negotiations with MUX and potential buyers for the Northern Region and Southern Region assets.

In our assessment of the fair market value of the Proof of Debt Claim, we have considered the following:

- The expected return to Unsecured Creditors of less than 10 cents in the dollar. As part of the preparation of this report, we have held discussions with the Liquidators and they have indicated that the adoption of the preliminary return to Unsecured Creditors of less than 10 cents in the dollar in our report for the purpose of assessing the fair market value of the Proof of Debt Claim is not unreasonable.
- We understand that there should be a reasonable degree of certainty for the net intercompany balance owing to MUX of approximately A\$1.5 million to be admitted in the pool of Unsecured Creditors.
- Based on discussions with MUX and KZL and a review of the available information, it is highly unlikely that the total Proof of Debt Claim of \$32.5<sup>33</sup> million (net of the Stamp Duty Liability) will be admitted to the pool of Unsecured Creditors.
- It is likely that both MUX and KZL will be inclined to find a commercial resolution to the Proof of Debt Claim without the necessity to incur significant additional litigation expenses.

Given the above uncertainties, we have set out below a sensitivity analysis of the fair market value of the Proof of Debt in relation to the different level of estimated dividend to Unsecured Creditors and various admitted Proof of Debt Claim levels.

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<sup>33</sup> Due to the high level of uncertainty associated with the amount and timing of the claims that may be admitted and paid by KZL, MUX has not recognised the claims as an liability for financial reporting purposes as they do not satisfy the recognition criteria under the relevant accounting standards.

		Creditor dividend (cents in the dollar)					
		2.0	5.0	7.0	8.0	9.0	10.0
Admitted Claim (A\$'000s)	1,000	20	50	70	80	90	100
	5,000	100	250	350	400	450	500
	15,000	300	750	1,050	1,200	1,350	1,500
	20,000	400	1,000	1,400	1,600	1,800	2,000
	25,000	500	1,250	1,750	2,000	2,250	2,500
	32,800	656	1,640	2,296	2,624	2,952	3,280

Source: HOA, Management and GTCF calculations

Based on the above discussions, we have estimated the fair market value of the Proof of Debt between nil and A\$1.0 million. These sensitivities do not represent a range of potential values of the Proof of Debt, but intends to show to non-Associated Shareholders the sensitivity of our valuation assessment to changes in certain variables.

## 7.5 Options

MUX currently has 9.05 million Options on issue as set out in Section 4.5 with different exercise price and expiry dates. However, we have been instructed by Management that only 3.85 million Options may be exercised<sup>34</sup>. Accordingly, in our valuation of the Options, we have only taken into consideration the 3.85 million Options that may be exercised.

The value of the Options has been determined using the Binomial Model, and with regard to the following key assumptions:

- Underlying share price of A\$0.03 (based on the trading prices before the announcement of the Proposed Transaction).
- Risk free rate of 3.00% being the average yield on the 3 year and 5 years Australian Commonwealth Government Bond respectively.
- Assessed volatility over the life of the Options of 100%<sup>35</sup>.

Based on the above, we have assessed the value of Options to be approximately A\$60.

## 7.6 Transaction costs

For the purpose of the valuation, Grant Thornton Corporate Finance has taken into consideration costs associated with the Proposed Transaction payable by MUX. Management of MUX has advised that the estimated transaction costs to be incurred by MUX is approximately A\$0.1 million irrespective of whether the Proposed Transaction is completed or otherwise.

<sup>34</sup> Options that may not be exercised relate to the departure of the employee from the Company.

<sup>35</sup> Based on the historical volatility of the shares of selected comparable companies observed over a period similar to the life of the Options.



## 7.7 Taxation losses

MUX advised that it had approximately A\$13.4 million in accumulated tax losses as at 30 June 2013 which could potentially be used to offset against future taxable income. However, the amount has not been recognised as an asset for financial reporting purposes as it does not satisfy the recognition criteria under the relevant accounting standards.

For valuation purposes, unutilised tax losses may have a value as the hypothetical purchaser of a company can use the tax losses to offset against future taxable income, subject to satisfying certain taxation rules.

With respect to the potential utilisation of tax losses by MUX, Grant Thornton Corporate Finance notes that:

- MUX does not currently generate any material earnings or positive cash flows.
- MUX has recently divested its interest in the Tunkillia and Tarcoola Projects. It appears that WPG did not attribute any value to the accumulated tax losses attached to these assets.
- MUX's mineral assets are either at the exploration stage or at the pre-development stage. Management of MUX have advised that in order to utilise the tax losses to offset future taxable income, MUX needs to reach the production phase. In this regard, we note that MUX may potentially face significant challenges in raising funds for the development of MUX's GRA Assets.
- The legal and financial risks associated with MUX's GRA Assets may be a significant impediment to the development of these assets in their current legal framework.
- The limited value that a hypothetical purchaser may attribute to the accumulated tax losses under the fair market value principle.
- Any future transactions may lead to uncertainty in relation to MUX being able to meet the specific Australian Taxation Office ("ATO") requirements in order to utilise the tax losses.

Accordingly, Grant Thornton Corporate Finance has not attributed any value to the existing tax losses in our assessment of MUX.

## 7.8 Valuation cross check – resource multiple

As discussed in section 6.3, we have considered the reasonableness of our valuation having regard to the resource multiple observed for listed comparable companies.

This method provides a high level indication of the market value as the resource multiple may vary significantly between the different listed comparable companies due to size of the deposit, grade, availability of infrastructure, port allocation, cost structure and level of development. In our selection of comparable companies, we have had regard to the following factors:

- Flagship project focused on gold located in Australia.

- Status of development of the flagship project of the relevant company (i.e. exploration/development phase).
- Size of the company, including market capitalisation.
- Resource and grade estimates.

### 7.8.1 MUX's Resource multiple implied in our valuation assessment

We have considered the reasonableness of our valuation assessment by comparing the resources multiple implied by the net assets valuation to the Resource multiples of listed comparable companies in the gold mining industry.

Our assessment of MUX based on the net asset approach implies a Resource multiple between 14.8x and 19.3x as summarised below:

Cross check	Ref	Low (A\$'000)	High (A\$'000)
Assessed fair value of MUX	Section 7.0	31,192	38,780
Adjusted cash balance	Section 7.2	(6,303)	(6,303)
<b>Enterprise value of MUX (control basis)</b>		<b>24,889</b>	<b>32,477</b>
Total gold metal ratio (koz)	Note 1	1,678	1,678
<b>Implied Resource multiple (EV/oz)</b>		<b>14.8x</b>	<b>19.3x</b>

Source: ASX announcements and calculations

#### Note 1 – Gold metal ratio estimation attributable to MUX

For the purpose of our cross check, Grant Thornton Corporate Finance has estimated a 'gold metal ratio for the resources attributable to MUX. Our gold metal ratio calculation<sup>36</sup> assumes 100% recovery for all metals (this is also consistent with SRK's definition of 'metal ratios'). We note that our calculation of the gold metal ratio is for our valuation purposes only and does not attempt to reflect or estimate a reported gold equivalency under JORC Code 2012. We have assumed 100% recoverability in order to ensure the required level of comparability between MUX and the selected comparable companies. We note that the recovery rates are rarely available in the public domain for early stage exploration companies. In our opinion, the above approach is consistent with the valuation methodology that would be adopted by a pool of potential purchaser under the fair market value concept.

Based on the above methodology, we estimate that MUX's GRA Assets have a total gold metal ratio resource base<sup>37</sup> of 4.5 million oz ("Moz") which accounts for in excess of 85% of MUX's total resources. We note that MUX's GRA Assets resource base is relatively large but it does not include any reserves and 70% of the resources are categorised as "inferred" or "indicated". Given the inherent uncertainty in defining resources (particularly inferred and indicated), the level of resources that may ultimately become marketable reserves and commercialised economically over a reasonable timeframe is most likely to be significantly lower than the total resource base.

<sup>36</sup> The sum of contained resources adjusted for the ratio of the resource price to the price of gold as at 20 May 2014 (gold price at US\$1,295/oz, silver price at US\$19/oz and copper price at US\$6,805/t)

<sup>37</sup> Refer to section 4.2 for details on MUX's resource base.

Furthermore, we understand that the stage 1 BFS conducted on MUX's GRA Assets is based on an estimated 10 year mine life and total gold metal ratio production of only 1.7 Moz over the life of MUX's GRA Assets (refer to section 4.2.1 for further details).

With regard to the above, it is our opinion that a purchaser of MUX's GRA Assets is unlikely to attribute significant value to resources expected to be recovered beyond 10 years<sup>38</sup> of operations as set out in the Stage 1 BFS. This is also driven by the current legal framework of the GRA Rights which may represent an impediment to their development. Accordingly, for the purpose of our valuation assessment we have assumed only attributable gold metal ratio of 1.7 Moz for MUX's GRA Assets.

## 7.8.2 Resource multiple of listed comparable companies

Set out below are the resource multiples of the comparable companies that are engaged in gold mining development and pre-development in Australia. Refer to Appendix B for further details on the comparable companies.

Company	Market Cap (A\$m)	EV (A\$m)	Location <sup>1</sup> (state)	Ownership (%)	Total		Attributable contained gold resources			Attributable gold metal ratio <sup>3</sup> (Moz)	Resource Multiple (EV/metal ratio)
					Attributable resources <sup>2</sup> (Mt)	Average gold grade (g/t)	Inferred resources (Moz)	Indicated resources (Moz)	Measured resources (Moz)		
Matsa Resources Limited	36.8	34.9	WA	30%	13.0	1.2	0.13	0.41	-	0.54	65.0x
Gold Road Resources Limited	79.6	63.0	WA	100%	26.3	1.5	0.34	0.49	0.43	1.26	49.9x
Mutiny Gold Limited <sup>4</sup>	17.6	20.7	WA	100%	2.9	6.4	0.12	0.25	0.22	0.74	27.8x
ABM Resources NL	79.5	72.7	NT	100%	132.8	0.8	2.66	0.96	-	3.61	20.1x
Resource and Investment NL	25.7	39.4	WA	100%	34.3	1.8	0.61	1.23	0.13	1.97	20.0x
Gascoyne Resources Limited	20.6	18.8	WA	80% - 100%	34.6	1.6	0.99	0.61	0.01	1.61	11.7x
Blackham Resources Limited	20.7	19.6	WA	100%	24.8	1.9	1.07	0.40	0.01	1.48	13.2x
Gondwana Resources Ltd.	1.1	1.2	WA	70% - 100%	1.3	2.1	0.02	0.06	-	0.08	15.6x
Hill End Gold Ltd.	4.1	4.1	NSW	85% - 100%	4.3	3.8	0.33	0.18	0.02	0.53	7.7x
Aphrodite Gold Limited	3.8	7.3	WA	100%	28.7	1.5	0.50	0.90	-	1.40	5.2x
<b>Low</b>					<b>1.3</b>	<b>0.85</b>	<b>0.0</b>	<b>0.1</b>	<b>-</b>	<b>0.08</b>	<b>5.2x</b>
<b>High</b>					<b>132.8</b>	<b>6.40</b>	<b>2.7</b>	<b>1.2</b>	<b>0.4</b>	<b>3.61</b>	<b>65.0x</b>
<b>Average</b>					<b>30.3</b>	<b>2.27</b>	<b>0.7</b>	<b>0.5</b>	<b>0.1</b>	<b>1.32</b>	<b>23.6x</b>
<b>Median</b>					<b>25.6</b>	<b>1.69</b>	<b>0.4</b>	<b>0.5</b>	<b>0.0</b>	<b>1.33</b>	<b>17.8x</b>

Note:

- (1) Location of flag ship asset
  - (2) Attributable resources = total resources × percentage of ownership in the flagship project
  - (3) Gold metal ratio is the sum of contained resources adjusted for the ratio of the resource price to the price of gold as at 20 May 2014 (gold price at US\$1,295/oz, silver price at US\$19/oz and copper price at US\$6,805/t). Contained resources equals approximately grade of resources × total resource tonnage (note we have assumed the contained resources as disclosed by each company in latest available resource estimate as at 20 May 2014). As discussed in section 7.7.1, we note that this gold metal ratio estimation calculation is for the purposes of our valuation and does not attempt to estimate or reflect a reported gold equivalent under JORC Code 2012.
  - (4) We note the only Mutiny Gold has identified metals other than gold in their JORC defined resources. In addition to attributable contained gold resources, Mutiny Gold also has approximately 42.7Kt of inferred and 8.1 Kt of indicated attributable contained copper, and 3.8Moz of inferred and 1.3 Moz of indicated attributable contained gold, which are taken into consideration in the gold metal ratio calculation for Mutiny Gold. This is based on an average grade of 0.9% for copper and 6.8 g/t for silver as disclosed in Mutiny Gold's latest available corporate presentation as at 20 May 2014.
  - (5) EV based on latest available market capitalisation and quarterly cash flow as at 20 May 2014
- Source: Capital IQ, company presentations and websites, other publicly available information

When considering the Enterprise Value ("EV") to resource multiples of the trading comparable companies, we note the following:

<sup>38</sup> High range of assumption (20 years) reflects possibility of project extensions/ expansions.



- The resource multiples listed above have been calculated based on the market price for minority or portfolio share holdings and do not include a premium for control.
- MUX has estimated total resources of 122.9 Mt with an average gold grade of 0.65 g/t. The total resources of MUX are substantially larger than most of the other comparable companies' listed above.
- For the purpose of our valuation, we have calculated the attributable resources of each company based on their ownership interest in their respective JORC defined projects<sup>39</sup>.

In our opinion, ABM Resources NL ("ABM") and Mutiny Gold Limited ("MYG") are the most comparable companies to MUX due to the following:

- Similar to MUX, MYG's flagship project is prospective for gold, silver and copper and is most similar to the MYX GRA Assets in terms of stage of development. MUX has completed stage 1 BFS on the MYX GRA Assets whilst MYG has completed a definitive feasibility study on its Defector Gold-Copper Project.
- ABM has approximately 132.8 Mt of attributable resources with an average grade of 0.8 g/t of gold and attributable contained gold metal ratio resources of 3.6 Moz relatively similar to MUX which has approximately 122.9Mt of attributable resources with an average grade of 0.65 g/t of gold and attributable contained gold metal ratio resources of 5.1 Moz.

The average resource multiple of MYG and GCY is approximately A\$24.0 per oz of gold on a minority basis. Our valuation assessment of MUX implies a resource multiple between A\$14.8 per oz and A\$19.3 per oz of gold on a control basis. We believe that the size of the discount is reasonable considering the specific circumstances of MUX and in particular the legal framework of MUX's GRA Assets which represents a material impediment to their development. Accordingly, we believe that our valuation assessment of MUX based on the market value of net assets approach is reasonable.

## 7.9 Comparison with the listed market price

Prior to reaching our valuation conclusion, we have also considered the quoted security price of MUX Shares. Set out below are the monthly VWAP and trading volumes since November 2012:

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<sup>39</sup> The enterprise value of the comparable companies have been adjusted for any minority or non-controlling interest in the same flagship project.



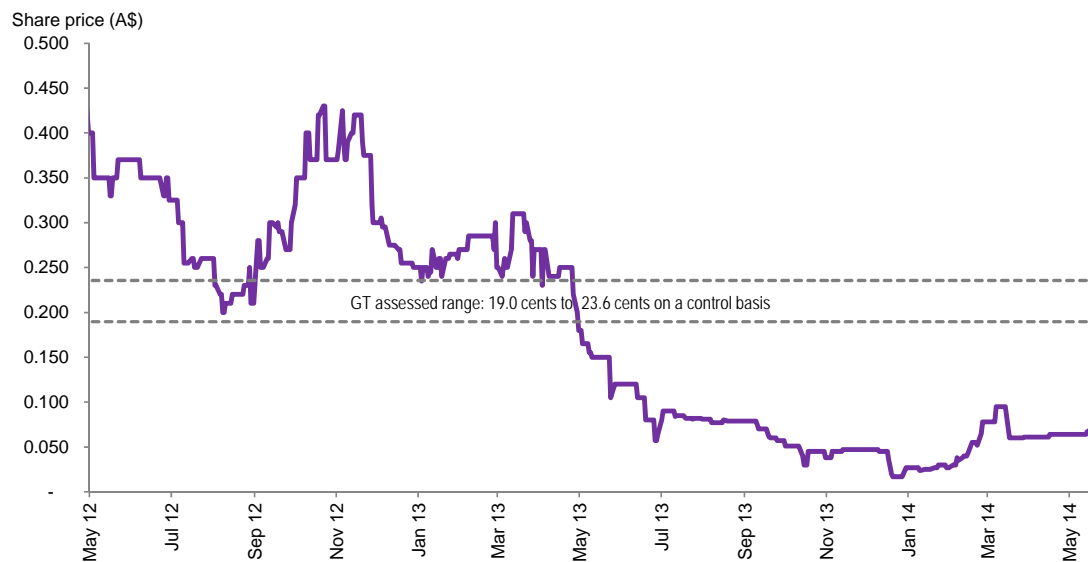


Month end	Volume traded ('000)	Monthly VWAP (\$)	Total value of shares traded (\$'000)	Volume traded as % of total shares
Nov 2012	132	0.3881	51	0.1%
Dec 2012	77	0.2757	21	0.0%
Jan 2013	122	0.2615	32	0.1%
Feb 2013	62	0.2628	16	0.0%
Mar 2013	67	0.2687	18	0.0%
Apr 2013	24	0.2372	6	0.0%
May 2013	207	0.1331	28	0.1%
Jun 2013	57	0.0732	4	0.0%
Jul 2013	396	0.0831	33	0.2%
Aug 2013	258	0.0789	20	0.2%
Sep 2013	229	0.0643	15	0.1%
Oct 2013	449	0.0435	20	0.3%
Nov 2013	728	0.0468	34	0.5%
Dec 2013	1,109	0.0211	23	0.7%
Jan 2014	173	0.0283	5	0.1%
Feb 2014	756	0.0381	29	0.5%
Mar 2014	60	0.0620	4	0.0%
Apr 2014	160	0.0639	10	0.1%

Source: Capital IQ

We note that our assessment of the fair market value of MUX on a control basis between A\$0.190 and A\$0.236 per share is mostly higher than the recent share trading even if a premium for control is taken into account.

Set out below is a graphical representation of our valuation assessment compared with historical trading prices:



Source: Capital IQ and GTCF calculations

In our opinion, this pricing differential between our valuation assessment of MUX on a control basis before the Proposed Transaction and the recent share trading is due to the following factors which may be captured into the trading prices but not necessarily in our valuation assessment of MUX:

- The Proof of Debt Claim will not be withdrawn and MUX will be entitled to lodge additional claims (if any) into the KZL liquidation. complexity of the legal framework of the GRA Assets will remain which may hinder the ability of MUX to further develop/fund the GRA Assets. In particular we note that given MUX have divested its interest in the Tunkillia and Tarcoola Projects, the GRA Assets will likely be MUX's only pre-development asset in
- Furthermore, we note that: the short to medium term.
- MUX and KZL may renegotiate the terms of a new transaction, however there is no certainty that they will be on better terms for the Non-Associated Shareholders.
- Given MUX's current cash balance, the Independent Directors may adopt a more passive position and try to extract a better transaction with KZL for the Non-Associated Shareholders.

For the reasons outlined above, it is our opinion that the trading share price of MUX before the announcement of the Proposed Transaction may not be reflective of fair market value. As a result, we have not relied on the quoted security price of MUX for our valuation assessment of MUX.

## 8 Valuation assessment after the Proposed Transaction

In our assessment of the market value of MUX after the Proposed Transaction, we have adjusted our valuation assessment set out in Section 7 in order to consider the following:

- Northern Region Assets acquired under the Proposed Transaction (consisting of KZL's GRA Assets and other KZL's GRA related assets).
- The automatic conversion of Tranche A Convertible Notes at 10 cents per MUX Share given the Stamp Duty Liability has been fully discharged by the QOSR and MUX intends to pay any new stamp duty arising from the Proposed Transaction shortly after completion.
- The market value of the Tranche B Convertible Notes to be issued to KZL.
- New stamp duties and contingent transaction costs arising from the Proposed Transaction.
- MUX's withdrawal of its existing Proof of Debt lodged with the Liquidators of KZL and MPL.
- Forgiveness of intercompany balances between MUX, KZL and MPL.
- A minority discount applicable to our valuation assessment of MUX after the Proposed Transaction.

Set out below is a summary of our valuation assessment of MUX after the Proposed Transaction.

MUX after the Proposed Transaction	Section Reference	Low A\$'000	High A\$'000
Fair value of KZL's GRA Assets	8.1.1	15,900	15,900
Fair value of other KZL's GRA related assets	8.1.2	5,000	7,580
Fair value of MUX's GRA Assets	8.2	30,900	30,900
Other existing MUX mineral assets <sup>1</sup>	7.1.2	1,820	1,820
Add: Adjusted other assets/(liabilities)	7.2	6,137	6,137
Less: Tranche B Convertible Notes	8.3	(8,539)	(8,539)
Less: New stamp duty	8.4	(840)	(840)
Add: Proof of Debt Claim	7.4	-	-
Less: Value of Options	7.5	(0.1)	(0.1)
Less: Transaction costs	8.5	(300)	(300)
<b>Equity value of MUX on a control basis</b>		<b>50,078</b>	<b>52,658</b>
Minority discount	8.6	29%	17%
<b>Equity value of MUX on a minority basis</b>		<b>35,555</b>	<b>43,706</b>
Number of MUX Shares ('000s)	8.7	239,624	239,624
<b>Value per share on a minority basis (cents)</b>		<b>14.84</b>	<b>18.24</b>

*Note (1): Other existing MUX mineral assets include the Nyngan Project and other exploration assets*

*Source: Grant Thornton Corporate Finance Calculations, SRK Report and Hassalls Report*

## 8.1 Northern Region Assets to be acquired

The Northern Region Assets to be acquired under the Proposed Transaction consist of mainly KZL's GRA Rights to base metal and other resource mineral assets, the legal tenure of the GRA Tenements, and other GRA related assets. For further details refer to section 5.

### 8.1.1 KZL's GRA Assets

The value of the KZL's GRA Assets to be acquired by MUX under the Proposed Transaction has been assessed by SRK and it is summarised in the table below:

Assessed value of KZL's GRA Assets	Low A\$'000	High A\$'000	Preferred A\$'000
Griffiths Hill	1,000	3,800	1,700
King Vol	2,900	11,200	4,400
Mungana Base Metal Lode	100	300	100
Red Cap	6,100	18,100	7,900
Montevideo	600	1,700	700
Other exploration assets under GRA	700	2,600	1,100
<b>Assessed fair value of KZL's GRA Assets</b>	<b>11,400</b>	<b>37,700</b>	<b>15,900</b>

Source: SRK Report and MUX Management

As discussed in section 7.1, in our assessment of MUX after the Proposed Transaction, we have had regard to the SRK's preferred value for KZL's GRA Assets. We note that the valuation assessment of KZL's GRA Assets is based on the consolidation of the GRA Assets and KZL's GRA Assets before the Proposed Transaction is affected by the same issues and risks applicable to the GRA Assets discussed in section 7.11.

### 8.1.2 Other GRA related assets

Per section 6.3, Hassalls has assessed the fair market value of KZL's other GRA related assets including buildings, incomplete processing plant and vehicles. The assessed value of the other GRA related assets is summarised in the table below:

Assessed value of other GRA related assets	Fair market value installed A\$'000	Fair market value A\$'000
Processing plant and stored plant	15,000	6,585
Buildings	750	505
Camp Site	555	340
Vehicles	148	123
Sundry plant	32	27
<b>Total assessed value of other GRA related assets</b>	<b>16,485</b>	<b>7,580</b>

Source: Hassalls

In undertaking the valuation assessment, Hassalls adopted a direct, sales or market comparison approach. Hassalls' valuation assessment has been prepared under the following definitions:



- *Fair Market Value*: is an opinion expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date.
- *Fair Market Value – Installed*: is the estimated amount, expressed in terms of money that may reasonably be expected for an installed property in an exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy or sell, and both fully aware of all relevant facts, including installation, as of a specific date. (This amount includes all normal direct and indirect costs, such as installation and other assemblage costs, to make the property fully operational but does not have to be supported by the business earnings.)

We note that Hassalls' definition of fair market value is consistent with our definition of fair market value. We have not adopted Hassalls' Fair Market Value – Installed given that some items of plant required installation and have been placed on care and maintenance. The value placed on the KZL's other GRA related assets are based on Hassalls' experience and investigations made at the date of the valuation.

In addition to Hassalls' valuation, we understand that the Company has received certain preliminary enquiries in relation to the acquisition of Other GRA Assets at a price consistently lower than Hassalls' assessment.

Accordingly, in our valuation assessment, we have adopted a value range for the Other GRA Assets between A\$5.0 million and A\$7.6 million.

## 8.2 Fair value of MUX's GRA Assets

If the Proposed Transaction is successful, the GRA will be terminated and MUX will own 100% of MUX's GRA Assets including legal title to the underlying tenements. Accordingly, the issues in relation to the legal framework, ownership, and future potential disputes over MUX's GRA Assets will be completely removed. Hence, in our valuation assessment of the GRA Assets after the Proposed Transaction, we have removed the discount factor in the range of 10% to 30% applied in section 7.1.1

For avoidance of doubt, we believe that the removal of the GRA discount factor does not constitute a 'special value' due to the following:

- Our approach to the fairness of the Proposed Transaction is consistent with the terms of the Proposed Transaction. The key reason for MUX and KZL to enter into the Proposed Transaction is to remove the GRA and the relative impediments to the development of the underlying assets. Our valuation assessment of MUX before and after the Proposed Transaction only reflects the fair market value of the underlying assets and liabilities and does not incorporate any special value.
- Our valuation assessment of the GRA Assets post the Proposed Transaction is based on the independent valuation undertaken by SRK. As discussed in section 7.1.1 and outlined in Appendix D, the SRK valuation is based on a benchmark of the market value of the resource in the ground. This value will be available to a pool of potential purchasers and not only to MUX and KZL post the Proposed Transaction.

- Given KZL is currently in liquidation and is the holder of the legal tenure to all GRA Assets, it is unlikely that any third party will make an offer to acquire MUX's GRA Assets without requiring the GRA to be effectively removed from those assets to avoid any complications in relation to KZL's liquidation. From this perspective, we note that recent potential transactions (before the Proposed Transaction) in relation to the GRA Assets have all involved the effective dissolution of the GRA in some form. In particular, we note MUX and KZL entered into a joint sale process of the GRA Assets to potential third parties in May 2013<sup>40</sup>. Accordingly, the value uplift considered in our valuation assessment was potentially available to a pool of potential purchasers.

### 8.3 Tranche B Convertible Notes

As described in section 1.3 the Convertible Notes will be issued in two tranches as follows:

- Tranche A has a total face value of \$7.5 million and is convertible automatically at A\$0.10 per MUX Share 5 business days after the Stamp Duty Liability and any new stamp duty in relation to the Proposed Transaction is fully discharged. We note that in May 2014 the Stamp Duty Liability was fully discharged by the QOSR and Management have represented that any new stamp duty will be paid shortly after completion of the Proposed Transaction.
- Tranche B has a total face value of \$7.5 million and is convertible upon KZL's request at A\$0.20 per MUX Share made at any time before or on the maturity date of the Convertible Notes.

Accordingly, after the Proposed Transaction we have assumed the automatic conversion of Tranche A Convertible Notes to MUX Shares at 10 cents per share and estimated the fair market value of Tranche B Convertible Notes using an equity value methodology based on the model set out by Tsiveriotis and Fernandes.<sup>41</sup> This model is based on the principle that a convertible note consist of two components, an equity component and a debt component which are subject to different risks.

The model assumes that the equity component of the convertible notes follow an amended version of the Black-Scholes model based on the underlying share price. The model takes into account the possibility of an early exercise of the option embedded in the convertible note and calculates the value at selected testing dates over the life of the instrument.

The debt component is discounted at the risk free rate plus an appropriate credit spread, as the coupon and principal payments require cash settlement.

The value of the Convertible Notes was assessed based on the following assumptions:

- Maturity date of 5 years from issue date.
- Conversion price of A\$0.20.

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<sup>40</sup> This sale process was subsequently abandoned.

<sup>41</sup> Tsiveriotis, K. and Fernandes, C., "Valuing convertible bonds with credit risk", Journal of Fixed Income, 95-102, September 1998

- Underlying value of MUX Shares for the purpose of estimating the fair market value of the Convertible Notes assessed at A\$0.15. This is based on our valuation assessment of MUX share price on a minority basis before the Proposed Transaction (A\$0.135 to A\$0.196)<sup>42</sup> and after the Proposed Transaction (A\$0.148 to A\$0.182).<sup>0</sup> In our estimate, we have considered the following:
  - Trading prices of MUX ranged between 2.5c and 5.5c between 1 January 2014 and 18 February 2014 (date of execution of the final agreements in relation to the Proposed Transaction).
  - The trading prices of MUX ranged between 5.5c and 9.5c after 18 February 2014.
  - The share price of MUX closed at 6.1c on 1 April 2014.
  - Whilst our minority (A\$0.135<sup>43</sup>) and after the Proposed Transaction (A\$0.176) are materially higher than the selected underlying value of MUX Shares of 8c, we are of the opinion that it is unlikely that the share price of MUX will trade in line with our valuation assessment in the short term. This is particularly relevant for Tranche A Convertible Notes which have a maturity date expected on or around January 2015.
- Accordingly, in selecting the price of the underlying MUX Shares for the purpose of assessing the fair market value of the Convertible Notes, we have taken into account both trading prices and our assessed value of MUX. In our opinion, the select price reflects the price that would be adopted by a pool of potential purchasers. Risk free rates of 3.16%, being the average yield on a 2 year Australian Government Bond.
- Market based interest rate for convertible notes with similar terms and risk profile assessed at 15%. In particular, we have placed more reliance on comparable convertible notes for resource companies where the holder has the option to convert and is unsecured (given Tranche B Convertible Notes are unsecured).
- Assessed volatility of 60% with consideration of the 5-year average historical share price volatility of MUX, comparable companies and expectation that long term volatility will reduce from the current level as MUX transitions from pre-development to construction.

Based on the above, we have assessed the value of Tranche B Convertible Notes to be approximately A\$8.5 million.

#### 8.4 New stamp duty

Based on the HOA, MUX is liable to pay any new stamp duty in relation to the Proposed Transaction. Management has advised that the new stamp duty is expected to be no more than A\$0.8 million and paid shortly after the Proposed Transaction is completed.

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<sup>42</sup> Minority value of MUX Shares before the Proposed Transaction calculated as value per share on a control basis x (1-minority discount). Minority discount between 17% to 29% has been adopted as discussed in Section 8.6

<sup>43</sup> Preferred value of MUX on a minority basis before the Proposed Transaction calculated as A\$0.175 (mid-point control basis) x (1-23%). Mid-point minority discount of 23% applied as discussed in Section 8.6.

We note that upon full payment of the new stamp duty, the general security in relation to the Northern Region Assets and the ‘featherweight’ security<sup>44</sup> interest in relation to all other MUX’s current and future assets under the terms of the Tranche A Convertible Notes will be released. The Tranche A Convertible Notes will then subsequently automatically convert into 75 million MUX Shares at 10 cents per share.

## 8.5 Transaction costs

We have assumed contingent transaction costs associated with the completion of the Proposed Transaction to be approximately A\$0.3 million as advised by the Management of MUX.

## 8.6 Minority discount

As the Proposed Transaction is considered a control transaction in accordance with RG 111, we have compared our assessment of MUX on a control basis prior to the Proposed Transaction with our assessment of MUX on a minority basis following the implementation of the Proposed Transaction. Evidence from studies indicates that the premium for control on successful takeovers has typically been in the range of 20% to 40% in Australia. The minority discount range implied by this is between 17% and 29% which we have adopted in our assessed value of MUX after the Proposed Transaction.

## 8.7 Number of MUX Shares after the Proposed Transaction

A summary of the MUX Shares on issue after the Proposed Transaction is set out below:

Number of MUX Shares	Section Reference	
Existing number of MUX Shares before the Proposed Transaction	4.5.1	164,624
New MUX Shares issued on automatic conversion of Tranche A Convertible Note (at 10 cents per share)	8.3	75,000
<b>Total number of MUX Shares after the Proposed Transaction</b>		<b>239,624</b>

*Source: Calculations*

*Note: In our assessment of the number of MUX Shares on issue post completion of the Proposed Transaction, we have not considered the number of MUX Shares to be potentially issued KZL upon conversion of Tranche B Convertible Notes. For further details refer to section 8.3.*

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<sup>44</sup> Featherweight security interest means that the proceeds from the sale of MUX’s other current and future assets (i.e. excluding the Northern Region Assets) in the event of an insolvency cannot be used by KZL or MPL to discharge the indebtedness under the Convertible Notes.



## 9 Sources of information, disclaimer and consents

### 9.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Draft Notice of Meeting and Explanatory Memorandum.
- Bind Term Sheet – WPG.
- Sale and purchase agreement – WPG.
- Binding Heads of Agreement, 27 December 2013.
- Gold Rights Agreement, 16 April 2010.
- Deed of Amendment – Gold Rights Agreement, 22 December 2011.
- Mungana Gold Project Stage One Feasibility Study, 30 January 2012.
- Draft Tunkillia Gold Project Scoping Study Report, 17 April 2012.
- Annual reports of MUX for FY2011, FY2012 and FY2013.
- Final half year financial report for HY2014.
- Releases and announcements by MUX and KZL on the ASX.
- MUX and KZL websites.
- IBISWorld Industry Report.
- Other information provided by MUX.
- Other publicly available information.
- CapitalIQ.
- Consensus Economics Forecast.
- Mergermarket.
- Various broker reports.
- Discussions with Management.
- SRK Report.
- Hassalls Report.
- ASA.

## 9.2 Qualifications and independence

Grant Thornton Corporate Finance Pty Ltd holds Australian Financial Service Licence number 247140 under the Corporations Act and its authorised representatives are qualified to provide this report.

Grant Thornton Corporate Finance provides a full range of corporate finance services and has advised on numerous takeovers, corporate valuations, acquisitions, and restructures. Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to MUX and all other parties involved in the Proposed Transaction with reference to the ASIC Regulatory Guide 112 “Independence of experts” and APES 110 “Code of Ethics for Professional Accountants” issued by the Accounting Professional and Ethical Standard Board. We have concluded that there are no conflicts of interest with respect to MUX, its shareholders and all other parties involved in the Proposed Transaction.

Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with MUX or its associated entities that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Proposed Transaction.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Proposed Transaction, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Proposed Transaction. Grant Thornton Corporate Finance’s out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

## 9.3 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by MUX and publicly available information. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by MUX through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of MUX.

This report has been prepared to assist the directors of MUX in advising the MUX Shareholders in relation to the Proposed Transaction. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an

expression of Grant Thornton Corporate Finance's opinion as to whether the Proposed Transaction is fair and reasonable to the MUX Shareholders.

MUX has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by MUX, which MUX knew or should have known to be false and/or reliance on information, which was material information MUX had in its possession and which MUX knew or should have known to be material and which MUX did not provide to Grant Thornton Corporate Finance. MUX will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

#### 9.4 Consents

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Notice of Meeting to be sent to the MUX Shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.

## Appendix A – Valuation methodologies

### Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

### Discounted future cash flows

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

### Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

### Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

## **Comparable market transactions**

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company.

The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

## Appendix B - Description of comparable companies

Company	Description
Mutiny Gold Ltd.	Mutiny Gold Ltd., a diversified resource company, engages in the exploration and development of gold, copper, and nickel tenements in Western Australia. The company's principal project includes the Deflector Gold/Copper Deposit located on the Gullewa tenements in the South Murchison region of Western Australia.
Blackham Resources Ltd.	Blackham Resources Ltd. is engaged in the exploration and development of mineral properties in Australia. Its principal property includes the Matilda Gold project, which consists of approximately 570 square kilometers of tenements, including Regent and the Matilda, and Williamson gold mines located in Western Australia. The company is also evaluating the development of the Scaddan and Zanthus Coal projects in Western Australia.
Matsa Resources Ltd.	Matsa Resources Ltd., together with its subsidiaries, engages in the exploration and development of mineral properties in Australia and Thailand. The company primarily explores for gold, copper, iron, nickel, and other base metals. Its flagship property includes the Mt Henry gold project, which covers an area of 347 square kilometers in the southern Norseman-Wiluna Greenstone belt located in Western Australia.
ABM Resources NL	ABM Resources NL, a mineral exploration company, explores for gold and gold-copper properties in the Northern Territory, Australia. Its principal property includes the Twin Bonanza gold camp project comprising the Buccaneer Porphyry gold deposit and the Old Pirate gold deposit located in the Tanami Region of the Northern Territory.
Gold Road Resources Ltd.	Gold Road Resources Ltd. engages in the exploration and development of mineral properties in Western Australia. The company explores for gold, uranium, iron ore, molybdenum, nickel, and chromite. Its principal property includes the Yamarna project covering tenements of approximately 5,000 square kilometers located on the eastern edge of the Yilgarn Craton in Western Australia. The company was formerly known as Eleckra Mines Limited and changed its name to Gold Road Resources Limited in November 2010.
Gondwana Resources Ltd.	Gondwana Resources Ltd. engages in the exploration of mineral properties, primarily gold in Western Australia. It also explores for iron ore, uranium, copper, rare earths, molybdenum, base metals, and nickel properties.
Resource and Investment NL	Resource and Investment NL explores for, evaluates, and develops mineral tenements in Western Australia. The company explores for copper and gold deposits. It holds a 100% interest in the Grosvenor gold project that covers an area of approximately 1,800 square kilometers in the Bryah Basin; and owns a 51% interest in the Horseshoe Lights East project located in Bryah Basin.
Aphrodite Gold Ltd.	Aphrodite Gold Ltd. operates as a mineral exploration company in Australia. Its flagship project, the Aphrodite Gold Project, consists of 5 long term mining leases covering approximately 30 square kilometers located in the Eastern Goldfields of Western Australia.
Gascoyne Resources Ltd.	Gascoyne Resources Ltd. engages in the exploration of gold and base metal mineral properties in Australia. It holds interests in Glenburgh, Mt James, Bustler Well, and Bassit Bore projects totaling approximately 1,100 square kilometers located in the Gascoyne Province of Western Australia.
Hill End Gold Ltd.	Hill End Gold Ltd. engages in the exploration and development of mineral properties. It primarily focuses on producing gold. The company principally holds interests in the Hill End and Hargraves projects totaling 614 square kilometers located in central New South Wales, Australia.

Source: Capital IQ

## Appendix C – Glossary

Term	Definition
Administrators	Michael Joseph Ryan, Mark Englebert, Quentin James Olde and Stefan Dopking
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
BFS	Bankable Feasibility Study
CAGR	compounded average annual growth rate
Company	Mungana Goldmines Limited
Convertible Notes	Secured convertible notes of A\$15 million to be issued in two tranches of A\$7.5 million each under the Proposed Transaction as consideration for the acquisition of the Northern Region Assets
DCF	Discounted cash flow
DFS	Definitive Feasibility Study
EL	Exploration license
ELA	Exploration license application
EMH	Efficient Market Hypothesis
EV	Enterprise Value
FSG	Financial Services Guide
FYXX of FY20XX	Financial year ended 30 June 20XX
GFC	global financial crisis
GRA	Gold Rights Agreement
Grant Thornton Corporate Finance or GTCF	Grant Thornton Corporate Finance Pty Limited
HOA	Heads of Agreement
JORC	A reported Mineral Resource as defined in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code – 2004 Edition)
KZL	Kagara Ltd (in Liquidation)
KZL's GRA Assets	The base and other metal dominant deposits which KZL/MPL has GRA Rights to under the GRA.
MPL	Mungana Pty Ltd (in Liquidation)
Mungana Mine Decline	KZL's underground development and access infrastructure at the Mungana Deposit
MUX	Mungana Goldmines Limited

Term	Definition
MUX Options	9,050,000 unlisted options in MUX
MUX Shareholders	All the holders of MUX Shares
MUX Shares	164,623,938 ordinary fully paid shares in MUX
MUX's GRA Assets	The gold and silver dominant deposits which MUX has GRA Rights to under the GRA.
NSR	Net Smelter Royalty
Non-Associated Shareholders	MUX Shareholders not associated with KZL/MPL
Stamp Duty Liability	A\$12.19 million (including penalties and interest) of stamp duty payable to the QOSR arising from the transfer of GRA Right under the GRA, which was fully discharged by the QOSR in May 2014.
pa	Per annum
PFS	Pre-feasibility Study
Proof of Debt	A\$44.7 million in proof of debt claim currently lodged by MUX against KZL gross of the Stamp Duty Liability or A\$32.5 million net of the Stamp Duty Liability now fully discharged.
Proposed Transaction	The sale and purchase of the GRA Tenements, KZL's GRA Assets and related assets (Northern Region Assets) between KZL and MUX for a consideration of A\$15.0 million payable via the Convertible Notes.
QOSR	Queensland Office of State Revenue
Resources	JORC defined mineral resources
RG 112	ASIC Regulatory Guide 112 "Independence of Experts"
RG110	ASIC Regulatory Guide 110 "Share buybacks"
RG111	ASIC Regulatory Statement 111 "Content of expert reports"
R&D Claim	A\$2,269,336.05 research and development tax refund claim granted by ATO
GRA Rights	Right to explore for and exploit gold and silver (base and other metal) dominant resources within the GRA Tenements for MUX (KZL).
SRK	SRK Consulting (Australasia) Pty Limited
SRK Report	Independent technical report by SRK
TGL	Tunkillia Gold Pty Ltd
WPG	WPG Resources Ltd
WPG Transaction	SPA with WPG for the sale of MUX's interests in the Tunkillia and Tarcoola Projects for a total consideration of approximately A\$3.4 million in cash and shares, and a net smelter royalty for certain potential future gold and silver produced from the Tunkillia Project





Appendix E – Hassalls Report

# **Independent Technical Review and Mineral Resource Valuation of Kagara Ltd and Mungana Goldmines Ltd**

**Report Prepared for**

**Grant Thornton Corporate Finance Pty Ltd**



**Report Prepared by**



SRK Consulting (Australasia) Pty Ltd

MUN004

May 2014

# **Independent Technical Review and Mineral Resource Valuation of Kagara Ltd and Mungana Goldmines Ltd**

## **Grant Thornton Corporate Finance Pty Ltd**

Level 17, 383 Kent Street  
Sydney NSW 2000

## **SRK Consulting (Australasia) Pty Ltd**

Level 17, 44 Market Street  
Sydney NSW 2000

e-mail: [sydney@srk.com.au](mailto:sydney@srk.com.au)  
website: [srk.com.au](http://srk.com.au)

Tel: +61 2 8079 1200  
Fax: +61 2 8079 1222

**SRK Project Number: MUN004**

**May 2014**

### **Compiled by**

Caue Pauli de Araujo  
Senior Consultant  
(Geology)

Email: [caraujo@srk.com.au](mailto:caraujo@srk.com.au)

### **Authors:**

Caue Araujo and Paul Hunter.

### **Peer Reviewed by**

Deborah Lord  
Principal Consultant  
(Geology)

## Executive Summary

SRK Consulting Australasia Pty Ltd (SRK) was commissioned by Grant Thornton Corporate Finance Pty Ltd (Grant Thornton) to prepare an Independent Technical Report (ITR) and Mineral Resource Valuation for the mineral assets of the ASX listed companies Kagara Ltd (KZL) and Mungana Goldmines Ltd (MUX). The Report has been undertaken under the guidelines of the VALMIN Code (2005 Edition), which incorporates the JORC Code (2012 edition).

## Summary of Principal Objectives

This ITR and Mineral Resource Valuation will be included in Grant Thornton's Independent Expert's Report to accompany a transaction ("Proposed Transaction") where MUX will acquire 100% of KZL's Chillagoe Northern Region tenements (Table ES 1), according to a Heads of Agreement (HoA) signed in 27 December 2013.

**Table ES1: KZL's Chillagoe Northern Region Tenements**

Tenement Identifier	Relevant seller
ML 4798	Kagara
ML 4910	MPL
ML 4911	MPL
ML 4921	MPL
ML 4928	MPL
ML 4977	MPL
ML 5176	MPL
ML 5319	MPL
ML 20640	MPL
MLA 20658	Kagara
EPM 7672	Kagara
EPM 12902	Kagara
EPM 14104	Kagara
EPM 14108	Kagara
EPM 15458	MPL
EPM15459	MPL
EPM 18530	MPL

## Outline of Work Programme

The following aspects were considered in the writing of this report:

- Full access to key KZL and MUX personnel for discussion and enquiry;
- A high level review of its Mineral Resource estimates and the methodologies applied; this did not include any re-estimation of Mineral Resources;
- A review of exploration technical reports and supporting documentation prepared by or to KZL/MUX;
- Compilation of Comparable Transactions by SRK project team; and
- Valuation Component and Report Preparation.

SRK notes that the VALMIN Code 2005 in Clause 65 recommends that a site inspection be completed should it be 'likely to reveal information or data that is material to the report'. MUX has advised SRK via Grant Thornton that site visits to KZL/MUX existing underground and open pits of the most advanced projects were flooded. Therefore, a site visit was not undertaken, but SRK is satisfied with the amount of information provided by MUX and KZL for this valuation.

## **Introduction and Background**

In North Queensland (Chillagoe Region) KZL and MUX have been developing the following exploration projects:

### **North Queensland**

- Mungana / Red Dome (Pre-Development Projects);
- Mungana Base Metals Lode (Advanced Exploration Area);
- King Vol and Griffiths Hill/Red Dome (Pre-Development Projects);
- Shannon-Zillmanton (Advanced Exploration Area);
- Red Dome Leach Pad (Advanced Exploration Area);
- Penzance, Montevideo, Victoria, Queenslander and Morrisons (Advanced Exploration Areas);
- Chillagoe GRA (Exploration Areas);
- Chillagoe 100% MUX (Exploration Areas);
- Laura and OK Mines (Exploration Areas).

MUX also has the Nyngan Gold Project, a JV with AngloGold Ashanti (Exploration Area) in New South Wales.

## **Geology**

### **North Queensland**

The Chillagoe district in Northern Queensland has a mining history dating back to the 1880s, but the district's potential to become a significant gold camp was not recognised until the discovery of the Red Dome deposit in the late 1970s, and the Mungana deposit in the 1980s. The Palmerville Fault marks the western margin of the Hodgkinson Province and separates the Precambrian Dargalong Metamorphics in the west from the Paleozoic-aged rocks in the east. There is a sliver of Ordovician Mulgrave Formation along the eastern side of the Palmerville Fault, and an eastwardly younging sequence including the Chillagoe and Hodgkinson formations.

The Chillagoe Formation hosts the majority of mineralisation in this region and it outcrops along a 5-10 km-wide north-west striking belt which extends for 150 km from Mt Garnet in the south-east to north-west of Chillagoe where the belt, and bounding Palmerville Fault, changes orientation and extends for a further 120 km.

### **New South Wales**

The Nyngan Gold Project is located within the Lachlan Fold Belt a Paleozoic terrane known to contain significant arc related copper-gold mineralisation, including Cowal, Northparkes and the Cadia-Ridgeway system. MUX's targeted area lies over the concealed northern extent of the Junee-Narromine Volcanic Belt. This belt forms the western part of the Macquarie Arc, an Early Ordovician to Early Silurian island arc complex.

## **Tenements**

Environmental and Licensing Professionals Pty Ltd (ELP) and HopgoodGanim (HG) were engaged to conduct an independent review of the tenement status of all the tenements subject to this valuation report, and to provide a tenement report (Appendix A).

SRK notes that prior the Proposed Transaction a Gold Rights Agreement (GRA) has been in place over KZL's Chillagoe Northern Region tenements (April 2010), where MUX had the right to:

- Explore for and exploit gold and silver resources within the tenements, including the identified Red Dome gold and silver resources. Copper resources at Mungana and Red Dome deposits can also be exploited by MUX, except for the Red Dome Copper Zone area where MUX has the right to a 4% royalty over the payable metals attributable to KZL;
- Access all information relating to the tenements;
- Utilise KZL infrastructure, including the Mungana decline, to the extent of any excess capacity; and
- Carry out underground exploration at the Mungana Mine.

SRK understands that after the Proposed Transaction is completed the GRA will be cancelled.

SRK has been advised by MUX to attribute zero value to the following licenses recently granted, for the valuation of MUX assets as of 27 December 2013:

- EPMs 25132, 25133, 25134, 25135, 25148, 25271, and ELA 25437, which relates to the Charters Towers area. MUX incurred no expenditure on these licenses since picking them up as vacant ground.
- EL 5254 and MC 4347, which relates to the Tunkillia JV project (recently divested by MUX).

These licenses are listed in the MUX tenement's report (Appendix A).

## Resource Estimates Review

SRK undertook a high level review of the KZL and MUX Mineral Resource Estimates (MRE), for the purpose of determining their validity from a valuation perspective. All estimates refer to the JORC Code 2004. SRK's opinion is that the MREs for King Vol, Griffiths Hill/Red Dome (Red Dome Copper Zone) and Red Dome deposits do not present fatal flaws and that the stated global figures for Mineral Resources are acceptable as representation of global grades and tonnages. Additional consideration of a geological or spatially meaningful approach to classification is recommended to address possible future issues with potentially poor conversion to reserves. Therefore, for the purposes of valuation only the global resource estimates were considered.

## Resource Valuation

The valuation of all KZL Chillagoe Northern Region and MUX's assets was divided into three categories, in accord to the following Development Stage Categories (Page 21 of the VALMIN Code 2005):

- **Exploration Areas** – properties where mineralisation may or may not have been identified, but where a Mineral or Petroleum Resource has not been identified;
- **Advanced Exploration Areas** – properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation. A resource estimate may or may not have been made but sufficient work will have been undertaken on at least one prospect to provide both a good understanding of the type of mineralisation present and encouragement that further work will elevate one or more of the prospects to the resource category; and
- **Pre-Development Projects** – properties where Mineral or Petroleum Resources have been identified and their extent estimated (possibly incompletely) but where a decision to proceed with development has not been made. Properties at the early assessment stage, properties for which a decision has been made not to proceed with development, properties on care and maintenance and properties held on retention titles are included in this category if Mineral or

Petroleum Resources have been identified, even if no further Valuation, Technical Assessment, delineation or advanced exploration is being undertaken.

SRK recommended preferred values and value ranges for exploration properties on the basis of declared Resources, Exploration Targets and areal extent of tenure. In the case of the Pre-Development Projects and Advanced Exploration Areas, SRK calculated and compared the cost per metal ounce or tonne valuation factors. These were compared to Yardstick factors as a means of cross checking. SRK's value ranges adopted for these projects were considered reasonable on this basis. The Metal Transaction Ratio (MTR) method has also been considered when valuating KZL's base metal deposits.

SRK's value ranges adopted for these projects were considered reasonable. SRK preferred value was then determined within the range of possible values obtained for each deposit, considering all the available information provided by KZL and MUX. In the case of the Exploration Areas, SRK has also considered exploration commitments and expenditure, as well as a modified Kilburn rating system to arrive at an estimated valuation range.

SRK notes that the VALMIN Code 2005 cautions against ascribing value to licenses under application. However, as SRK is not aware of any competing applications, it has applied a 30% discount to the valuation of tenements under application to account for the risk that the license applications may not be granted.

King Vol is located within MLA 20658, which consists of an application license. However, the project is also within EL 15458 which consists of a granted exploration license. SRK has not applied a discount to account for the risk that the license may be not granted, as this valuation is focused on the resources and not reserves at this stage.

SRK understands there is value on MUX's 4% production royalty over the payable minerals attributable to KZL in the Red Dome Copper Zone stated in the GRA. However, SRK considers that it is not appropriate to apply production royalty valuation to exploration properties, as the financial outlook is too uncertain to value this consideration meaningfully. It is SRK's opinion that the inclusion of production royalty considerations will have the effect of inflating the transaction value. In addition, there are other legal and financial risks associated to GRA that once factored could also have a significant impact to the final value. Therefore, SRK has not attributed a value range to the existing production royalty over the Red Dome Copper Zone. SRK believes this value is immaterial in the scheme of the proposed transaction.

SRK is not aware of any other royalty agreement involving the MUX mineral assets considered in this Valuation Report.

SRK favoured the use of the Comparable Transaction method of valuation and the MTR (base metal deposits), both market-based approaches, for the valuation of Pre-Development and Advanced Exploration projects. An alternative method was also applied to the valuation, as prescribed by VALMIN, in order to provide a cross-check. The Yardstick (Rule of Thumb) method, which is also a market-based approach, was used in this study.

While evaluating Resource Comparable Transactions, SRK has considered in some cases a metal ratio in order to compare transactions with more than one predominant metal or potential for future metal credits. The metal ratio considered by SRK is similar to the calculation of metal equivalents, but considers 100% recovery for all relevant metals within the resources, as at the early exploration stages reliable and accurate recovery data is not available in most cases. SRK notes that it has not attempted to disclose JORC compliant mineral resources using metal equivalents in this report.

In general, these methods are accepted valuation approaches for mineral projects and are in common use for determining Fair Market Value of mineral assets, using market derived data. The



“Fair Market Value” is defined by VALMIN (2005) as the amount of money (or the cash equivalent of some other consideration) determined by the relevant expert in accordance with the provisions of the VALMIN for which the mineral asset should change hands, on the relevant date in an open and unrestricted market between a willing buyer and a willing seller in an ‘arm’s length’ transaction, with each party acting, knowledgeably, prudently and without compulsion. The Fair Market Value is usually comprised of two components, the underlying Technical Value (defined below) of the mineral asset, and a premium or discount related to market, strategy or other considerations.

The “Technical Value” is defined in the VALMIN as an assessment of a mineral asset’s future net economic benefit at the valuation date under a set of assumptions deemed most appropriate by a relevant expert or specialist, excluding any premium or discount to account for such factors as market or strategic considerations.

In order to determine the Fair Market Value, SRK completed a research on public available data to assess the market sentiment at the time of the transaction. “The 2013 Mining Business Outlook report by Newport Consulting has revealed a sharp negative shift in sentiment among industry leaders over 2013.” ... “The general sentiment in the report was that it was hard to source development funds and companies were now focusing on maximising operational efficiencies.”

(<http://www.theaustralian.com.au/business/mining-energy/mining-sentiment-in-free-fall/story-e6fmg9df-1226687772217#>)

Overall, funds for early stage/resource definition exploration projects have become a major issue for the junior companies in 2013. At the time of the Proposed Transaction, uncertainties about the economic scenario and funding capacity would certainly have a negative impact in any potential buyers’ decision. The negative sentiment has been also substantiated by the sharp decrease in share prices from gold exploration companies worldwide, as well as a decrease in gold prices on a US\$ basis.

SRK understands the market conditions should be considered in this valuation, and as a result preferred values have been selected towards the lower value of the valuation range.

SRK acknowledges that MUX announced Western Plains Resources Ltd (WPG) has agreed to proceed with the purchase of the Tunkillia and Tarcoola Projects. A Sale and Purchase Agreement was signed on the 21 May 2014, and therefore, these assets were not included in this SRK’s valuation report.

SRK’s recommended valuation ranges and preferred values for each project are detailed in Table ES 2, Table ES 3 and Table ES 4. SRK has determined a fair market value (as defined by VALMIN). SRK preferred values includes additional technical considerations related to the mineralisation, such as grade and depth. It also considers the information based on interviews with the MUX management team on the results of preliminary technical studies. The review of these studies was not part of SRK scope of work.

**Table ES 2: Summary of SRK's Valuation of GRA assets on a stand-alone basis before the Proposed Transaction as of 27/12/2013**

Project	Owner	Low Value (A\$M)	High Value (A\$M)	Preferred Value (A\$M)
<b>Pre-Development Projects</b>				
Mungana*	MUX	7.1	28.4	12.0
Red Dome**	MUX	10.5	41.8	17.6
<b>Total Pre-Development Projects</b>		<b>17.6</b>	<b>70.2</b>	<b>29.6</b>
<b>Advanced Exploration Areas</b>				
Red Dome Leach Pad	MUX	0.3	1.5	0.5
Shannon-Zillmanton	MUX	0.2	1.1	0.4
<b>Total Advanced Exploration Areas</b>		<b>0.5</b>	<b>2.6</b>	<b>0.9</b>
<b>Exploration Areas</b>				
<b>Chillagoe (GRA)</b>	<b>50% MUX</b>	<b>0.3</b>	<b>2.6</b>	<b>0.4</b>
<b>Total GRA Before Transaction</b>		<b>18.4</b>	<b>75.4</b>	<b>30.9</b>

Note: Chillagoe (GRA) before the proposed transaction was only 50% owned by MUX and did not include rights to explore base metals, which led to a value lower than 50% of the value after the transaction is completed.

**\*Mungana Pre-Development Project:** SRK suggests a preferred value towards the lower end of the suggested range, in recognition of the expected difficulties in converting the resources into reserves. This is related to the existence of flooded underground workings, lower grade and the depth of underground workings. There are also issues that can accompany mining around existing underground voids (from KZL's extraction of the base metal lode). The impact of the depth of the underground resource is minimized by the presence of a decline in place to 650 m.

**\*\*Red Dome Pre-Development Project:** SRK suggests a preferred value towards the lower end of the suggested range, in recognition of the expected difficulties in converting resources into reserves due to the existence of flooded pits, lower grade, depth of resources and metallurgical issues due to problematic clay mineralogy encountered in the oxide profile at Red Dome.

**Table ES 3: Summary of SRK's Valuation of Northern Assets as a whole following completion of the Proposed Transaction as of 27/12/2013**

Project	Owner	Low Value (A\$M)	High Value (A\$M)	Preferred Value (A\$M)
<b>Pre-Development Projects</b>				
Mungana*	MUX	7.1	28.4	12.0
Red Dome**	MUX	10.5	41.8	17.6
Griffiths Hill/Red Dome***	KZL	1.0	3.8	1.7
King Vol***	KZL	2.9	11.2	4.4
<b>Total Pre-Development Projects</b>		<b>21.5</b>	<b>85.2</b>	<b>35.7</b>
<b>Advanced Exploration Areas</b>				
Mungana Base Metal Lode***	KZL	0.1	0.3	0.1
Penzance***	KZL	0.4	1.1	0.6
Queenslander***	KZL	1.0	3.0	1.3
Morrisons***	KZL	1.6	4.8	2.0
Victoria***	KZL	3.1	9.2	4.0
Montevideo***	KZL	0.6	1.7	0.7
Red Dome Leach Pad	MUX	0.3	1.5	0.5
Shannon-Zillmanton	MUX	0.2	1.1	0.4
<b>Total Advanced Exploration Areas</b>		<b>7.3</b>	<b>22.7</b>	<b>9.6</b>
<b>Exploration Areas</b>				
<b>Chillagoe (GRA)</b>	<b>100% MUX</b>	<b>1.0</b>	<b>5.2</b>	<b>1.5</b>
<b>Total After Transaction</b>		<b>29.8</b>	<b>113.1</b>	<b>46.8</b>

Note: Chillagoe (GRA) after the proposed transaction will be 100% owned by MUX and will include rights to explore base metals. SRK's opinion is that this area is more prospective for base metals and, therefore, there is no direct relationship between the value prior and after the transaction.

**\*Mungana Pre-Development Project:** SRK suggests a preferred value towards the lower end of the suggested range, in recognition of the expected difficulties in converting the resources into reserves. This is related to the existence of flooded underground workings, lower grade and the depth of underground workings. The impact of the depth of the underground resource is minimized by the presence of a decline in place to 650 m.

**\*\*Red Dome Pre-Development Project:** SRK suggests a preferred value towards the lower end of the suggested range, in recognition of the expected difficulties in converting resources into reserves due to the existence of flooded pits, lower grade, depth of resources and metallurgical issues due to problematic clay mineralogy encountered in the oxide profile at Red Dome.

**\*\*\*Base Metal Projects preferred values:** SRK has considered the average of the lower values derived from each of the three methods (comparable transactions, Yardstick and MTR) as the preferred value for all the Base Metal Projects. This is the reason why preferred values are towards the lower range.

**Table ES 4: Summary of SRK's Valuation of other exploration assets held by MUX before the Proposed Transaction outside the GRA as of 27/12/2013**

<b>Project</b>	<b>Owner</b>	<b>Low Value (A\$M)</b>	<b>High Value (A\$M)</b>	<b>Preferred Value (A\$M)</b>
<b>Exploration Areas</b>				
Chillagoe (100% MUX)	MUX	0.4	0.8	0.6
Laura	MUX	0.2	0.6	0.4
OK Mines	MUX	0.02	0.02	0.02
Nyngan	MUX	0.2	2.6	0.8
<b>Total Exploration Areas</b>		<b>0.8</b>	<b>4.0</b>	<b>1.8</b>

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## Disclaimer

The opinions expressed in this Report have been based on the information supplied to SRK Consulting (Australasia) Pty Ltd (SRK) by Kagara Ltd (KZL) and Mungana Goldmines Ltd (MUX). The opinions in this Report are provided in response to a specific request from Grant Thornton Corporate Finance Pty Ltd (Grant Thornton) to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them. Opinions presented in this Report apply to the site conditions and features as they existed at the time of SRK's investigations, and those reasonably foreseeable. These opinions do not necessarily apply to conditions and features that may arise after the date of this Report, about which SRK had no prior knowledge nor had the opportunity to evaluate.



## List of Abbreviations

ASX	Australian Securities Exchange
AusIMM	Australasian Institute of Mining and Metallurgy
DEHP	Queensland Department of Environment and Heritage Protection
(DMITRE)	South Australian Department for Manufacturing, Innovation, Trade, Resources and Energy
DNRM	Department of Natural Resources and Mines
DTM	Digital Terrain Models
ELP	Environmental and Licensing Professionals Pty Ltd
GRA	Gold Rights Agreement between MUX and KZL
HG	HopgoodGanim
HoA	Heads of Agreement
ITR	Independent Technical Report
JORC Code 2004	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC), 2004.
JORC Code 2012	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC), 2012.
k	Thousand
kg	Kilogram
KZL	Kagara Ltd
m	Metre
M	Million
m RL	metres reduced level
m <sup>3</sup>	cubic metre
MEG	Metals Economics Group
Mo	Molybdenum
MPL	Mungana Pty Ltd
MRE	Mineral Resource Estimates
Mt	million tonnes
MUX	Mungana Goldmines Ltd
PFS	Pre-Feasibility Study
RAB	Rotary-air-blast
RC	Reverse Circulation
SRK	SRK Consulting (Australasia) Pty Ltd
T	Tonne
TIRE	New South Wales Department of Trade & Investment Resources & Energy
VALMIN Code 2005	Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports. The VALMIN Code is the code adopted by The Australasian Institute of Mining and Metallurgy and the standard is binding upon all AusIMM members.
WPG	Western Plains Resources Ltd

# 1 Introduction and Scope of Report

## 1.1 Background

SRK Consulting Australasia Pty Ltd (SRK) was engaged by Grant Thornton Corporate Finance Pty Ltd (Grant Thornton) to prepare an Independent Technical Report (ITR) and Mineral Resource Valuation for the mineral assets of the ASX listed companies Kagara Ltd (KZL) and Mungana Goldmines Ltd (MUX).

This Valuation Report will be included in Grant Thornton's Independent Expert's Report to accompany a transaction ("Proposed Transaction") where MUX will acquire 100% of KZL's Chillagoe Northern Region tenements (Table 1-1), according to a Heads of Agreement (HoA) signed 27 December 2013.

**Table 1-1: KZL's Chillagoe Northern Region Tenements**

Tenement Identifier	Relevant seller
ML 4798	Kagara
ML 4910	MPL
ML 4911	MPL
ML 4921	MPL
ML 4928	MPL
ML 4977	MPL
ML 5176	MPL
ML 5319	MPL
ML 20640	MPL
MLA 20658	Kagara
EPM 7672	Kagara
EPM 12902	Kagara
EPM 14104	Kagara
EPM 14108	Kagara
EPM 15458	MPL
EPM15459	MPL
EPM 18530	MPL

The valuation is current at 27 December 2013 and monetary amounts are in United States dollars (US\$) and Australian dollars (A\$) as specified throughout the Report. The final valuation is provided in A\$.

In accordance with the VALMIN, mineral assets comprise all property including but not limited to real property, intellectual property, mining and exploration tenements held or acquired in connection with the exploration of, the development of and the production from those tenements together with all plant, equipment and infrastructure owned or acquired for the development, extraction and processing of minerals in connection with those tenements.

All exploration projects were classified according to the Development Stage Categories (Page 21 of the VALMIN Code 2005):

- **Exploration Areas** – properties where mineralisation may or may not have been identified, but where a Mineral or Petroleum Resource has not been identified;
- **Advanced Exploration Areas** – properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation, usually by drill testing, trenching or some other form of detailed geological sampling. A resource estimate may or may not have been made but sufficient work will have been undertaken on at least one prospect to provide both a good understanding of the type of mineralisation present and encouragement that further work will elevate one or more of the prospects to the resource category;
- **Pre-Development Projects** – properties where Mineral or Petroleum Resources have been identified and their extent estimated (possibly incompletely) but where a decision to proceed with development has not been made. Properties at the early assessment stage, properties for which a decision has been made not to proceed with development, properties on care and maintenance and properties held on retention titles are included in this category if Mineral or Petroleum Resources have been identified, even if no further Valuation, Technical Assessment, delineation or advanced exploration is being undertaken.;
- **Development Property:** properties for which a decision has been made to proceed with construction and/or production, but which are not yet commissioned or are not yet operating at design levels; and
- **Operating Mines:** mineral properties, particularly mines and processing plants that have been commissioned and are in production.

In North Queensland (Chillagoe Region) KZL and MUX are focused on the development of the following exploration projects:

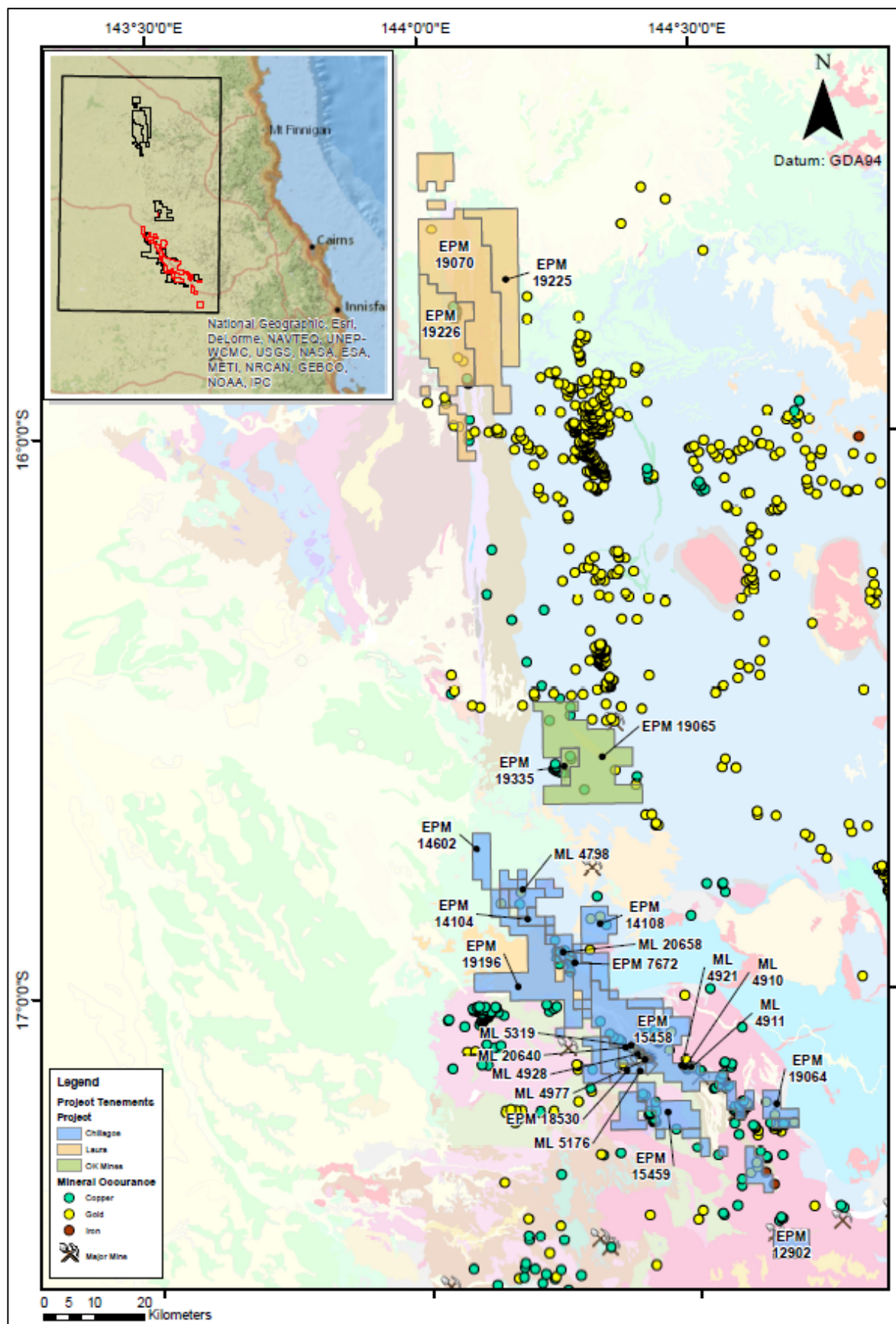
#### **North Queensland (Figure 1-1)**

- Mungana / Red Dome (Pre-Development Projects);
- King Vol and Griffiths Hill/Red Dome (Pre-Development Projects);
- Mungana Base Metal Lode (Advanced Exploration Area);
- Shannon-Zillmanton (Advanced Exploration Area);
- Red Dome Leach Pad (Advanced Exploration Area);
- Penzance, Montevideo, Victoria, Queenslander and Morrisons (Advanced Exploration Areas);
- Chillagoe GRA (Exploration Areas)
- Chillagoe 100% MUX (Exploration Areas); and
- Laura and OK Mines (Exploration Areas).

MUX also has the following project in Australia:

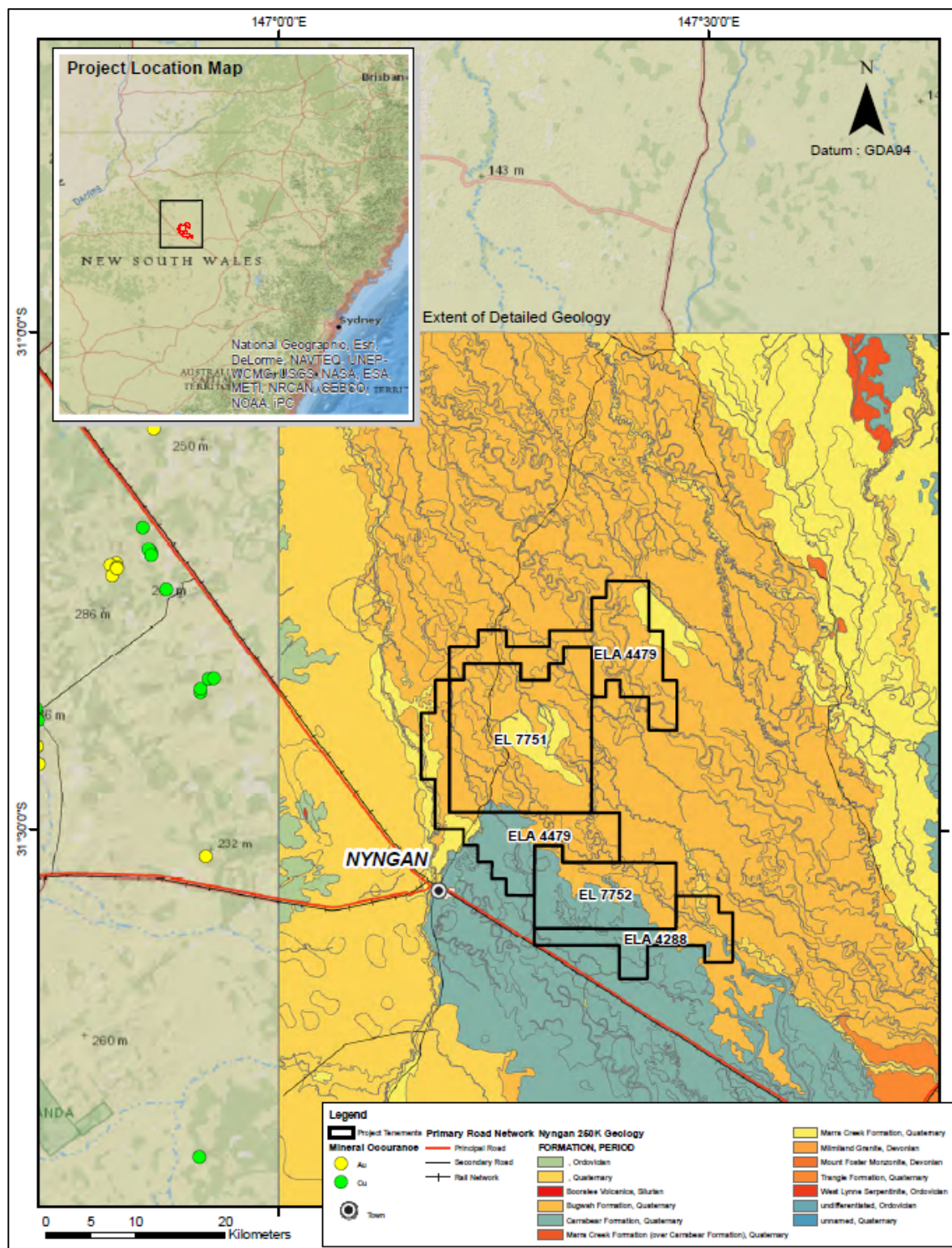
#### **New South Wales (Figure 1-2)**

- Nyngan Gold Project – JV with AngloGold Ashanti (Exploration Area)



**Figure 1-1: MUX and KZL North Queensland Exploration Assets**

Note: EPM 14602 was surrendered in November 2013 and is not included in the Proposed Transaction



**Figure 1-2: MUX New South Wales Exploration Assets**

Note: ELA 4479 and ELA 4288 have been granted and are now EL 8053 and EL 8055 respectively.



### 1.1.1 Tenements Status and the Gold Rights Agreement

MUX has engaged Environmental and Licensing Professionals Pty Ltd (ELP) and HopgoodGanim (HG) to conduct an independent review of all the tenements subject to this valuation, and to provide a tenement report (Appendix A).

The ELP report summarises findings from the Queensland Department of Environment and Heritage Protection (DEHP), Department of Natural Resources and Mines (DNRM) the New South Wales Department of Trade & Investment Resources & Energy (TIRE) and the South Australian Department for Manufacturing, Innovation, Trade, Resources and Energy (DMITRE). No departmental files were accessed nor were site visits conducted by ELP.

The ELP's report provided the following details for all the tenements:

- The status of all tenements in relation to their compliance with the conditions of the Mineral Resources Act 1989;
- (QLD) (MRA) The Mining Act 1992 (NSW.MA) and The Mining Act 1971 (SA.MA);
- The status of the Environmental Authorities for all tenements; and
- The status of financial assurance for each of the tenements.

Table 1-2 summarises the tenements per project.

In April 2010, the GRA between KZL and MUX was signed in relation to the Chillagoe Northern Region tenements, whereby MUX had the right to:

- Explore for and exploit gold and silver resources within the tenements, including the identified Red Dome gold and silver resources. Copper resources at Mungana and Red Dome deposits can also be exploited by MUX, except for the Red Dome Copper Zone area where MUX has the right to a 4% royalty over the payable metals attributable to KZL;
- Access all information relating to the tenements including previous exploration and mining data;
- Utilise KZL infrastructure, including the Mungana decline, to the extent of any excess capacity; and
- Carry out underground exploration at the Mungana Mine.

The material terms of the agreement was based on the fully subscribed listing of MUX and included the following terms:

- In consideration for the gold rights, MUX will issue 77 million shares to KZL; and
- Pay A\$23M to KZL as partial reimbursement of the expenditure incurred by KZL in delineating the gold resources that are subject to the gold rights.

SRK understands that after this Proposed Transaction is completed the GRA will be cancelled and, therefore, it has not been considered in this valuation report.

SRK has been advised by MUX to attribute zero value to the following licenses recently granted, for the valuation of MUX assets as of 27 December 2013:

- EPMs 25132, 25133, 25134, 25135, 25148, 25271, and ELA 25437, which relates to the Charters Towers area. MUX incurred no expenditure on these licenses since picking them up as vacant ground.
- EL 5254 and MC 4347, which relates to the Tunkillia JV project (recently divested).

These licenses are listed in the MUX tenement's report (Appendix A).

Table 1-2: MUX and KZL tenements status

TEN_ID	TENURE TYPE	TENURE NUM	PRINC_HLDR	PROJECT NAME	Attributable to MUX for Valuation	Attributable to the Proposed Transaction	Gold Rights Agreement?	SQ_KM	Hectares	State	STATUS	SUBSTATUS	NAME	D_LODGED	D_GRANTED	D_EXPIRES	SUBBLOCKS
EL 7751	EL	7751	MUNGANA GOLDMINES LTD	Nyngan Exploration Area	100%	100%	NO	260.46	26046.12	NSW	GRANTED				27-May-11	27-May-13	
EL 7752	EL	7752	MUNGANA GOLDMINES LTD	Nyngan Exploration Area	70%	70%	NO	122.72	12271.52	NSW	GRANTED	RENEWAL PENDING			27-May-11	27-May-13	
EL8055	ELA	4288	NYNGAN GOLD PTY LTD	Nyngan Exploration Area	100%	100%	NO	78.85	7885.41	NSW	GRANTED				25-Jan-13	25-Jan-15	
EL8053	ELA	4479	NYNGAN GOLD PTY LTD	Nyngan Exploration Area	100%	100%	NO	292.67	29267.10	NSW	GRANTED				11-Jan-13	11-Jan-15	
EPM 7672	EPM	7672	KAGARA LTD	Chillagoe (GRA) Exploration Area	50%	100%	YES	81.99	8198.65	QLD	GRANTED	RENEWAL LODGED		25-Jul-90	22-Jan-91	21-Jan-13	25
EPM 12902	EPM	12902	KAGARA LTD	Chillagoe (GRA) Exploration Area	50%	100%	YES	45.74	4574.33	QLD	GRANTED			4-Jan-00	28-Mar-06	27-Mar-15	14
EPM 14104	EPM	14104	KAGARA LTD	Chillagoe (GRA) Exploration Area	50%	100%	YES	16.40	1640.11	QLD	GRANTED	RENEWAL LODGED		11-Jun-03	26-Aug-04	25-Aug-12	5
EPM 14108	EPM	14108	KAGARA LTD	Chillagoe (GRA) Exploration Area	50%	100%	YES	78.71	7871.46	QLD	GRANTED			12-Jun-03	26-Aug-04	25-Aug-14	24
EPM 15458	EPM	15458	MUNGANA PTY LTD	Chillagoe (GRA) Exploration Area	50%	100%	YES	281.63	28163.30	QLD	GRANTED			1-Mar-06	04-Jul-07	03-Jul-14	86
EPM 15459	EPM	15459	MUNGANA PTY LTD	Chillagoe (GRA) Exploration Area	50%	100%	YES	104.76	10475.60	QLD	GRANTED			1-Mar-06	02-May-07	01-May-15	32
EPM 18530	EPM	18530	MUNGANA PTY LTD	Chillagoe (GRA) Exploration Area	50%	100%	YES	6.55	654.95	QLD	GRANTED			9-Feb-10	20-Sep-11	19-Sep-16	2
ML 4798	ML	4798	KAGARA LTD	Chillagoe (GRA) Exploration Area	NA	NA	YES	0.07	7.25	QLD	GRANTED		BEAVERBROOK	9-Oct-67	17-Jan-74	31-Jan-19	
ML 20658	ML	20658	KAGARA LTD	King Vol Pre Development Project	NA	NA	YES	6.14	614.21	QLD	APPLICATION	CERT OF PUBLIC NOTICE ISSUED	KING VOL	14-Jan-10			
EPM 19064	EPM	19064	MUNGANA GOLDMINES LTD	Chillagoe 100% MUX Exploration Area	100%	100%	NO	26.18	2617.90	QLD	GRANTED			11-Feb-11	28-Jun-12	27-Jun-17	8
EPM 19196	EPM	19196	MUNGANA GOLDMINES LTD	Chillagoe 100% MUX Exploration Area	100%	100%	NO	327.73	32773.44	QLD	GRANTED			19-Apr-11	13-Dec-12	12-Dec-17	100
EPM 19226	EPM	19226	MUNGANA GOLDMINES LTD	Laura Exploration Area	100%	100%	NO	211.07	21106.56	QLD	GRANTED				21-May-13	02-Oct-18	64
EPM 19335	EPM	19335	MUNGANA GOLDMINES LTD	OK Mines Exploration Area	100%	100%	NO	19.71	1970.77	QLD	GRANTED				21-May-13	20-May-18	6
ML 4910	ML	4910	MUNGANA PTY LTD	Shannon-Zillmanton Advanced Exploration	NA	NA	YES	0.08	8.10	QLD	GRANTED		SHANNONS	19-Jul-72	25-Oct-73	31-Oct-23	
ML 4911	ML	4911	MUNGANA PTY LTD	Shannon-Zillmanton Advanced Exploration	NA	NA	YES	0.08	7.92	QLD	GRANTED		ZILLMANTON	4-Aug-72	31-Jan-74	31-Jan-19	
ML 4921	ML	4921	MUNGANA PTY LTD	Shannon-Zillmanton Advanced Exploration	NA	NA	YES	0.12	12.15	QLD	GRANTED		SHANNON WEST	14-Feb-73	21-Mar-74	31-Mar-24	
ML 4928	ML	4928	MUNGANA PTY LTD	Red Dome Pre Development Project / Red Dome Leach Pad	NA	NA	YES	1.28	127.98	QLD	GRANTED	RENEWAL LODGED	GRIFFITHS 1	2-Aug-73	30-Jan-75	31-Mar-11	
ML 4977	ML	4977	MUNGANA PTY LTD	Red Dome Pre Development Project / Red Dome Leach Pad	NA	NA	YES	0.65	65.24	QLD	GRANTED		GRIFFITHS 2	23-Feb-77	09-Nov-78	30-Nov-19	
ML 5176	ML	5176	MUNGANA PTY LTD	Red Dome Pre Development Project / Red Dome Leach Pad	NA	NA	YES	12.39	1239.31	QLD	GRANTED		RED DOME	26-Mar-84	31-Oct-85	31-Oct-27	
ML 5319	ML	5319	MUNGANA PTY LTD	Mungana Pre Development Project	NA	NA	YES	1.26	125.58	QLD	GRANTED	RENEWAL LODGED	NORTH WEST MUNGANA	17-May-88	15-Mar-90	31-Mar-11	
ML 20640	ML	20640	MUNGANA PTY LTD	Mungana Pre Development Project	NA	NA	YES	1.93	193.19	QLD	GRANTED		MUNGANA WEST	12-Oct-09	22-Sep-11	30-Sep-29	

## Renewal Applications: Section 117 of the Mining Act 1992, as amended, provides “117 Authority to have effect until application dealt with”:

If an application for the renewal of an authority is not finally dealt with before the date on which the authority would otherwise cease to have effect, the authority continues to have effect in relation only to the land to which the application relates, until the application is finally disposed of.”

Note: renewal of EPM7672 has been granted (now valid until 21 January 2018)

Two MLs expired on 31 March 2011 - ML 4928 and ML 5319. A renewal notice was issued to the holder on 1 March 2010 and renewal applications were lodged on 6 October 2010. Due to the operation of s 286C, both MLs continue in force subject to the rights, entitlements and obligations in effect immediately before 31 March 2011, for so long as the applications are not withdrawn, refused or granted and for so long as the holder continues to pay rental and otherwise complies with the MR Act and the ML conditions. HG has been unable to determine whether the holder has complied with all of the conditions. In this regard, HG could not confirm whether the renewal applications are likely to be granted.

The ML 20658 is an application. It has been notified as subject to the right to negotiate procedure. The public enquiry report prepared by HG for this tenement indicates that there are no registered native title claimants in respect of the area of the tenement, meaning that the tenement can proceed to grant without the need to reach agreement with the native title parties under the NT Act. HG has not undertaken searches of the National Native Title Register to confirm this point and rely solely on the public enquiry report in making these conclusions.



## **2 Programme Objectives and Work Programme**

### **2.1 Programme objectives**

This ITR and Mineral Resource Valuation has been prepared by SRK under instructions from Grant Thornton who has been retained by MUX and KZL in relation to the Proposed Transaction.

This Report complies with the technical property information required under various securities laws of Australia.

### **2.2 Scope of work**

SRK has been requested to provide an Independent Technical Review and Mineral Resource Valuation Report on the exploration projects from ASX listed companies Kagara Ltd (KZL) and Mungana Goldmines Ltd (ASX: MUX) in Australia.

SRK has selected the most appropriate valuation technique for the assets, based on the development stages of the projects and the amount of available information. This SRK Valuation Report expresses an opinion regarding the value of the mineral assets. It does not comment on the 'fairness and reasonableness' of any transaction between the project's owners and any other parties.

### **2.3 Reporting standard**

This Report has been prepared to the standard of, and is considered by SRK to be, a Technical Assessment Report under the guidelines of the VALMIN Code 2005. The VALMIN is the code adopted by The Australasian Institute of Mining and Metallurgy and the standard is binding upon all AusIMM members. The VALMIN incorporates the JORC Code for the reporting of Mineral Resources and Ore Reserves. It should be noted that the authors of this Report are Corporate Members of The AusIMM and, as such, are bound by the VALMIN.

Where SRK has relied on Mineral Resource Estimates for its valuation, SRK has quoted the Competent Person for these resources and has obtained their consent to do so.

### **2.4 Key sources of data**

Data and information on the assets used to prepare this report are referenced throughout the report.

### **2.5 Effective date**

The effective date (Effective Date) of this report is deemed to be 27 December 2013.

### **2.6 Indemnities**

As recommended by the VALMIN, MUX have agreed to provide SRK with an indemnity (letter dated 13 January 2014) under which SRK is to be compensated for any liability and / or any additional work or expenditure resulting from any additional work required:

- Which results from SRK's reliance on information provided by MUX or to MUX not providing material information; or
- Which relates to any consequential extension workload through queries, questions or public hearings arising from this Report.

## 2.7 Verification, validation and reliance

MUX has confirmed in writing to SRK that full disclosure has been made of all material information and that to the best of its knowledge and understanding, the information provided by it, was complete, accurate and true and not incorrect, misleading or irrelevant in any material aspect. SRK has no reason to believe that any material facts have been withheld.

The report herein is dependent upon technical inputs as provided by MUX, KZL and Grant Thornton and was taken in good faith by SRK. SRK has not independently verified Mineral Resources estimates by means of recalculation.

## 2.8 Work programme

The Project commenced in early January 2014, with a review of existing remote electronic company data and other information sourced by SRK from literature and company websites as well as using subscription databases such as Intierra and Metals Economics Group (MEG) database services. SRK consultants worked through the relevant databases compiled the reported and completed research on comparable market transactions to assist with the valuation.

SRK notes that the VALMIN Code 2005 in Clause 65 recommends that a site inspection be completed should it be 'likely to reveal information or data that is material to the report'. MUX has advised SRK via Grant Thornton that site visits to the most advanced exploration projects are not considered material, as both the existing underground and open pits are currently flooded. Therefore, a site visit was not undertaken for this project.

As per the VALMIN Code 2005, a first draft of the report was supplied to Andrea de Cian (Grant Thornton) to check for material accuracy on 29 January 2014. The final report was supplied to Grant Thornton on 28 May 2014.

SRK has conducted a review and assessment of the available technical information for MUX projects, which included the following:

- Full access to key KZL, MUX and Grant Thornton personnel for discussion and enquiry;
- A review of its Mineral Resource estimates, including the methodologies applied in determining such estimates and classifications; and
- A review of Technical Reports and supporting documentation prepared by KZL and MUX.

This report has been prepared based on a technical review by a team of consultants sourced from SRK's offices in Australia. Details of the qualifications and experience of the consultants who have carried out the work in this report, who have extensive experience in the mining industry and are members in good standing of appropriate professional institutions, are set out below.

- Deborah Lord, Principal Consultant (Geology), BSc (Hons), FAusIMM, MAIG, MGSA, MSEG: Valuation and Reporting Peer Review;
- Caue Araujo, Senior Consultant (Geology), BSc (Geology), MBA (Project Management & Finance), MAusIMM: Project Management, support to Valuation and Reporting; and
- Paul Hunter, Principal Consultant (Resources), BSc (Hons), MAusIMM: Mineral Resource Estimates Review and Reporting.

### 2.8.1 Legal Matters

SRK has not been engaged to comment on any legal matters.

## **2.9 Limitations, reliance on information, declaration and consent**

### **2.9.1 Limitations**

SRK's opinion contained herein is based on information provided to SRK by KZL, MUX and Grant Thornton throughout the course of SRK's investigations as described in this report, which in turn reflect various technical and economic conditions at the time of writing. If these conditions did change materially prior to the shareholder meeting, the information and opinions contained in this report would have to be addressed to reflect these changes.

Taking due consideration of the timeframes for transactions of this nature, SRK notes that the resulting budgets and forecasts have been prepared appropriately and are based on the information available at the time and within the practical constraints and limitations of such budgets and forecasts.

The achievability of budgets and forecasts are neither warranted, nor guaranteed by SRK. Future cash flows and profits derived from such forecasts are inherently uncertain owing primarily to the volatility of the US Dollar gold price and the A\$/US\$ exchange rates.

The forecasts as reported upon herein are those made by KZL and MUX of future parameters that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of KZL and MUX or its management. Consequently, actual results may be significantly more, or less favourable.

This report includes technical information, which requires subsequent calculations to derive subtotals, totals and weighted averages. Such calculations may involve a degree of rounding and consequently introduce an error. Where such errors occur, SRK does not consider them to be material.

As far as SRK has been able to ascertain, the information provided by KZL, MUX and Grant Thornton was complete and not incorrect, misleading or irrelevant in any material aspect.

### **2.9.2 Reliance on information**

SRK believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinions presented in this report. The preparation of such a report is a complex process and does not lend itself to partial analysis or summary.

SRK's effective date for the Report (Section 1.3) is based on information provided by KZL and MUX throughout the course of SRK's investigations, which in turn reflect various technical-economic conditions prevailing at the date of this report.

SRK has no obligation or undertaking to advise any person of any change in circumstances which comes to its attention after the date of this review, revise or update the report or opinion.

### **2.9.3 Statement of SRK independence**

Neither SRK nor any of the authors of this Report have any material present or contingent interest in the outcome of this Report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no prior association with KZL, MUX or Grant Thornton in regard to the mineral assets that are the subject of this Report apart from having provided technical advice to MUX regarding the Projects and to a financial institution regarding KZL assets. SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting its independence.

SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the Report.

#### **2.9.4 Consent**

SRK consents to this report being included, in full, in Grant Thornton documents in the form and context in which the technical assessment is provided, and not for any other purpose. SRK provides this consent on the basis that the technical assessments expressed in the Summary and in the individual sections of this Report are considered with, and not independently of, the information set out in the complete Report.

Dr Adrian McArthur from MUX has consented to the Mineral Resource Estimation on Section 3 being included in the form and context in which it is included, and has not withdrawn this consent as at the date this disclosure document is lodged with ASIC.

Mr Andrew Beaton, ex-employee of KZL has consented to the Mineral Resource Estimation on Section 3 being included in the form and context in which it is included, and has not withdrawn this consent as at the date this disclosure document is lodged with ASIC.

#### **2.9.5 Consulting Fees**

SRK has received the payment of approximately A\$70,353 to undertake the work associated with completion of the SRK February 2013 report, plus A\$6,699 for the preparation of the SRK March 2013 report, and A\$35,805 for this May 2014 Valuation Report.

### 3 Mineral Resources Review

This section represents a very high level review of the existing resources for the valuation of MUX and KZL Pre Development Projects, considering the time and scope constraints limited by this type of study. SRK completed a high-level review of the current Mineral Resources Estimates for the following MUX Pre-Development Projects in 2013:

- Mungana; and
- Red Dome;

A summary of the SRK February 2013 mineral resources review for Mungana and Red Dome is provided in Section 3.1 below.

SRK has also completed a mineral resource review of the following KZL Pre-Development Projects for this valuation report:

- Griffiths Hill/Red Dome; and
- King Vol.

A summary of this review is provided in Section 3.2 below.

SRK's opinion is that the stated global figures for each deposit's Mineral Resources are acceptable as representation of global grades and tonnages. However, SRK has a different opinion from the stated resource classifications and believes that additional consideration of a geological or spatially meaningful approach to classification should have been considered, to address possible future issues with potentially poor conversion to reserves.

SRK notes that while none of the resources reviewed present fatal flaws, additional improvements to the current resource estimates are required to increase the confidence in each of the resource classifications. Therefore, for the purposes of valuation only the global resource estimates were considered.

#### 3.1 Summary of MUX Reviewed Resource

Documents and data reviewed during this process were as follows:

- 2010 resource report for Mungana and Red Dome deposits (H&S Consultants (H&S) formerly Hellman & Schofield Pty Ltd);
- 2012 resource update memos for the Mungana and Red Dome deposits (H&S);
- 2012 resource reviews of the Mungana and Red Dome deposits (EGRM Consulting);
- 2012 replies to review of the Mungana and Red Dome deposits (H&S);
- Drill hole databases as used for each resource estimate for Mungana and Red Dome, supplied in Microsoft Access format;
- Final and interim block models for Mungana and Red Dome in Surpac™ model format; and
- 3D wireframe models for geology and mineralisation used in the resource estimates of Mungana and Red Dome.

All Pre-Development Projects resource estimates completed by MUX were public disclosed as compliant with the JORC Code 2004 and press releases are available at the company's website. The statement of resources, by classification category, for each MUX project assessed is presented in Table 3-1.

**Table 3-1: Statement of Resource for Mungana and Red Dome Pre-Development Projects**

Resource	Category	Million tonnes (Mt)	Au (g/t)	Cu (%)	Ag (g/t)	Au (koz)	Cu (tonnes)	Ag (Moz)
Mungana January 2012	Measured	13.4*	0.67	0.24	17.6	289	32,000	7.6
	Indicated	19.3	0.72	0.18	12.7	450	34,000	7.9
	Inferred	15.1*	0.63	0.17	9.5	304	25,000	4.6
Red Dome October 2011	Measured	25.4	0.74	0.30	5.5	605	76,000	4.5
	Indicated	24.0	0.56	0.19	4.9	429	46,000	3.8
	Inferred	25.7	0.61	0.16	5.3	500	41,000	4.4

\*NOTE:

The Resource Statement for Mungana as reviewed here relates an interim update completed by H&S Consultants, 2012. The publicly quoted figure corresponds to the original resource estimate prepared for evaluation block caving mining scenarios in December 2010. SRK has reviewed the Mungana Resource on the basis of the 2012 update, which was considered for the valuation.

The information that relates to Exploration Results and Mineral Resources in this section of the report was provided by Dr Adrian McArthur, the General Manager Exploration for Mungana Goldmines Ltd, who is a member of The Australasian Institute of Mining and Metallurgy and is a full time employee of the Company. Dr McArthur has sufficient experience 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. Dr McArthur consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

### 3.1.1 Mungana

Both Mungana and the proximal Red Dome deposits are hosted within apophyses of Carboniferous granite porphyry, surrounded by hydrothermal breccia, within Silurian-Devonian limestone units of the Chillagoe Formation (Liam, 2010). A significant alteration halo comprising both endo- and exoskarns surrounds this system. At Mungana, gold is contained within narrow quartz veins and brecciated zones, commonly with a quartz / skarn matrix mix. The gold lode is considered to have a diffuse boundary, controlled by the density of these quartz veins. Within Mungana, a large stratabound base metal lode (The Kagara Lode) intersects and is often partially coincident with the gold mineralisation.

The Mineral Resource estimate referred to in this review was produced by H&S in January 2012 as an update to the December 2010 Mineral Resource also produced by H&S. The metals gold, silver, copper, zinc and lead were estimated. The currently publicly available quoted resource figures differ from those made available to SRK for review in the latest resource update, as they are based in the previous estimate. The differences to contained Au between the two sets of figures are presented in Table 3-2. SRK notes the impact of this difference to the Mungana valuation is not material.

**Table 3-2: Summary of difference in Mungana resource statement - Public Domain data versus Latest Resource Report - January 2012.**

Resource	Category	Million tonnes (Mt)	Au (g/t)	Cu (%)	Ag (g/t)	Au (koz)	Cu (tonnes)	Ag (Moz)
Mungana Public Domain	Measured	15.6	0.87	0.29	21.6	436	44,800	10.8
	Indicated	19.3	0.68	0.15	10.3	422	28,300	6.4
	Inferred	13.8	0.54	0.14	8.0	237	18,700	3.6
Mungana January 2012	Measured	13.4	0.67	0.24	17.6	289	32,000	7.6
	Indicated	19.3	0.72	0.18	12.7	450	34,000	7.9
	Inferred	15.1	0.63	0.17	9.5	304	25,000	4.6
<b>Difference</b>	<b>Measured</b>	<b>-2.2</b>	<b>-0.2</b>	<b>-0.05</b>	<b>-4.0</b>	<b>-147</b>	<b>-12,800</b>	<b>-3.2</b>
	<b>Indicated</b>	<b>0</b>	<b>+0.04</b>	<b>+0.03</b>	<b>+2.4</b>	<b>+28</b>	<b>+5,700</b>	<b>+1.5</b>
	<b>Inferred</b>	<b>1.3</b>	<b>+0.09</b>	<b>+0.03</b>	<b>+1.5</b>	<b>+67</b>	<b>+6,300</b>	<b>+1</b>

The Mungana deposit has been modelled for both geology and mineralisation. The geological model presents a roughly triangular, upwardly convergent core of limestone striking E-W to ENE-WSW, with a hangingwall and footwall rind of skarn, bounded on both the hangingwall and footwall by sandstone. The peak of the convergent skarn rind is complexly intermixed with a sub-vertical tabular body of breccia.

Apophyses of porphyry intrude the central limestone unit, and also roughly trace the hangingwall skarn. The main lodes of gold mineralisation broadly coincide with the hangingwall and footwall skarns, and also transgress the limestone unit as sub vertical to steeply north dipping layers. These main lodes have been identified on a combination of ~1 g/t Au cut-off and geological interpretation of continuity.

Base metals lodes have been modelled independently, based on a combination of exploration drilling data analysis showing no correlation between other metal distributions and gold. Scatter diagrams, and H-scatter diagrams produced for selected lodes by SRK indicate this approach to be appropriate, and the result to be contextually meaningful.

Responsibility for the validity of the drilling data input to the Mungana Resource has been assumed by MUX, and SRK's brief validation of the data, which included a check for overlapping intervals, assignation of appropriate codes in the database for absent assay data, visual validation of obvious survey errors and drill hole length discrepancy errors, shows no significant errors.

SRK's validation of the Mungana model shows that the stated Mineral Resource values for both grade and tonnage are reproducible within an error of less than 0.5%. SRK considers the Mungana estimate to be acceptable as a global estimate.

### 3.1.2 Red Dome

Like the Mungana deposit, the Red Dome deposit is hosted within apophyses of Carboniferous porphyry, surrounded by hydrothermal breccia, within Silurian-Devonian limestone units of the Chillagoe Formation (Liam, 2010). A significant alteration halo comprising both endo- and exoskarns surrounds this system. At Red Dome, gold is contained within narrow Au ( $\pm$  metallic sulphides / Ag) bearing quartz veins.

The Mineral Resource estimated for gold, silver and copper for Red Dome were considered by SRK to be acceptable as a global estimate.

## 3.2 Summary of KZL Reviewed Resource

The statement of resources, by classification category, for each KZL project assessed is presented in Table 3-3.

**Table 3-3: Statement of Resource for Griffiths Hill/Red Dome and King Vol Pre-Development Projects**

Deposit	Category	Type	Mineral	Tonnes	Zn%	Pb%	Cu%	Au g/t	Ag g/t
Griffiths Hill	Inferred	Fresh	Copper	1,011,000	0.4	0.0	3.1	0.6	61
Griffiths Hill	Inferred	Fresh	Polymetallic	58,000	6.9	0.0	0.3	0.0	12
King Vol	Indicated	Fresh	Polymetallic	899,000	16.0	0.9	0.9	0.0	42
	Inferred	Fresh	Polymetallic	1,858,000	9.9	0.4	0.6	0.0	24

The information above that relates to the above Mineral Resources is based on information compiled by Mr Andrew Beaton, who is a member of the Australasian Institute of Geoscientists. Mr Beaton was a full time employee of KZL, and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which she 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 Beaton consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

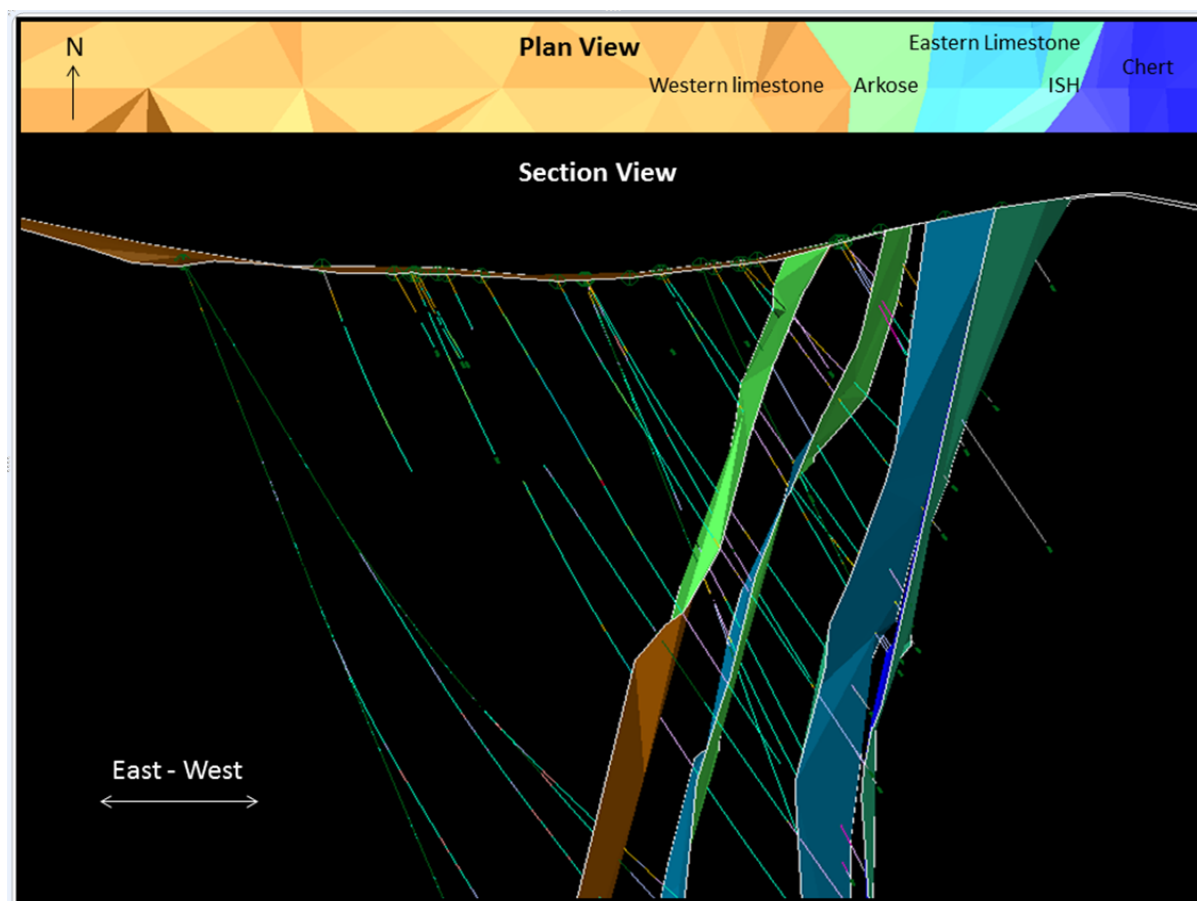
SRK has completed a high level review of these mineral resource estimates and the findings are summarized below:

- No Fatal Flaws have been identified by SRK within the Griffiths and King Vol Mineral Resource Estimate reports and associated data;
- The standard of reporting for Griffiths Hill Mineral Resource Estimate is below Industry Standard;
- The local geology of the King Vol deposit is reasonably well understood;
- SRK considers it is likely that the majority of Inferred Resources for King Vol and Griffiths Hill will be converted to Indicated Resources with increased drilling;
- Data acquisition and resource estimation procedures are of sufficient detail and quality to support the MREs, with the exception of reported QA/QC data for Griffiths Hill;
- KZL has used conventional block modelling and grade estimation techniques, which are considered suitable for the King Vol and Griffiths Hill deposits; and
- SRK independently confirmed the tonnage and grade by interrogating the resource models provided by KZL for King Vol and Griffiths Hill, with the exception of molybdenum grades within the Griffiths Well zinc zone.

### 3.2.1 King Vol Resource Estimate

The King Vol distal skarn deposit is located on sheared contacts and within sediments of the Silurian Chillagoe Formation. A total of five steeply east dipping, sedimentary units have been defined and are illustrated in Figure 3-1. Mineralisation is hosted by the ISH unit which consists of thinly bedded siltstones and sandstones and mafic horizons, which is commonly brecciated.





**Figure 3-1: Plan/section views showing intercepted contacts between sediment sequence at King Vol**

Source: Whitelock et al., 2012

The geology appears to be reasonably well understood and the interpretation is detailed and defined appropriately by three dimensional (3D) wireframes. The geological interpretation was based on a total of 102 drill holes, consisting of 87 diamond drill holes (73 NQ and 14 HQ) and 15 reverse circulation (RC) drill holes.

Samples were nominally taken on 1 m intervals. A QA/QC programme was introduced for the 2011 infill drilling programme, consisting of Standards, Duplicates and Blanks. The analysis of Standards used as part of the QA/QC programme has demonstrated errors in sample assays submitted to the SGS laboratory in Townsville. The extent of the problem has not been quantified; however, any change in grade was expected not to be materially significant.

A total of six mineralised zones were delineated. The EMCZ is the main mineralised zone and represents 88% of the total Mineral Resource tonnage. Mineralisation is generally a simple tabular geometry that has a steep sub-vertical dip predominantly striking NS as displayed in Figure 3-2 and Figure 3-3. SRK notes dilational zones commonly occur resulting in multiple veins that are grouped together in thicker zones as displayed in Figure 3-4.

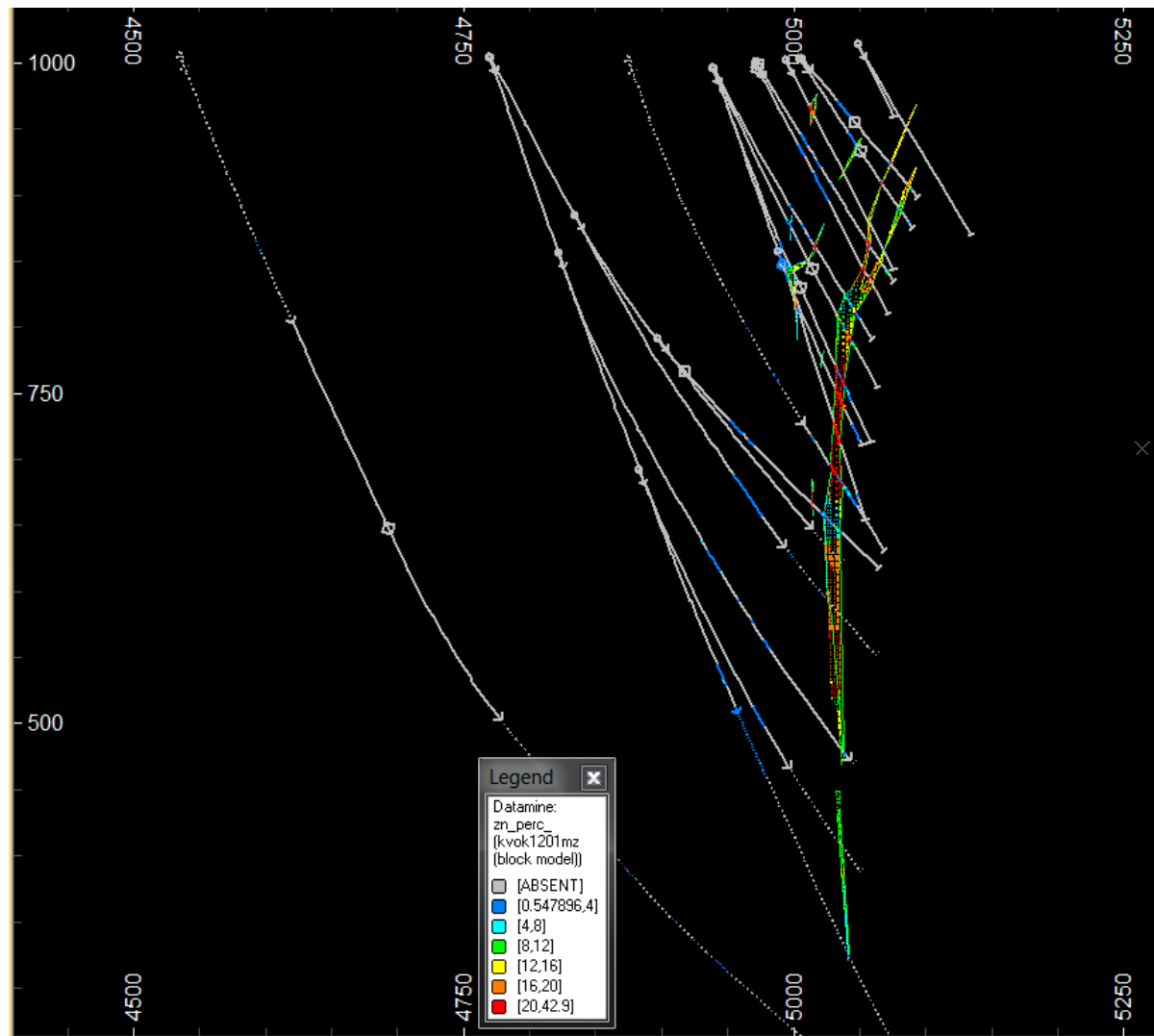


Figure 3-2: Cross-section 5075N King Vol mineralisation

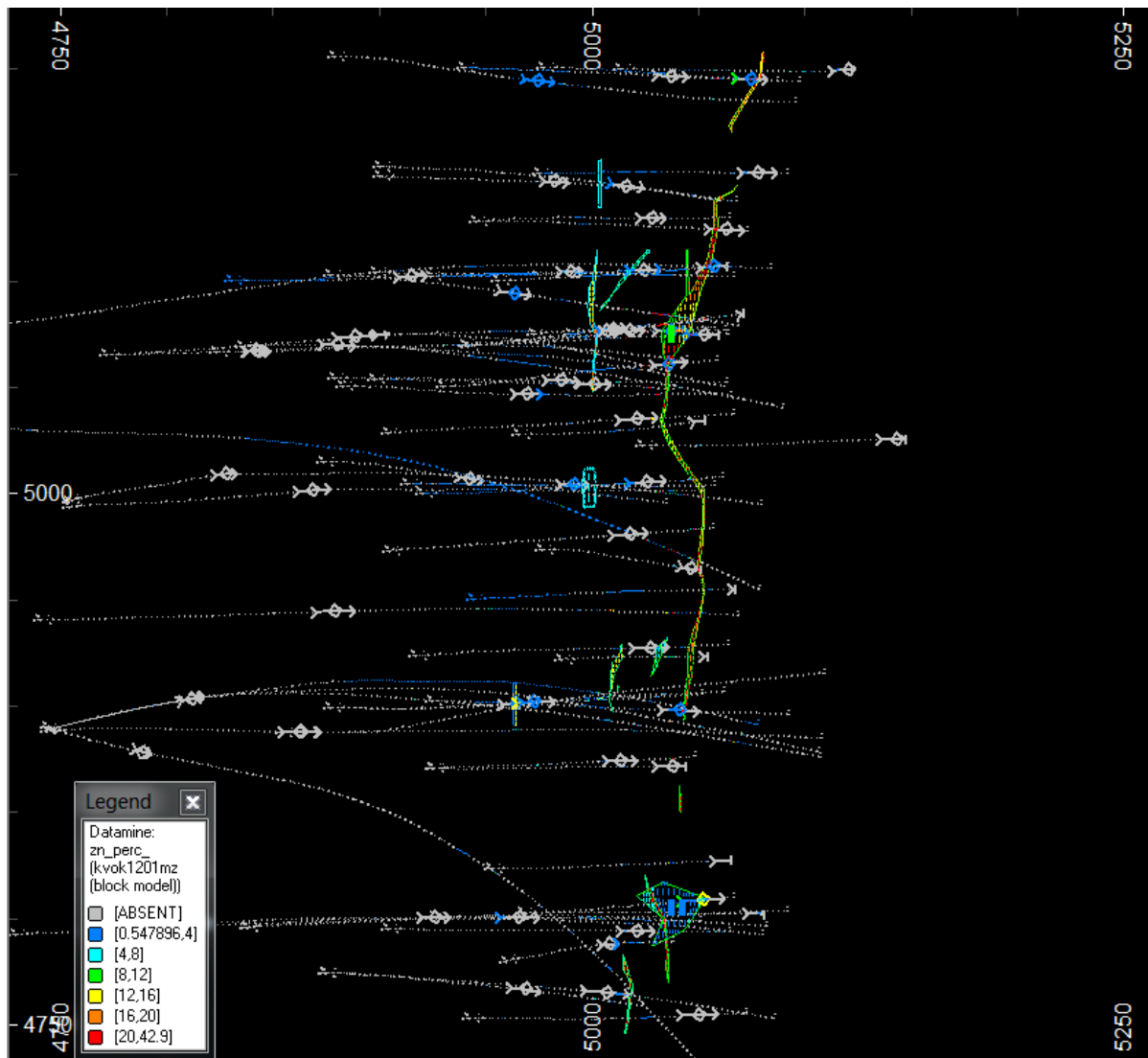
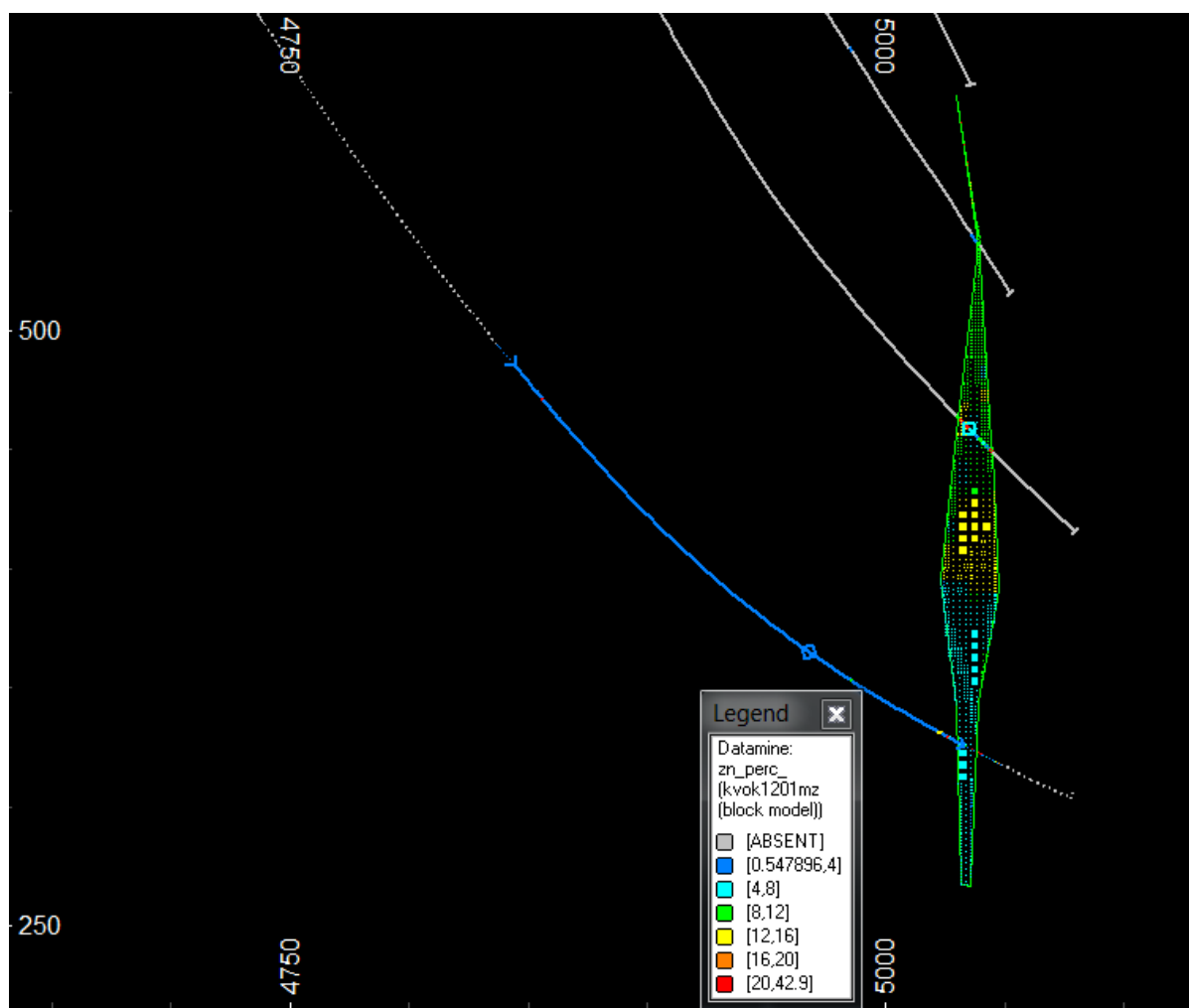


Figure 3-3: Plan View 800 mRL King Vol mineralisation



**Figure 3-4: King Vol 5000 mN Cross-section showing dilational zone**

Digital terrain models (DTM's) were created in 3D for the two surfaces of Base of Complete Oxidation and Top of Fresh, or unoxidised material.

The MROR\_tables\_Northern\_13Aug2012 provided by KZL incorrectly labels the King Vol Mineral Resource Estimate (MRE) as 'Fresh'. SRK has calculated the King Vol Indicated MRE to contain 89% Fresh, 7% Transition and 4% Oxidised material by tonnage. The Inferred MRE contains 95% Fresh, 3% Transition and 3% Oxidised material by tonnage.

Sample assays were composited to 1 m using the 'best fit' method which is the appropriate compositing method where no sample intervals are excluded. Classical statistics were generated for four mineralised zones. Zinc grades were highest in the dominant mineralised zone.

KZL analysed the assay data appropriately using: log probability plots, cumulative frequency plots, histograms, Coefficient of Variation and data density to determine that top-cutting of assay data was not necessary. Log probability plots were not reported and therefore SRK cannot make any comment.

Variography was undertaken on the main mineralised zone and not on the other mineralised zones due to a lack of data. A good variogram was established for Zn which was the most important element of interest. A low Zn nugget of 6% was modelled and demonstrates low sample assay randomness and indicates low sampling and assaying error. SRK agrees with the range of 50 m used in the resource estimation.

Surpac™ software was used by KZL to estimate the King Vol Mineral Resource tonnage and grade. SRK independently confirmed the tonnage and grade by interrogating the king\_vol\_ok\_jan12.mdl model provided by KZL.

A block size of 10 mN x 5 mE x 5 mRL was used. Although the block size is small, it was deemed necessary to obtain accurate volumes due to thin mineralised zones.

Ordinary Kriging was used to estimate grade into blocks and is considered by SRK to be an appropriate estimation method.

Bulk density was calculated using the Archimedes method for core and air pycnometer method for crushed samples. The number of bulk density measurements was not reported and therefore cannot be commented on. SRK recommends that the number and spatial location of bulk density measurements be reported in future.

KZL validated the resource model using the following techniques:

1. Model reporting to establish complete block fill in wireframes only;
2. Domain average grade versus model average grade;
3. On-screen comparison between block grades and drill hole grades; and
4. Tabulated/graphical comparison between composite grade and block grade per element by RL slicing.

Drill hole spacing for Indicated Mineral Resources was considered appropriate by SRK, at dominantly 25 m and varied from 12.5 m up to 50 m apart. Drill hole spacing for Inferred Mineral Resources was dominantly on 50 m spaced sections with up to 150 m between drill holes, on an EW section.

Analysis of kriging variance was used to classify Indicated and Inferred Mineral Resources.

Industry standard Resource Estimation techniques have been used by KZL and SRK has no material concerns with the methodology used to estimate the King Vol Mineral Resource.

### 3.3 Griffiths Hill/Red Dome Resource Estimate

The geology of the Griffiths Hill deposit is only reported scarcely in the memorandum titled 'Griffiths Hill – IH resource update' (GH Memo) dated 10 October 2011 by Carolyn Deacon, full time ex-employee of KZL. The GH memo indicates that the Mineral Resource is restricted to the contact position between the limestone and sandstone.

A total of 34 diamond drill holes were used to estimate the Griffiths Hill Mineral Resource. No QA/QC was reported within the GH Memo. The lack of QA/QC data decreases confidence in the sample assay data. SRK recommends that a resampling campaign occurs which incorporates a QA/QC programme to increase confidence in the drill hole assay data.

Mineralisation was modelled using a 0.5% Cu cut-off grade and a 3D wireframe was created. Mineralisation has a reasonably simple tabular geometry as demonstrated in Figure 3-5 and Figure 3-6, and was restricted to two mineralised zones. The first zone is the copper and the second is a zinc (polymetallic) zone. The copper rich zone constitutes the vast majority of the mineralisation. The zinc rich zone is only intersected by two drill holes that is 100 m apart.

Mineralisation is within the unoxidised zone, as the top of Griffiths Hill mineralisation is located > 250 m below the surface. Mineralisation displays strong continuity and provides a strong fundamental confidence in the Griffiths Hill Mineral Resource Estimate.

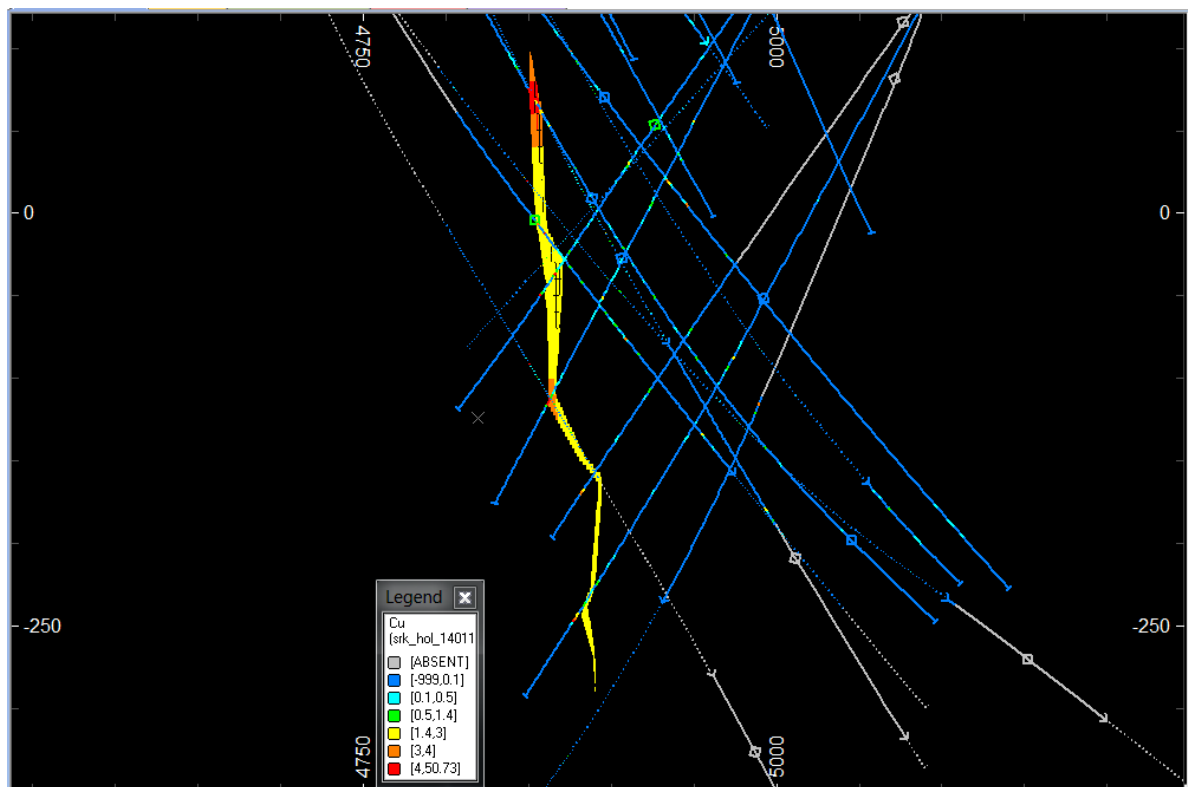


Figure 3-5: Griffiths Hill 7200 mE cross-section showing block model

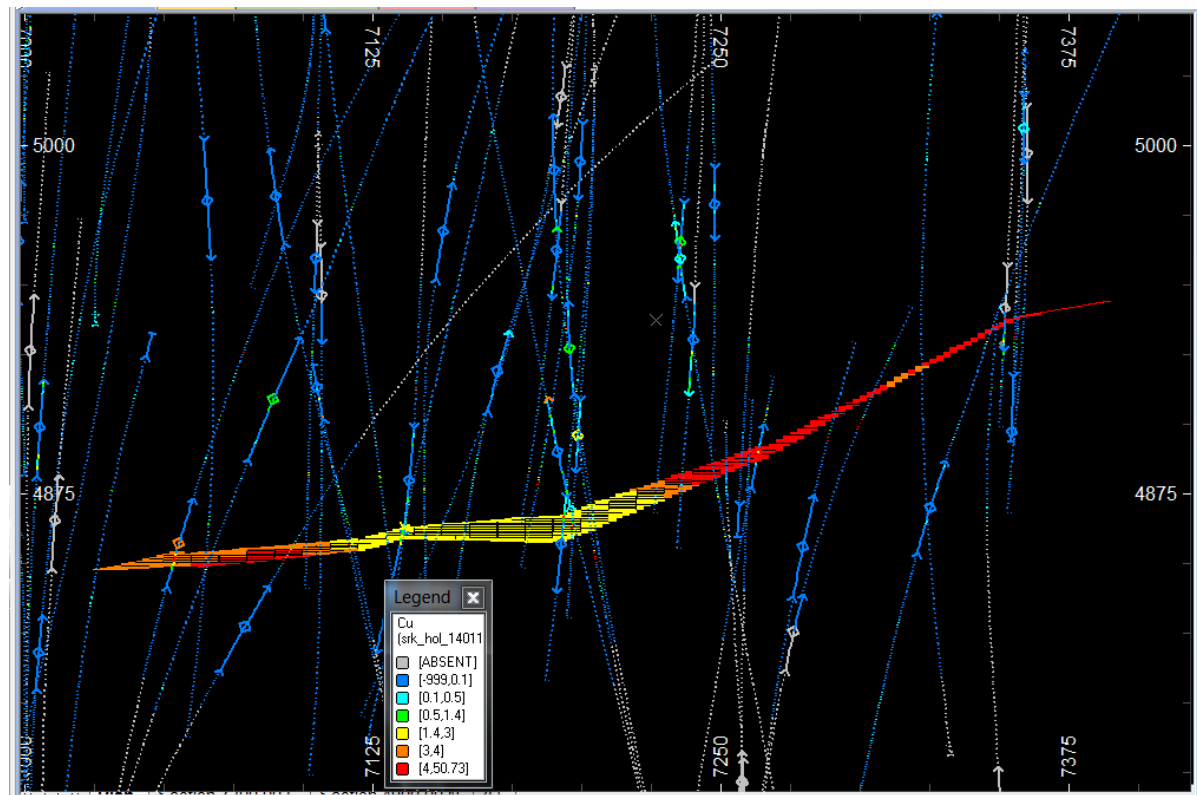


Figure 3-6: Griffiths Hill plan view at -50 mRL showing block model

No classical statistics were reported. No top-cutting was applied using the rationale of insufficient data. SRK is of the opinion that log probability plots should have been reported and then determined whether they were appropriate to determine top-cuts. No geostatistical analysis was undertaken due to the small amount of drill hole data, which SRK agrees is appropriate.

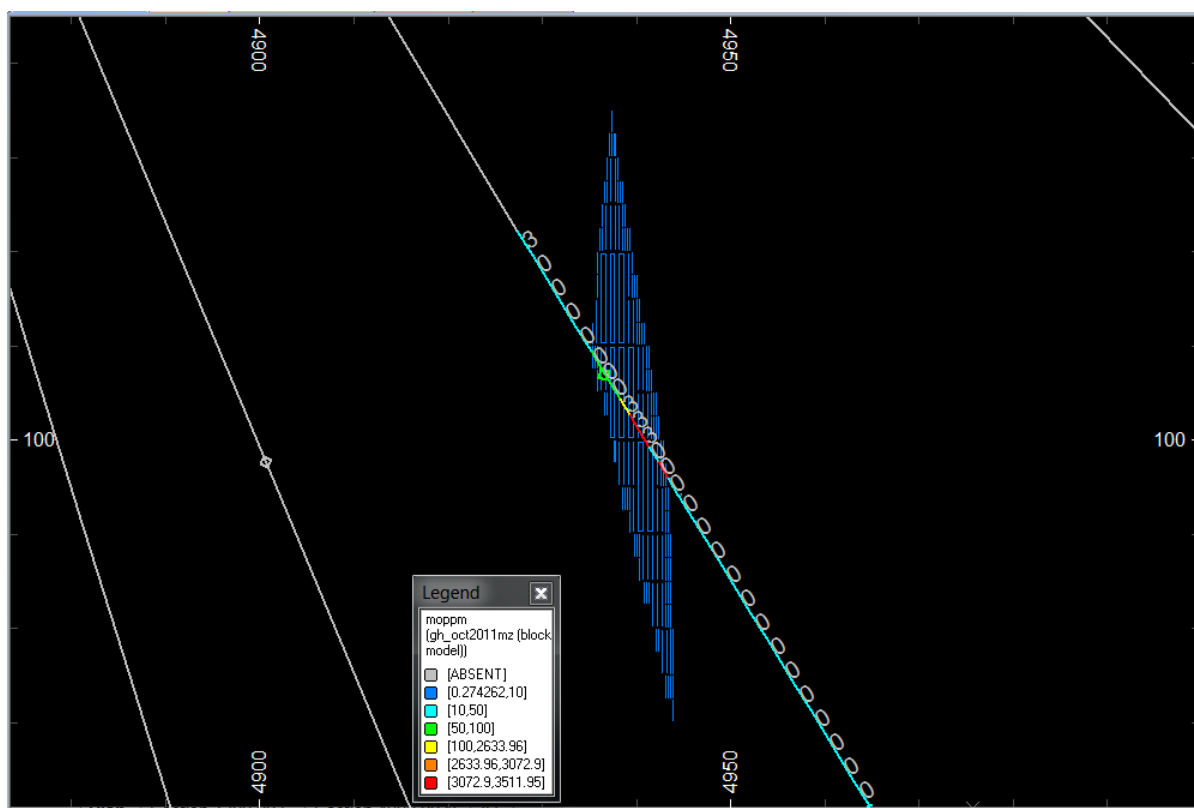
Surpac™ software was used by KZL to estimate the Griffiths Hill Mineral Resource tonnage and grade. SRK independently confirmed the tonnage and grade by interrogating the gh\_oct2011.mdl model provided by KZL, with the exception of Molybdenum grades within the Zinc zone.

Single composite grades were generated for each drill hole intersection within the copper and zinc wireframes. The composites were then used to generate grades using the inverse distance squared method. SRK is of the opinion that the global grade of the copper rich zone is reasonable; however, SRK has a low confidence in localised block grades.

Molybdenum (Mo) grade for the Zinc zone was estimated at 416.39 ppm Mo. SRK is of the opinion that this is incorrect and the grade reported from the gh\_oct2011.mdl resource model should be 2 ppm Mo. The Mo grades displayed in the model and drill hole (Figure 3-7) clearly show low Mo grades of approximately 3 ppm Mo.

No model validation was reported in the GH memo.

Due to the drill hole spacing and lack of QA/QC data, SRK is in agreement with the Inferred resource categorisation.



**Figure 3-7: Molybdenum grades displayed in the zinc rich zone**

## 4 Advanced Exploration Areas

SRK reviewed the existing Advanced Exploration areas based on information provided by KZL and MUX on specific exploration target areas, often areas surrounding defined resources that have yet to be systematically drilled. This section covers Red Dome Leach Pad, Shannon-Zillmanton, Mungana Base Metal Lode, Penzance, Montevideo, Victoria, Queenslander and Morrisons.

According to the JORC Code 2012, an Exploration Target is a statement or estimate in a Public Report of the exploration potential of a mineral deposit in a defined geological setting where the statement or estimate relates to mineralisation for which there has been insufficient exploration to estimate a Mineral Resource. The potential quantity and grade is conceptual in nature and it is uncertain if further exploration will result in the estimation of a Mineral Resource.

The information that relates to Exploration Targets for Red Dome Leach Pad (Section 4.1) and Shannon-Zillmanton (Section 4.2) in this section of the report was provided by Dr Adrian McArthur, the General Manager Exploration for Mungana Goldmines Ltd, who is a member of The Australasian Institute of Mining and Metallurgy and is a full time employee of the Company. Dr McArthur has sufficient experience 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. Dr McArthur consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information that relates to Mineral Resources/Exploration Targets for Mungana Base Metal Lode, Penzance and Queenslander-Morrison is based on information compiled by Mr Andrew Beaton, who is a member of the Australasian Institute of Geoscientists. Mr Beaton was a full time employee of KZL, 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 Beaton consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

### 4.1 Red Dome Leach Pad (SRK 2013 Review)

MUX has a 100% interest in the Red Dome Leach Pad Advanced Exploration area, which has been considered by SRK to have an Exploration Target of 6.9 Mt to 7.3 Mt at 0.22 g/t to 0.41 g/t Au, based on current exploration work (including drilling) and historic surface contours.

SRK completed a high level review of the current estimates for the Red Dome Leach Pad. The Red Dome Heap Leach pads were constructed in 1986 during operation of the Red Dome mine by Elders Ltd. MUX has recognised the potential for these remnant leach pads to offer an alternative / additional ore source.

A model of the leach pads was constructed by intersecting a current (pads existing) topography, with a pre-mining topography generated from a 1985 Elders Map of the area. Ryan (1988) notes that heap leach pads were stacked on prepared and lined surfaces that were levelled using waste material. The current method of determining the leach pad volume cannot account for this levelling and potential sterile fill at the base of the pads. However, MUX has subsequently assured SRK that drill holes have specifically targeted areas where waste fill is likely to have been employed for levelling, and such waste was drilled and sampled in conjunction with the leach pads, to account for the perceived inability to define an appropriate base to the pads. SRK considers this to be an acceptable approach that does not pose material risk to the estimate of the Red Dome Leach Pads.



Input drill hole data was obtained from a Sonic drilling campaign on a nominal 100 m x 75 m grid over the leach pad. Assays were taken for Au, Ag and Cu, with Au analysis by Fire assay (AAS finish) and the remaining elements by ICP-MS. Analysis was conducted at SGS Townsville. The use of quality control samples is not formally documented, though communication with MUX subsequent to initial review of the Red Dome Leach Pad estimate indicates that analytical standards were inserted at the end of each hole, corresponding to an insertion rate of between 1:5 and 1:13. Analysis of the quality control sample data did not reveal any issues which pose risk to the quality and confidence of the Red Dome Leach Pad estimate. Samples were composited to 2 m prior to use in estimation.

Density calculations were made by measuring the weight of recovered samples from the sonic rig, and dividing this value by the calculated theoretical volume of a sample. This method assumes 100% recovery of each drilled interval in a sample. The average density value calculated from six holes was 2.0 t/m<sup>3</sup>. Photography of typical core from the sonic rig drilling suggests very high percentage recoveries, thus SRK considers the assumed density from rig sample recovery of 2.0 t/m<sup>3</sup> offers an acceptably reliable measure of density.

Despite the lack of documented QA/QC analysis, SRK considers the input data for the Red Dome Leach Pad estimate to be generally acceptable. Acknowledgement that QC samples were employed by inference suggests that their analysis was also conducted, mitigating the perceived risk to the Red Dome Leach Pad estimate posed by the reliability of the input data.

A block model was created on the leach pad with dimensions 25 m x 25 m x 5 m (X Y Z). These dimensions were selected predominantly on the sonic drill hole spacing, and the knowledge that the leach pad was stacked in 5 m lifts. SRK considers that for the purposes of leach pad estimation, this block size is appropriate.

Estimation of Au, Ag, Cu and density was undertaken using the Inverse Distance squared (ID<sup>2</sup>) method. Two search passes with an increasingly relaxed search ellipse were used. First-pass search was undertaken with an ellipsoid of 125 m x 125 m x 5 m (X Y Z); with the second being double those dimensions. Since only six of approximately 24 holes were used for density measurement, where estimation did not assign a density to the block model, the average of 2.0 t/m<sup>3</sup> was assigned.

No further details of estimation are available in the documentation provided to SRK.

Limited validation of the heap leach model is evident. Visual comparison of input drilling data and block grades is presented in the available memo (Pike, 2011). SRK's own brief visual validation of the model shows that the block values moderately correspond to the input sample values. Given the rudimentary nature of the estimate, SRK considers the correlation to be acceptable.

The leach pad model has been reported as classified into Indicated and Inferred, based on section definition (by northing) of available original leach pad designs. Areas within the original leach pad design have been assigned a category of Indicated, while additional dump leach material to the north of the original design has been classified as Inferred. While SRK accepts the paradigm by which this classification is made, it is recommended that based on the a lack of further supporting information any potential classification should considered no higher than Inferred, and that for the purposes of valuation the leach pad estimate should be considered as an Exploration Target.

## 4.2 Shannon-Zillmanton (SRK 2013 Review)

Mungana has a 100% interest in the Shannon-Zillmanton Advanced Exploration area, which has been considered by SRK to have an Exploration Target of 2.5 Mt to 5.1 Mt at 0.46 to 0.86 g/t Au, based on previous exploration work (including drilling) and internal estimates completed by Mr. Adrian McArthur.

The Shannon-Zillmanton Gold Project is located about 4 km south-east of the Mungana Gold Project, along a shear in Silurian sediments near a contact with the Almaden Monzonite, which is a linear WNW trend interpreted from aerial photography as a faulted boundary. The sediments rocks in the area, which consist of marble, banded calc-silicate rock marble and silicified siltstone, have been intruded by a monzonite. A mineralised shear in marble is parallel to the contact.

SRK considered an internal estimate completed by MUX for Shannon-Zillmanton as an Exploration Target for an Advanced Exploration Area. These estimates are predominantly based on historical exploration data and exclude the material from the Cu-rich Zillmanton workings.

## 4.3 Mungana Base Metal Lode

Within the Mungana deposit, a large stratabound base metal lode (The Kagara Lode) intersects and is often partially coincident with the gold mineralisation.

KZL has an estimate that within this lode there are 44,000 tonnes at 10.5% Zn, 0.1% Pb, 1.9% Cu, 0.9 g/t Au and 124 g/t Ag. No resource estimate reports have been provided to SRK.

SRK understands that based on the lack of further supporting information any potential classification should be considered no higher than Inferred, and that for the purposes of valuation has considered it as an Exploration Target. SRK has applied a plus or minus 35% for tonnes and grades estimated by KZL to determine a reasonable range for this Exploration Target: 28,600 tonnes to 59,400 tonnes at 7.2 to 14.8% Zn, 0.06 to 0.13% Pb, 1.2 to 2.5% Cu, 0.6 to 1 g/t Au, 80 to 167 g/t Ag.

## 4.4 Montevideo

Montevideo is an advanced prospect located within the EPM7672, adjacent to King Vol deposit. It consists of skarns within the Chillagoe Formation. A preliminary estimate was completed manually by Mr Ian Morrison using a planimeter and is presented in Table 4-1. The methodology consisted of the direct measurement from cross-section and long section plots of drill holes and the geological interpretation by Mr Charlie Georgees, former employee of KZL. The following methods and constraints were employed:

- Rectangular ore blocks were drawn around the mid-points of drill hole intersections on longitudinal section and the horizontal dimension of the blocks was taken as the mid-point between adjacent intersections or a maximum of 25 m if the intersection was unconstrained or the horizontal distance to the mid-point between adjacent holes was greater than 25 m;
- Down-dip dimensions of ore blocks were measured directly from cross-sections and taken as the mid-point between the nearest holes up- and down-dip. In the core of the deposit, this distance was not delimited. The lowermost block was extended to 50 m down-dip of the deepest intersection, drill hole MVD09 on section 3300N. This reflects the greater degree of confidence in the down-dip continuity of the mineralisation;
- The upper most ore blocks were extended up to 10 m above the flat-lying faulted contact between over-lying siliciclastic rocks and the underlying limestone which hosts the bulk of the deposit. The rationale behind extending blocks several metres into the overlying stratigraphy is supported by the occurrence of significant high-grade mineralisation that transects the fault and

extends up to 15 m into the overlying siliciclastic units – for example: ore-grade mineralisation in hole MVD05, on section 3200N;

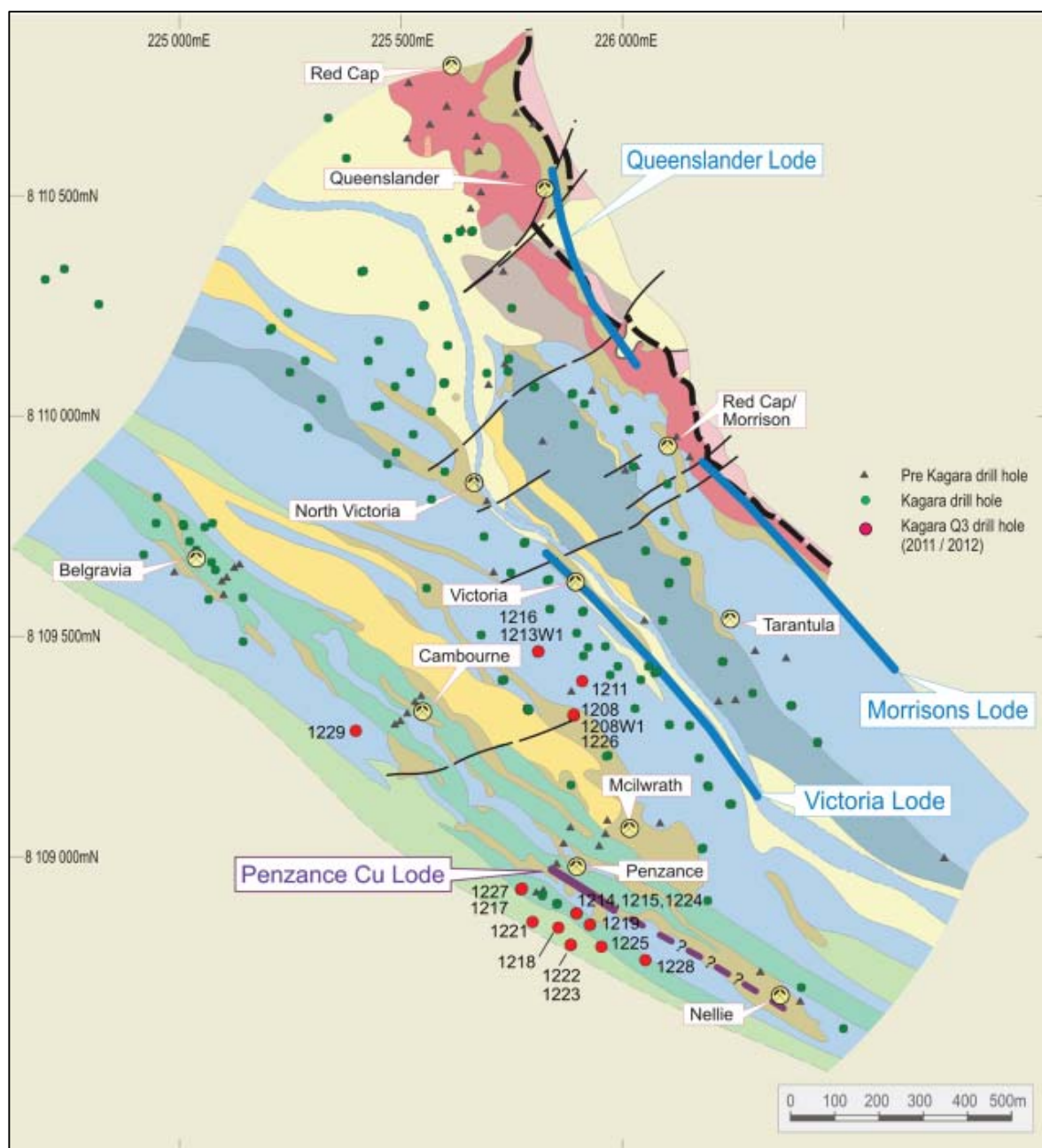
- Density measurements for individual assay intervals were available for all core holes except MVD08. A weighted average of these measured densities was applied to each intercept;
- Conservative density values were assigned for all other intersections as follows: Density of 3.1 for intercepts <10% Zn; Density of 3.5 for intercepts of 10-20% Zn; and Density of 4 for intercepts >20% Zn; and
- True widths of intercepts were calculated trigonometrically and weighted averages of grades calculated for each intercept. Width and grade for each hole was assigned to each ore block.

SRK has obtained the information for Montevideo from a Technical Report prepared by Mr. Ian Morrison, who was a full time employee of KZL, 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'.

SRK understands that based on the lack of further supporting information any potential classification should be considered no higher than Inferred, and that for the purposes of valuation this estimate should be considered as an Exploration Target. SRK has applied a plus or minus 35% for tonnes and grades estimated by KZL to determine a reasonable range for this Exploration Target: 468,000 tonnes to 972,000 tonnes at 5.0 to 10.4% Zn, 0.13 to 0.27% Pb.

## 4.5 Red Cap Project: Penzance, Victoria and Queenslander-Morrison

The Red Cap project consists of several polymetallic skarn associated deposits focussed along faulted contacts in the Silurian to Devonian age Chillagoe Formation. The geochemical signature of these, and several other deposits in the area, is consistent with a porphyry association. Figure 4-1 below illustrates the Red Cap region and its main prospects.



**Figure 4-1: Red Cap Project: Penzance, Victoria, Queenslander-Morrison**

#### 4.5.1 Penzance

The Penzance lode is a part of the Red Cap Prospect, which is located approximately 5 km east of the partially completed Mungana processing plant facility.

The maiden Penzance 2012 Mineral Resource is based on drilling completed by KZL in 2011 and was calculated by the company's geologists. The block model and grade estimation were completed using Surpac Mining Software™. The interpretation wireframes were used to generate the volume model and inverse distance squared of two metre composites for the estimation of grade and density. The resource has been broken into three main zones: copper, zinc and a minor zinc zone that sits slightly south of the main copper zone.

The maiden JORC 2004 Inferred Resource, as disclosed in press releases on KZL's website, is presented in Table 4-1 below.

**Table 4-1: Penzance – Indicative Exploration Target**

Copper Resources	Tonnes	Zn%	Pb%	Cu%	Au g/t	Ag g/t
Penzance	228,000	1.3	0.0	3.2	0.2	58
Polymetallic Resources	Tonnes	Zn%	Pb%	Cu%	Au g/t	Ag g/t
Penzance	85,000	6.2	0.2	0.7	0.1	19

The information above that relates to Mineral Resources is based on information compiled by Mr Andrew Beaton, who is a member of the Australasian Institute of Geoscientists. Mr Beaton was a full time employee of KZL, 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 Beaton consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Due to the lack of supporting documentation, SRK considers this initial estimate as an Exploration Target for the valuation of the Penzance Advanced Exploration Project.

#### 4.5.2 Victoria

At Victoria the mineralization occurs in steeply dipping intercalated siliciclastic and limestone units of the Silurian Chillagoe Formation which strikes north-westerly in the prospect area. To the northeast of Victoria, the Chillagoe Formation has been thrust over the acid to intermediate Carboniferous Redcap Volcanics along the Redcap Thrust, which dips at about 45 degrees to the southwest and underlies the Victoria mineralisation.

Mineralisation in the Chillagoe Formation occurs nearly always along lithological contacts between limestones and siliciclastics. The Main Victoria Zone is one such zone, developed along the northeastern flank of a limestone unit at its contact with a siliciclastic package termed the Morrison Conglomerate. It comprises a multi-phase skarn package of pyroxene-garnet-magnetite-pyrrhotite permeated by the economic minerals of mainly sphalerite and chalcopyrite. The system is strongly zoned. Laterally within the Main Victoria Zone, higher grade Zn mineralisation gives way to the north east to higher grade Cu. And vertically from about 250 m below surface, the base-metal mineralisation gradually gives way to sphalerite-poor gold and chalcopyrite mineralisation in the pyroxene-garnet skarn. The base of oxidation is quite shallow (<30 m) at Victoria, deepening to about 50 m near the centre of the resource.

In the deposit area, quartz-molybdenite veinlets carrying occasional traces of chalcopyrite, pyrrhotite, sphalerite, and pyrite are common in both the Chillagoe Formation and the Redcap Volcanics and are not restricted to areas of skarn. Their economic significance is not clear at this stage.

The limestone unit hosting the Victoria mineralization varies in thickness from less than 1 metre to over 80 m, with an average thickness of 30-40 m in the central part of Victoria. At its southwestern contact with a siltstone unit, where a pyroxene-garnet skarn zone which hosts a lens of chalcopyrite and sphalerite mineralization. For the present purposes, this mineralisation has been termed "Victoria South". Magnetite and pyrrhotite are far less well developed in this zone.

The Victoria prospect is drilled at 100 m spacing between 5250E and 6100E (Red Dome Mine Corridor Grid). The estimate includes data from all holes drilled by KZL at Victoria to date (Holes 896-906 and 947-978) and specifically excludes pre-KZL drill holes. Mineralisation remains open along strike to the east and down dip. There are several other contacts in the area along which some mineralisation has been intersected. However, the drilling of these prospects is too widely spaced to adequately quantify the mineralization.

An initial estimate was made using the "Cross Sectional Areas" method with a 50 m sectional spacing. Each intersection was weighted according to area on the cross-section and projected at constant area to half way between sections. On intervals where SG determinations were available

(air pycnometer readings on assay samples at the laboratory), these were converted to bulk density (96.2% of SG) which was then used for the tonnage conversion. On intervals where density data was not available, a nominal bulk density figure of 3.6 was used for fresh and 3.2 for oxidised intervals respectively. Derivation of the nominal bulk density figures was based on a weighted average of mineralised ( $\geq 0.5\%$  ZnEq) intervals where data exists (N=168 readings).

Intersections were calculated using a notional cut-off of 0.5% CuEq or 5% ZnEq or 0.5 g/t AuEq. The following methodology was applied:

- Tabulation of mineralised intercepts: A table was drawn of all mineralized intervals above the cut-off grades;
- Holes plotted on 50 m cross sections, geological interpretation, and polygons drawn around each intersection: Intersections were projected halfway between drill holes or at constant width as dictated by geology or for a nominal 40-50 m where open up or down dip. Where no up dip or down dip mineralisation was encountered in adjoining holes, mineralisation outlines were drawn to a point source halfway between holes;
- Cross sectional area of each polygon calculated: Using the "update column" facility in Mapinfo software;
- Conversion of areas to tonnes: Using the bulk density factor and by projecting each polygon at constant area halfway to the adjacent section. Where an intersection remains open along strike, the polygon was projected along strike at constant area for half the section spacing; and
- Average grades calculated: Average Grade = Sum of (Grade X Tonnes) / Total Tonnes.

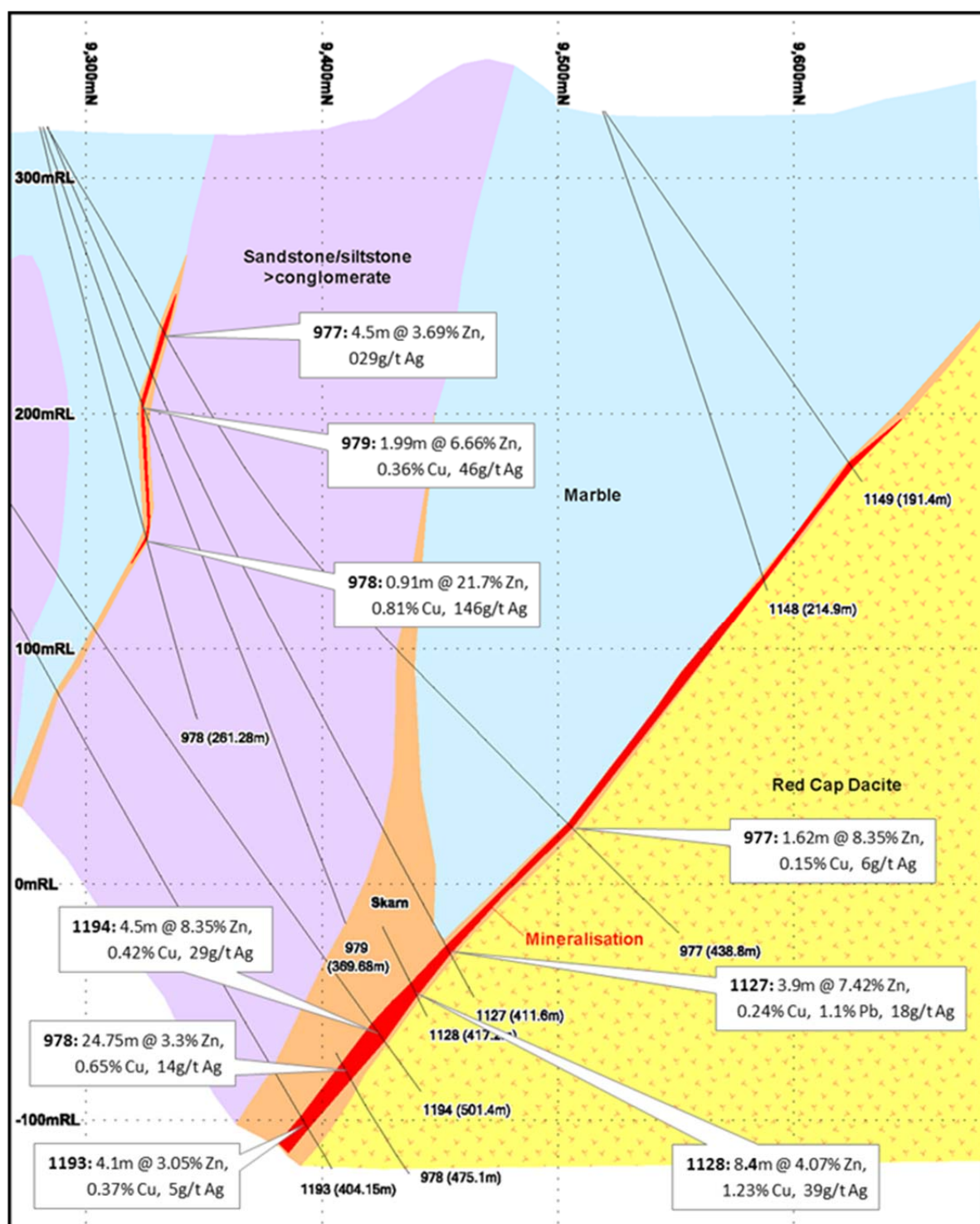
SRK has obtained the information for Victoria from a Technical Report prepared by Mr Charlie Georgees, who was a full time employee of KZL, and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking, 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'.

For valuation purposes, SRK has considered this initial estimate as an Exploration Target for the Victoria Advanced Exploration Project. SRK has applied a plus or minus 35% for tonnes and grades estimated by KZL to determine a reasonable range for this Exploration Target: 2.2 Mt to 4.6 Mt tonnes at 3.3 to 6.9% Zn, 0.6 to 1.3% Cu.

#### 4.5.3 Queenslander-Morrison

At Queenslander-Morrison (QM) lodes the mineralisation is hosted in magnetite-garnet-pyroxene-pyrrhotite skarn (Figure 4-2).





**Figure 4-2: Queenslander-Morrison's typical cross section**

The QM Mineral Resource estimate is based on the drilling completed by KZL in 2008 and 2011. The geological interpretation was carried out by KZL geologists and the block model and grade estimation were completed using Surpac Mining Software™. The interpretation wireframes were used to generate the volume model and ordinary kriging of two metre composites for the estimation of grade and density. According to KZL's press releases found at the company's website this resource has been classified as Inferred Resource Category as defined by the JORC Code 2004 (See Table 4-2).

**Table 4-2: Queenslander – Morrison – Indicative Exploration Target**

Deposit	Category	Type	Tonnes	Zn%	Pb%	Cu%	Au g/t	Ag g/t	Competent Person
Queenslander	Inferred	Fresh	1,570,000	4.4	0.2	0.5	0.0	12	Andrew Beaton
Morrison	Inferred	Fresh	1,930,000	5.4	0.3	0.6	0.1	21	Andrew Beaton
Total			3,500,000	5.0	0.3	0.6	0.1	17	

The information above that relates to Mineral Resources is based on information compiled by Mr Andrew Beaton, who is a member of the Australasian Institute of Geoscientists. Mr Beaton was a full time employee of KZL, 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 Beaton consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

SRK has completed a high level review of the preliminary resource estimates completed at QM by KZL geologists and has not identified any fatal flaws. However, SRK has classified the project as an Advanced Exploration Project. SRK believes this project would not be developed as a stand-alone project, but in conjunction with the other Red Cap exploration projects.



## 5 MUX Exploration Area

### 5.1 Nyngan Exploration Project

MUX and its 100% owned subsidiary, Nyngan Gold Pty Ltd, have agreed early in December 2012 to enter into a farm-in agreement with AngloGold Ashanti Australia Limited on its Nyngan Gold Project in New South Wales. The farm-in agreement relates to exploration licenses EL 7751, EL 7752 (Renewal Pending), EL 8055 and EL 8053. Details of the farm-in include:

- AngloGold Ashanti will be the manager of the farm-in;
- AngloGold Ashanti commits to a minimum expenditure of A\$500,000 in the first year, including at least A\$250,000 expended on geophysical surveys;
- AngloGold Ashanti to have the right to withdraw at any point after minimum commitment is met; and
- AngloGold Ashanti may earn 70% share and form a joint venture by completing expenditure of A\$4,000,000 prior to 31 December 2017, after which MUX can elect to contribute or dilute.

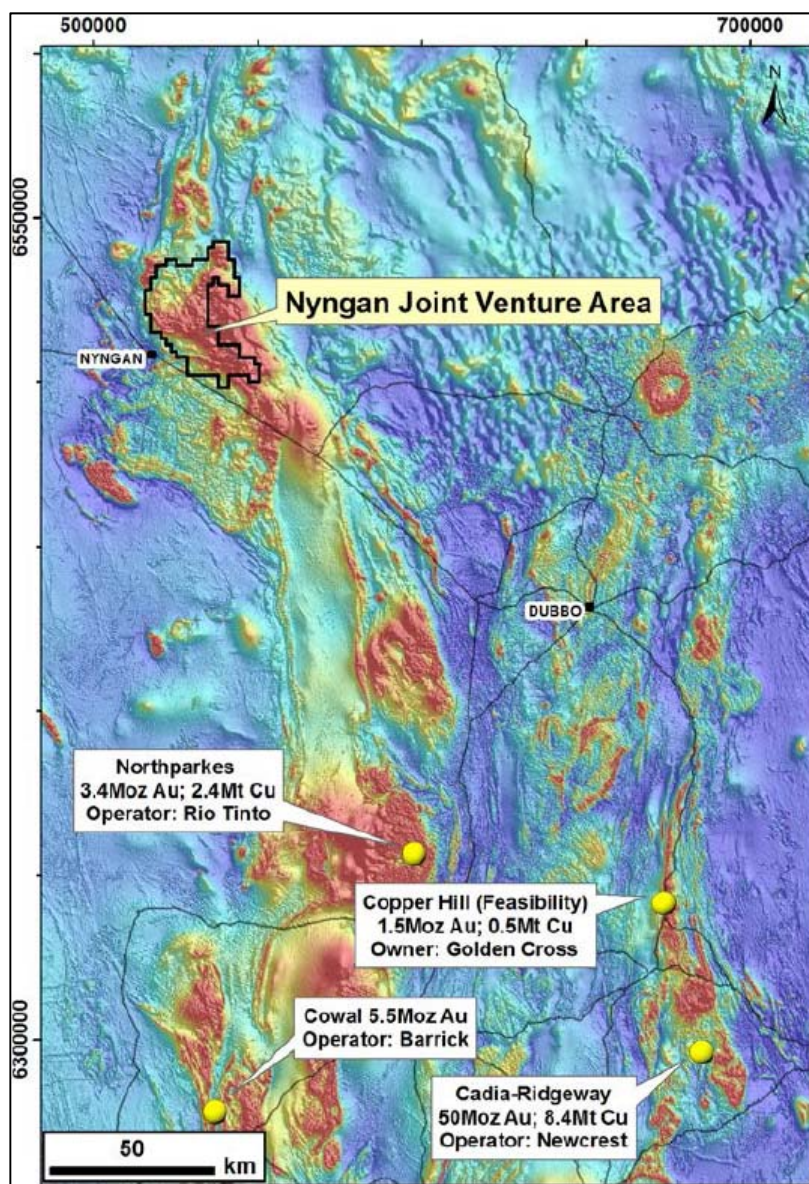


Figure 5-1: Nyngan Gold Project and other deposits located in the Lachlan Fold Belt region

New South Wales hosts a major tectonic unit known as the Lachlan Fold Belt, which is particularly rich in porphyry copper-gold mineralisation, including Cowal, Northparkes and the giant Cadia-Ridgeway system. The Paleozoic Lachlan Fold Belt has an orogenic history stretching from the Cambrian to the Carboniferous recording arc-continent collision, marine and non-marine sedimentation, folding and faulting, volcanism and igneous intrusion and regional metamorphism.

The basement rocks of the Lachlan Fold Belt are concealed to the north under a younger sedimentary cover sequence. However, the continued extension of the prospective belts is highlighted by a prominent magnetic signature. This geophysical response indicates that the largest of the volcanic centres is preserved in the targeted area. Given that all of the major volcanic centres exposed to the south contain mineralisation, it is believed by MUX that the potential for significant undiscovered resources is high.

MUX's targeted area lies over the concealed northern extent of the Junee-Narromine Volcanic Belt. This belt forms the western part of the Macquarie Igneous Province, an Early Ordovician to Early Silurian island arc complex. Other belts to the south and east include the Molong, Rockley-Gulgong, and Kiandra Volcanic Belts.

The major volcanic centres and ore deposits are associated with the intersection between the northerly-trending arc succession and oblique deep-seated linear structures trending west-north-west. The southern oblique structural corridor is referred to as the "Lachlan Transverse Zone" or locally by Newcrest as the "Cadia Trend". This trend is interpreted to mark the position of a transfer fault system that originally provided the focus for development of the thickened volcanic pile and a focussing mechanism for the fertile intrusions.

MUX's tenure has been taken out over a parallel west-north-west transfer structure, which is associated with a left-stepping offset of the Junee-Narromine Volcanic Belt. This is a structure with a strong expression in magnetic and gravity imagery. The setting is believed to provide the strongest analogue for an under-cover ore centre when compared to the mineralised belts to the south.

MUX has identified a position it regards as particularly prospective based on structural similarities to the setting of the Cadia-Ridgeway deposit. The known deposits have all been discovered in areas where there is a high abundance of basement exposure, which has supported traditional surface exploration techniques – mapping, trenching, rock-chip and soil sampling. MUX believes that the potential for major new discoveries in areas of high exposure is diminishing. However, the poorly explored extensions of the belt under cover to the north are considered to have potential for significant new discoveries based on the endowment to the south.

MUX plans to apply modern exploration techniques to drive a new generation of discoveries, such as gravity surveys, electrical exploration methods, and alteration mapping, as previous exploration in the area has been ineffective in the company's opinion. Many of the historical drill holes completed by earlier explorers were not extended through the cover sequence. One drill hole that did penetrate the cover intersected a narrow interval of copper mineralisation associated with alteration characteristic of a porphyry-style system.

## 5.2 MUX and KZL Northern Queensland Exploration Projects

MUX and KZL have initiated a project generation programme to assess regional targets proximal to the Chillagoe area, and throughout regional Queensland. MUX emphasised gold-copper mineral systems and KZL base metals. Four exploration projects were created as a result: Chillagoe 100% MUX, Chillagoe GRA (MUX/KZL), OK Mines Project (MUX) and Laura Project (MUX), as illustrated in Figure 5-2 below.

The detailed tenement information is provided in Table 1-2.

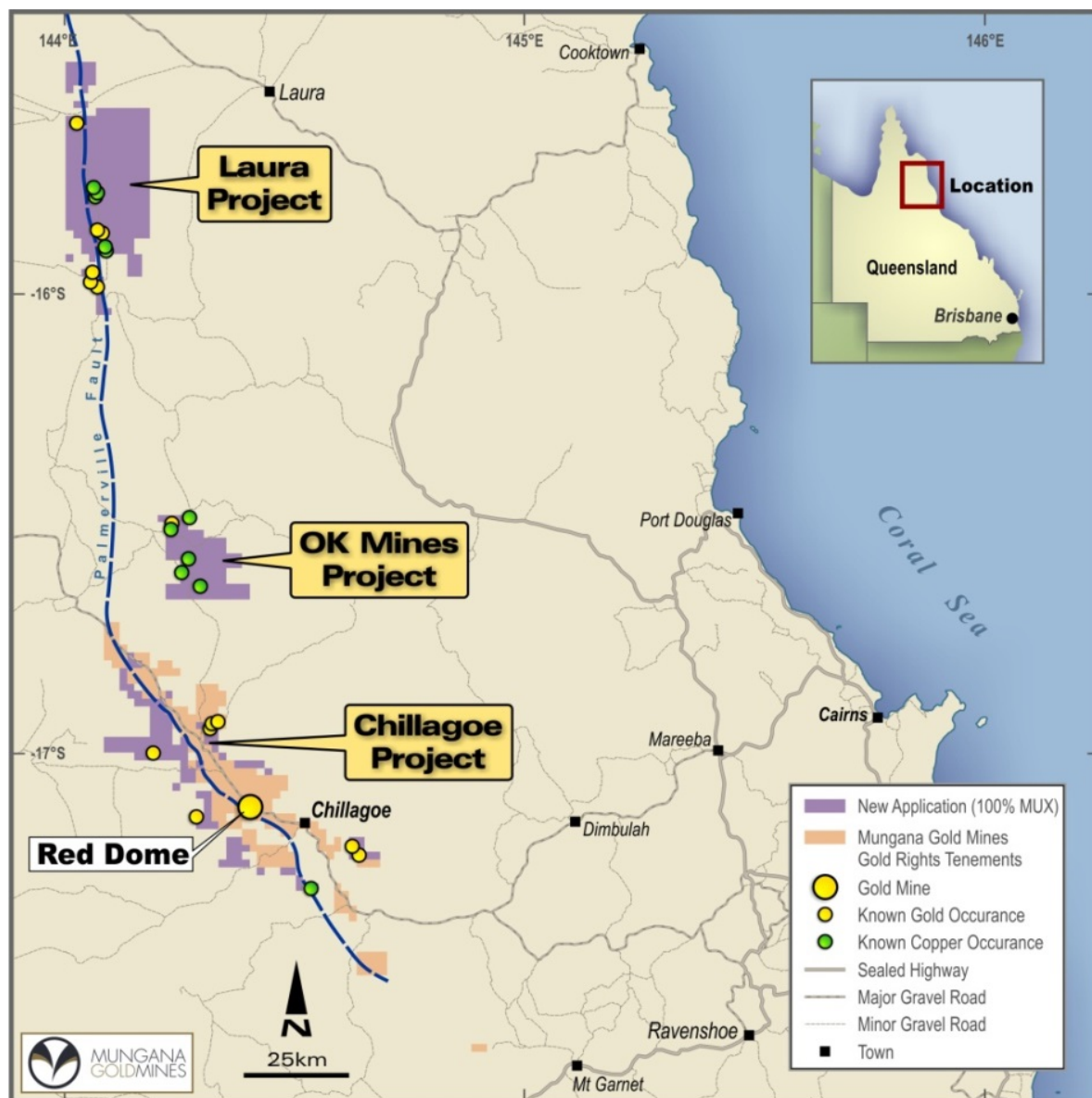
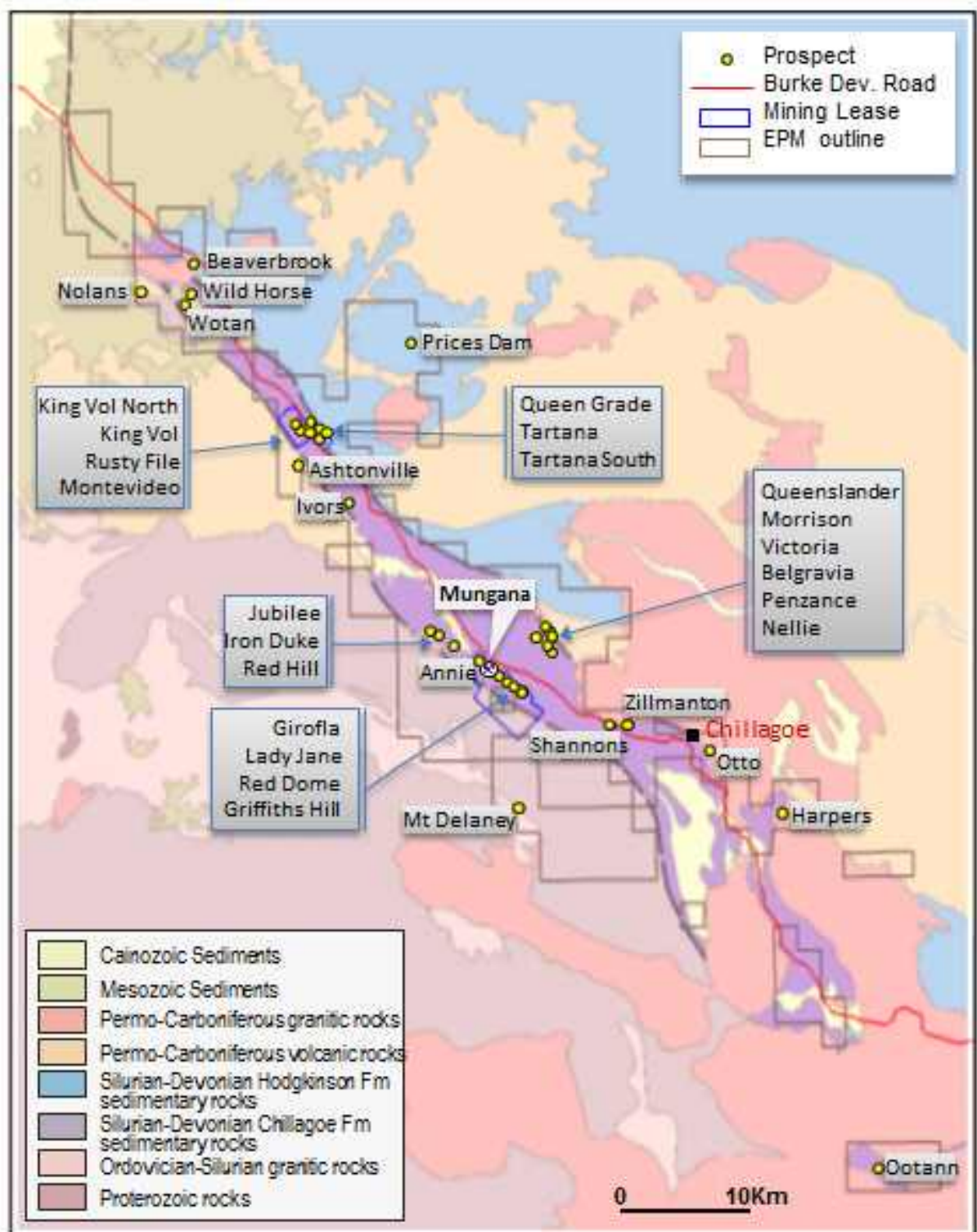


Figure 5-2: Northern Queensland Exploration Projects





**Figure 5-3: KZL Chillagoe Northern Region Tenements and Prospects**

The Chillagoe GRA Exploration Project consists of Mungana / Red Dome surrounding tenements not included in the Mineral Resource estimates for both projects. The prospectivity of these tenements is mainly based on the similarities with the skarn mineralisation shown at Red Dome and Mungana, where Carboniferous granitoids intrude limestones of the Chillagoe Formation.

The Chillagoe 100% MUX consists of two licenses that are 100% owned by MUX and not included in the GRA (EL 19604 and EL 19196). Both licenses are also located in the Chillagoe district.

The Chillagoe district in Northern Queensland has a mining history dating back to the 1880s when it opened as a significant centre of production for copper, lead and silver. The district's potential to become a significant gold camp was not recognised until the discovery of the Red Dome deposit in the late 1970s, and the Mungana deposit in the 1980s. Red Dome was developed as an open cut mine, and by the end of operation in 1998, had produced close to 1 million ounces (Moz) of gold. MUX exploration assets described as the Chillagoe Exploration Project consist of all the company's North Queensland assets except from Mungana and Red Dome:

The Palmerville Fault marks the western margin of the Hodgkinson Province and separates the Precambrian Dargalong Metamorphics in the west from the Paleozoic aged rocks in the east. Along the eastern side of the Palmerville Fault is a sliver of Ordovician Mulgrave Formation, and an eastwardly younging sequence including the Chillagoe and Hodgkinson formations.

The Chillagoe Formation hosts the majority of mineralisation in this region and it outcrops along a 5-10 km wide north-west striking belt which extends for 150 km from Mt Garnet in the south-east to 70 km north-west of Chillagoe where the belt, and bounding Palmerville Fault, changes orientation to a more northerly strike and extends for a further 120 km.

The formation comprises units of limestone, sandstone, siltstone, chert, basalt and conglomerate with a cumulative thickness of approximately 1 km; however, extensive thrust faulting during the Late Devonian to Mid Carboniferous resulted in significant structural thickening of the formation.

In the Mungana to Red Cap area, at least 12 thrust-induced stratigraphic repetitions have been identified. The steeply-dipping thrust faults trend north-westerly, sub-parallel to the stratigraphy and the Palmerville Fault.

Igneous activity in the Late Carboniferous to Early Permian resulted in the widespread intrusion of granitic rocks and extrusion of felsic volcanic rocks and the localised emplacement of high-level porphyry stocks in the Chillagoe region. Mineralisation in the Chillagoe region is interpreted to be related to this Late Carboniferous to Early Permian intrusive activity.

Multiple phases of intrusive activity in the Chillagoe district tend to be associated with gold, copper, zinc, lead, silver, tin, molybdenum, tungsten and bismuth mineralisation. The Mungana and Red Dome gold deposits are associated with a particular suite of intrusions of Late Carboniferous age. The surrounding host rocks comprise marbles and sandstones of the Silurian Chillagoe Formation and skarns are frequently developed in reaction zones at the contact points between these different rock types. Mineralisation also frequently develops in these skarns, and within stockwork vein systems within and around the porphyries.

The combination of favourable host rocks in the Chillagoe Formation along with structures and extensive Late Carboniferous magmatism has led to a variety of mineralisation styles:

- Distal skarn deposits, such as King Vol zinc-rich skarn deposit;
- Proximal base metal-gold skarns such as Mungana and Victoria deposits;
- Porphyry-related Au-Cu-Mo  $\pm$  Zn-Pb e.g. Red Dome and Mungana in the Chillagoe Formation, the Cardross Cu-Au deposits and the Tartana copper deposit hosted by Hodgkinson sediments immediately east of King Vol deposit;
- Mesothermal vein-style tin, tungsten, base metals and granite-hosted gold-quartz mineralisation e.g. Moreag; and
- Epithermal gold mineralisation, for example, the Fluorspar group of epithermal quartz-kaolinite veins.

Based on the prospective geological setting described above, MUX and KZL believe there is the potential for the discovery of additional gold systems in the Chillagoe district. Exploration is now particularly focused along the “Mine Corridor”, a significant structural domain to the east of the Palmerville Fault, which has numerous historical workings and geochemical anomalies. In addition to the porphyry-related systems at Mungana and Red Dome, other mineralisation styles in the district include granite-hosted gold-quartz mineralisation at Moreag, epithermal-style gold mineralisation at Fluorspar, and mesothermal vein systems in the Dargalong metamorphic belt.

MUX retained Mr John E Nethery (FAIG, FAusIMM, FSEG, MGSA, CP (Geo)) to prioritise the Chillagoe potential targets based on the assessment of the 2-years exploration programme undertaken by Normandy Exploration Ltd, commissioned by Niugini Mining Aust Pty Ltd. This study indicated that the area is prospective for gold as several targets were identified, at various stages of testing.

In addition to the historical data and prospectivity study, MUX has utilised the services of geophysical consultant Matt Cooper from Resource Potentials to re-process open file magnetic and radiometric data, and evaluate anomalies in relation to a digital terrane model. The company has also utilised GIS products released by Geoscience Australia and the Geological Survey of Queensland – in particular mineral occurrence datasets, geological and structural mapping.

This work has highlighted an area of magnetic anomalism within the Silurian-Devonian Hodgkinson Formation metasediments. These anomalies include subtle but discrete magnetic responses proximal to the “Bellevue” and “OK No 21” Cu occurrences. Such magnetic contrasts are known to mark skarn associations in mineralised intrusive related gold systems within Mungana’s Chillagoe Project Area to the south. The magnetic pattern implies a potentially more complex mineral system, which might include blind targets as part of a telescoped system below the reported epithermal mineral occurrences. There are also a number of mineral occurrences associated with Chillagoe Formation strata, where a complex magnetic pattern is evident in the lower-lying areas associated with the mineralised trend.

The digital terrain model also illustrates a number of discrete “highs” and given the nature of the documented mineral occurrences such highs may potentially mark areas of silicification related to hydrothermal alteration.

A high-level review of QDEX (Queensland Digital Exploration Reports System) open file reports was conducted by MUX on historical tenure covering the application area. This indicated that the focus of previous exploration, particularly in recent times, has been largely involved reconnaissance geochemical surveys, mapping, remote sensing interpretation and desktop targeting studies. Whilst some explorers consider the mineral occurrences in the district to have epithermal characteristics, others have conducted their targeting on an orogenic gold model analogous to Central Victoria. Past geochemical coverage is of value and has identified some low level anomalism, but MUX believes there is scope to improve coverage in drainage patterns more localised to the anomalies of interest, and supplement stream data with local soil coverage due to the high-energy nature of stream systems.

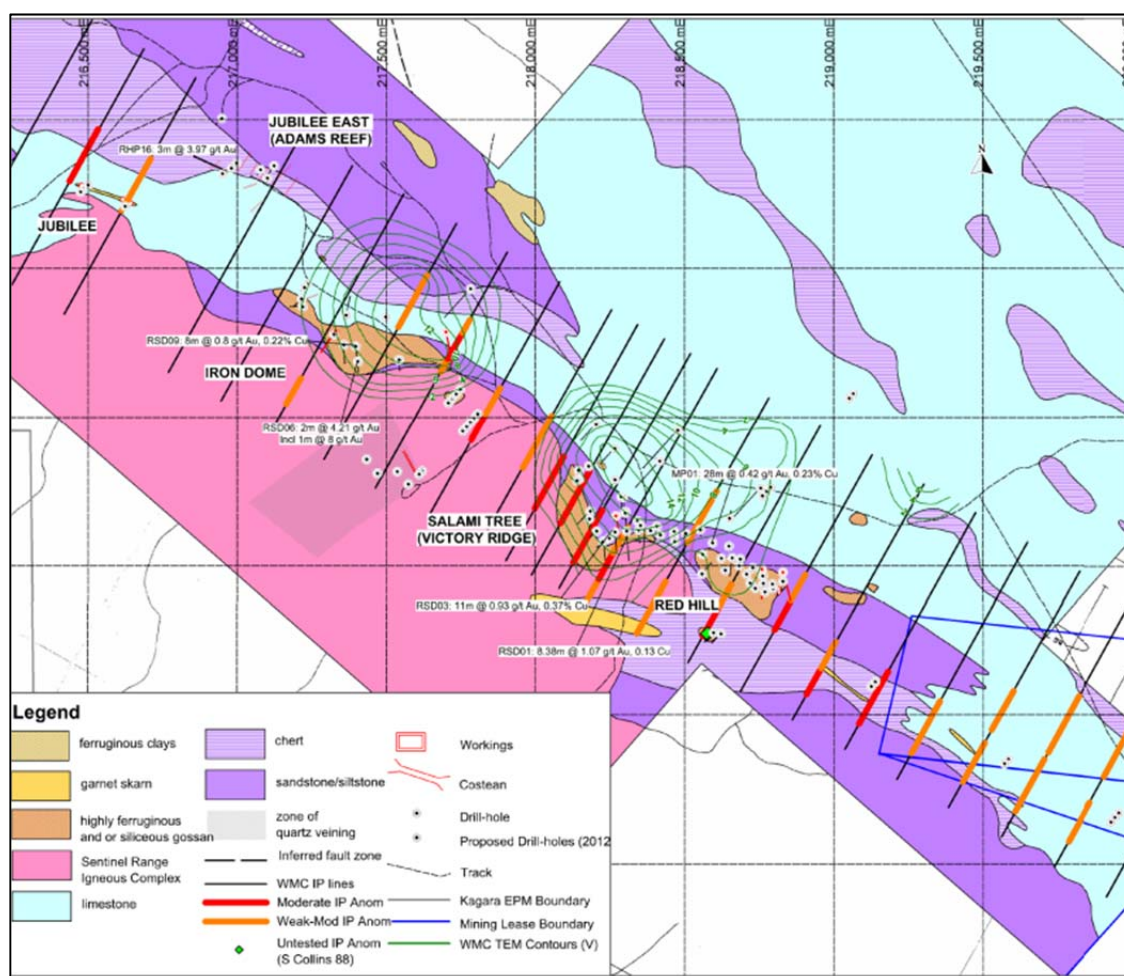
## 5.2.1 Red Hill

The Red Hill group of prospects is one of the most prospective targets. It is located 20 km north-west of Chillagoe and 5 km north-west of Mungana within EPM 15458. The prospect areas lie at the contact between the Late Carboniferous Sentinel Range Granite of the O'Brien's super-suite and sandstone/siltstone, limestone and chert units of the Chillagoe Formation. Extensive ferruginous and siliceous breccia and magnetite-garnet skarns are developed along the contact, also coincident with strong Cu-Pb-Zn XRF soil anomalism.

Four main prospects make up Red Hill, namely Red Hill, Salami Tree (or Victory Ridge), Iron Dome and Jubilee (and Jubilee East/Adams Reef). Significant previous exploration includes detailed geochemical surveying and geological mapping, airborne and ground magnetics, IP-resistivity and TEM surveying, 3,743 RAB holes and a total of 124 diamond, percussion and reverse circulation (RC) drill-holes. Previous work by KZL since tenement grant has been restricted to detailed XRF Niton soil surveying and partial collation of historical drilling data. No significant on-ground exploration has been conducted.

In 2009 KZL completed a detailed XRF soil geochemical survey over the Red Hill Project area at 25 m sample spacing and 50 m spaced lines over the central prospect areas, increasing to 200 m line spacing on the periphery. The survey defined significant coincident Cu-Pb-Zn soil anomalies along a 3 km strike from Red Hill to Jubilee over the intrusive contact.

For valuation purposes, SRK has not considered this initial estimate and classified the Red Hill Project as part of the Chillagoe GRA Exploration Area.



**Figure 5-4: Red Hill Project Map - Geophysical Survey Lines and Anomalies**

## 6 Valuation

While the VALMIN Code 2005 states that decisions as to which valuation methodology is used are the responsibility of the Expert or Specialist, where possible, SRK considers a number of methods.

The aim of this approach is to compare the results achieved using different methods to select a preferred value within a valuation range. This reflects the uncertainty in the data and interaction of the various assumptions inherent in the valuation.

An overview of a number of methods traditionally used to value exploration properties includes:

- Multiples of Exploration Expenditure (MEE);
- Joint Venture Terms Method (expenditure-based);
- Geoscience Ratings Methods (e.g. Kilburn – area-based);
- Comparable Market Value Method (real estate-based);
- Metal Transaction Ratio (MTR) Analysis (ratio of the transaction value to the gross dollar metal content, expressed as a percentage - real estate-based);
- Yardstick / Rule of Thumb Method (e.g. A\$/Resource or production unit, % of an in situ value); and
- In addition, SRK uses the geological risk method to value early stage exploration assets.

SRK has relied on the comparable market value method to derive a value as there was considerable market activity in the sector for projects that did not contain Mineral Resources at the time of the transaction was compiled.

### 6.1 Valuation Approaches

The three generally accepted Valuation approaches, as listed and defined in the CIMVAL Code (2003) are:

- Income Approach;
- Market Approach; and
- Cost Approach.

The *Income Approach* is based on the principle of anticipation of benefits and includes all methods that are based on the income or cash flow generation potential of the Mineral Property (CIMVAL, 2003). Valuation methods that follow this approach include Discounted Cash Flow (DCF) modelling, Monte Carlo Analysis, Option Pricing and Probabilistic methods.

The *Market Approach* is based primarily on the principle of substitution and is also called the Sales Comparison Approach. The Mineral Property being valued is compared with the transaction value of similar Mineral Properties, transacted in an open market (CIMVAL, 2003). Methods include comparable transactions, MTR and option or farm-in agreement terms analysis.

The *Cost Approach* is based on the principle of contribution to value (CIMVAL, 2003). Methods include the appraised value method and multiples of exploration expenditure, where expenditures are analysed for their contribution to the exploration potential of the Mineral Property.

The applicability of the various valuation approaches and methods vary depending on the stage of exploration or development of the property, and hence the amount and quality of the information available on the mineral potential of the property. Table 6-1 presents CIMVAL's view on the applicability of the various valuation approaches for the valuation of mineral properties at the various stages of exploration and development.



**Table 6-1: Suggested valuation approaches for different types of Mineral Properties (CIMVAL)**

Valuation approach	Exploration properties	Mineral Resource properties	Development properties	Production properties
Income	No	In some cases	Yes	Yes
Market	Yes	Yes	Yes	Yes
Cost	Yes	In some cases	No	No

Source: (CIMVAL, 2003)

The Market approach to valuation is generally accepted as the most suitable approach for valuation of a Mineral Resource Property or a Pre-Development Project.

The use of income-based methods, such as Discounted Cash Flow (DCF) modelling, is not generally accepted in situations where Mineral Reserves, supported by suitably detailed mining studies, have not been declared. As Mineral Reserves have not currently been declared for any of the projects subject to this valuation, income-based methods of valuation are not considered suitable.

The use of cost-based methods, such as considering suitable multiples of exploration expenditure is best suited to exploration properties, before Mineral Resources are reliably estimated. As current Mineral Resources have been declared for the Pre-Development and Advanced Exploration projects, cost-based methods of valuation are considered less suitable than market-based methods of valuation for these properties.

SRK favours the use of the Comparable Transaction method of valuation, a market-based approach, for the valuation of MUX/KZL Pre-Development and Advanced Exploration projects. An alternative method would be the Yardstick (Rule of Thumb) and the Metals Transaction Ratio (MTR) (Roscoe, 2012), which are also a market-based approach.

In general these methods are accepted analytical valuation approaches that are in common use for determining Fair Market Value (defined below) of mineral assets, using market derived data.

The **“Fair Market Value”** is defined in the VALMIN Code 2005 as, in respect of a mineral asset, the amount of money (or the cash equivalent of some other consideration) determined by the relevant expert in accordance with the provisions of the VALMIN Code 2005 for which the mineral asset should change hands on the relevant date in an open and unrestricted market between a willing buyer and a willing seller in an ‘arm’s length’ transaction, with each party acting, knowledgeably, prudently and without compulsion. The Fair Market Value is usually comprised of two components, the underlying Technical Value (defined below) of the mineral asset, and a premium or discount related to market, strategic or other considerations.

The **“Technical Value”** is defined in the VALMIN Code 2005 as an assessment of a mineral asset’s future net economic benefit at the valuation date under a set of assumptions deemed most appropriate by a relevant expert or specialist, excluding any premium or discount to account for such factors as market or strategic considerations.

Valuation methods are, in general, subsets of valuation approaches and for example the Income Based Approach comprises several methods. Furthermore, some methods can be considered to be primary methods for valuation while others are secondary methods or rules of thumb considered suitable only to benchmark valuations completed using primary methods.

In summary, however, the various recognised valuation methods are designed to provide an estimate of the mineral asset or property value in each of the various categories of development. In some instances, a particular mineral asset or property or project may comprise assets which logically fall under more than one of the previously discussed development categories.

## 6.2 Market and Transactions

“The 2013 Mining Business Outlook report by Newport Consulting has revealed a sharp negative shift in sentiment among industry leaders over 2013. The general sentiment in the report was that it was hard to source development funds and companies were now focusing on maximising operational efficiencies.”

(<http://www.theaustralian.com.au/business/mining-energy/mining-sentiment-in-free-fall/story-e6frg9df-1226687772217#>)

Overall, funds for early stage/resource definition projects have become a major issue for the junior mining companies in 2013. At the time of the Proposed Transaction, uncertainties about the economic scenario and funding capacity would certainly have a negative impact in any buyers' decision. The negative sentiment has been also substantiated by the sharp decrease in share prices from gold exploration companies worldwide, as well as a decrease in gold prices on a US\$ basis.

SRK understands the new market conditions should be considered in this valuation, and as a result preferred values have been selected towards the lower value of the valuation range.

### 6.2.1 Gold

The variation of the gold price in Australian dollars, as well as the Australian dollar to US dollar exchange rate for the period January 2009 to January 2014 is shown in Figure 6-1.



**Figure 6-1: Recent Gold price in Australian and US dollars**

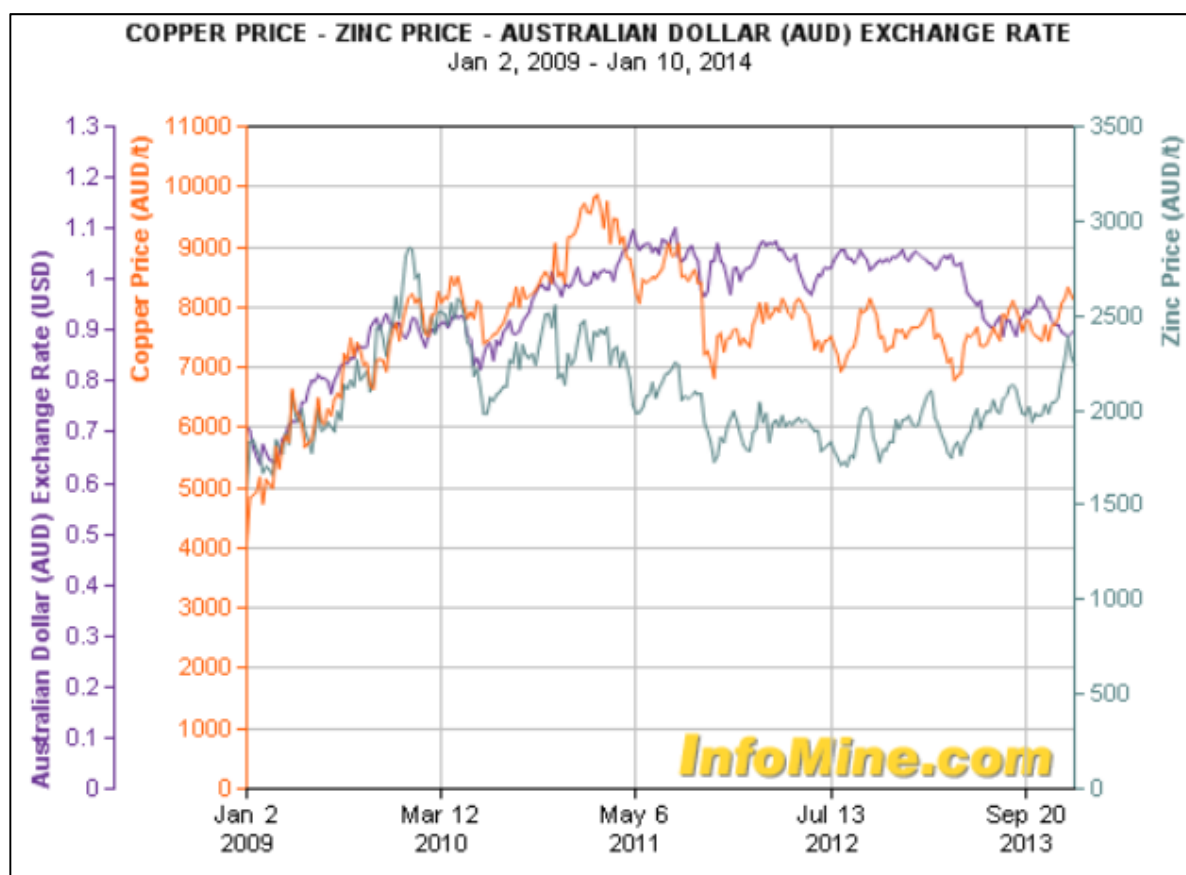
Source: Infomine

The gold price spiked to over A\$1,500/oz in the first quarter of 2009, before slumping back to below A\$1,200/oz by late 2009. It then gradually increased from early 2010, reaching just under A\$1,500/oz by mid-2011 before again spiking to approximately A\$1,800/oz in late 2011. For most of 2012, the gold price varied around A\$1,600/oz, dropping to around A\$1,500/oz in mid-2012 and rebounding above A\$1,700 in the third quarter of 2012, before again returning to the A\$1,600/oz level. In 2013 gold prices have fluctuated significantly and by the time of this transaction between MUX and KZL (late December 2013) it was roughly 1,380 A\$/oz.

In general, the Australian dollar was depressed when compared to the American dollar during gold price spikes and more buoyant when the gold price was depressed. Gold prices when evaluated in US\$ have dropped much more significantly from mid-2013 then when evaluated in A\$ due to a lower A\$ dollar exchange rate.

## 6.2.2 Base Metals

Graphs depicting the variation in the zinc and copper prices over the period January 2009 to December 2013 are provided in Figure 6-2, Figure 6-3 and Figure 6-4. Whilst the price of both copper and zinc rise and fall in unison, in general the copper price has increased relative to the zinc price during this period.



**Figure 6-2: Comparison of zinc and copper prices (A\$) for the period January 2009 to January 2014**

Source: Infomine



**Figure 6-3: Zinc price for period January 2009 to January 2014**

Source: Infomine



**Figure 6-4: Copper price for period January 2009 to January 2014**

Source: Infomine

### 6.2.3 Gold Comparable Market Transactions

In assessing a valuation factor for gold resource ounces, SRK analysed 14 transactions of gold properties in Eastern Australia (Northern Territory, Queensland, New South Wales, Victoria and South Australia) that occurred after January 2009, with 12 of these transactions considered to be suitable comparatives for the valuation of MUX's gold Mineral Resources (Table 6-2). The projects considered ranged from Advanced Exploration to Pre-Development projects, and all included declared Resources classified as Inferred or higher (Figure 6-5 to Figure 6-7).

The transactions were analysed according to the stated total transaction values. All values and factors quoted are in Australian dollars.

While evaluating Resource Comparable Transactions, SRK has considered in some cases a metal ratio in order to compare transactions with more than one predominant metal or potential for future metal credits. The metal ratio considered by SRK is similar to the calculation of metal equivalents, but considers 100% recovery for all relevant metals within the resources, as at the early exploration stages reliable and accurate recovery data is not available in most cases. SRK notes that it has not attempted to disclose JORC compliant mineral resources using metal equivalents in this report.

The A\$147.99 per ounce Au implied by the Challenger transaction was considered to be an outlier, and was eliminated. This was considered justified as the deal was to secure funding to commence production, hence the project was further advanced than the others considered.

The A\$3.03 per ounce Au implied by the Ballarat Gold Mine transaction was also considered to be an outlier, and was removed. This was considered justified by the fact that the project was being taken forward as an exploration project, effectively representing a less advanced project than the others considered.

When considering the 10 remaining transactions, the implied price in A\$ per ounce Au ranges from A\$9.00 to A\$91.39, with a median of A\$27.49 and a weighted average of A\$25.71 (Table 6-4). SRK has not been able to identify any comparable gold transactions between May 2013 and the 27 December 2013, and as a result has considered a linear trend line to determine what the price at the time of the transaction would be (Excel Forecast formula). SRK considers the derived value of A\$17.67 per ounce Au to be a reasonable factor on which to base the valuation of MUX's Pre-Development Projects.

Transactions concerning four of these properties were also analysed in terms of implied value per square kilometre of tenement area. The implied A\$/km<sup>2</sup> values ranged from A\$267/km<sup>2</sup> to A\$36,526/km<sup>2</sup>, with a median value of \$5,712/km<sup>2</sup>. The area-weighted average value was \$1,103/km<sup>2</sup>. SRK notes that the large range is primarily due to the mixture in development stages of the projects, and the range of tenement sizes, which varied from 28 km<sup>2</sup> to 5,653 km<sup>2</sup>.

In general, projects that contained current known resources were valued much more highly than those that did not include current resources, and very large tenement areas were effectively valued lower on an area basis, even though the overall transaction price may still have been substantial.

In assessing a valuation factor for a metal ratio comparison, SRK analysed 17 transactions of gold properties in Australia that occurred after January 2009, with nine (9) of these transactions considered to be suitable comparatives for the valuation of MUX's gold Mineral Resources (Table 6-3). The projects considered ranged from Advanced Exploration (Reserves Development) to Pre-Development projects, and all included declared Resources classified as Inferred or higher (Figure 6-8 to Figure 6-10).

The transactions were analysed according to the stated total transaction values. All values and factors quoted are in Australian dollars. Gold metal ratio ounces were calculated using the stated metal grades of the declared resources at the time of the transaction, and the ratios of the various metal prices to the gold price, at the time of the transaction. SRK notes that this method does not account for differences in recoveries of the various elements, and implicitly assumes total recoverability.

When considering all nine (9) transactions, the implied price in A\$ per ounce Au metal ratio ranges from A\$4.71 to A\$292.63, with a median value of A\$14.56 and a weighted average of A\$51.44 (Table 6-5). The A\$292.63 per ounce Au metal ratio implied by the Twin Hills '10 transaction was considered to be an outlier, and was eliminated. This was considered justified as the project included declared Reserves at the time of the transaction, hence the project was further advanced than the others considered.

In addition, the May 2010 transaction concerning the Red Dome and Mungana deposits were excluded, as it involved assets and participants in the current prospective deal, and therefore has a large potential to bias results.

When considering the seven (7) remaining transactions, the implied price in A\$ per ounce Au metal ratio ranges from A\$4.71 to A\$38.97, with a median of A\$12.97 and a weighted average of A\$16.65 (Table 6-5). SRK has not been able to identify any comparable transactions between December 2012 and December 2013, and as a result has considered a linear trend line to determine what the price at the time of the transaction would be (Excel Forecast formula). SRK considers the derived value of A\$11.60 per ounce Au metal ratio to be a reasonable factor on which to base the valuation of MUX's Pre-Development Projects.

SRK acknowledges that MUX announced Western Plains Resources Ltd (WPG Resources Ltd) has agreed to proceed with the purchase of the Tunkillia and Tarcoola Projects. A Sale and Purchase Agreement was signed on the 21 May 2014, and therefore, these assets were not included in this SRK's valuation report.

**Table 6-2: Comparative Gold Property Transactions in Australia post-2008**

Project	State	Stage	Date	Gold price (A\$/oz)	Synopsis	Tons	Grade	Ounces	% Ind + Meas	A\$/oz
Challenger Gold Deposit	New South Wales	Feasibility Study	Jul-09	1,156.93	AusCan agreed to provide Tasman with \$14M in funding to earn a 70% interest in the Challenger Project. Tasman terminated the agreement when AusCan failed to make the initial payment.	1,885,000	2.23	135,148	66	147.99
Ballarat Gold Mine	Victoria	Operating	Mar-10	1,217.26	Castlemaine purchased Ballarat Gold Mine from Lihir Gold Ltd for A\$4.5M, with the intention of ceasing mining and taking it forward as an exploration project.	3,900,000	11.85	1,485,858	23	3.03
Cowarra Gold Mine	New South Wales	Adv. Exploration	Nov-10	1,380.52	In November 2010, Commissioners Gold agreed to earn an initial 50% interest in the Cowarra tenement from Capital Mining by expending A\$500,000 on exploration over 2.5 years.	500,000	2.30	36,974	-	27.05
Drew Hill Gold Project	South Australia	Adv. Exploration	Jan-12	1,585.12	Polymetals agreed to increase its interest in the exploration joint ventures from 25% to 50% in return for a commitment by to spend \$1.3 m on exploration on the Drew Hill tenements prior to 30 June 2012	6,010,000	0.98	189,363	45	27.46
Golf Bore Gold Deposit	South Australia	Adv. Exploration	Oct-09	1,146.53	Southern Gold Limited acquired a 51% interest in the Challenger Area gold exploration project in South Australia after spending A\$2 million to earn the majority holding with its joint venture partner, Dominion Mining Limited.	800,000	2.10	54,014	15	72.60
Groundrush Gold Mine	Northern Territory	Feasibility Study	Jan-10	1,221.15	In late January 2010, Tanami Gold announced an agreement to acquire the past-producing Groundrush tenements, part of the Tanami Operations from Newmont for A\$22 million in cash.	5,860,000	2.70	508,693	96	43.25
Mt Porter Gold Project	Northern Territory	Pre-feas / Scoping	Jan-11	1,367.79	Global Mineral Resources acquired the Mt Porter-Frances Creek project from Arafura Resources for a mixture of cash, shares and share options.	355,000	3.02	34,469	85	91.39
Spring Hill Gold Project	Northern Territory	Pre-feas / Scoping	Jan-11	1,367.79	In January 2011, Thor announced it had agreed terms for the staged acquisition from Western Desert Resources Limited of up to an 80% interest in the 274,000oz Spring Hill in the Northern Territory, with the consideration being a mixture of cash, shares and exploration expenditure.	3,640,000	2.34	273,849	100	27.52
Swifts Creek Gold Project	Victoria	Adv. Exploration	Dec-09	1,251.23	Mutiny Gold sold its non-core Victorian mining and exploration tenements for A\$300,000 and a limited royalty agreement.	44,000	6.24	8,830	52	33.97
Tunkillia Gold Deposit	South Australia	Feasibility Study	Dec-11	1,626.98	In December 2011, Minotaur signed a binding sale agreement with Mungana Mines to sell its share of the Tunkillia gold project for \$4 million in cash and \$2 million in Mungana shares.	15,500,000	1.63	812,295	57	13.45
Twin Hills Gold Mine	Queensland	Adv. Exploration	Jul-09	1,156.93	In July 2009, Heemskirk announced that in conjunction with its partner from the Pajingo JV, they agreed to acquire a 100% interest in the Twin Hills project from Gold One International for a consideration totaling A\$1.75 million.	830,000	7.29	194,536	66	9.00
White Dam Gold Mine	South Australia	Feasibility Study	May-13	1,428.48	Agreement between Polymetals and joint venture partner Exco, whereby Polymetals agreed to sell down its 50% interest in the White Dam gold mine and associated exploration tenements to Exco. In consideration for these assets, Polymetals reported (28/05/2013) it would receive A\$1.44M in cash. Resources stated at the time of the announcement were 5.42 Mt at a grade of 0.97 g/t Au	5,420,000	0.97	330,650	45	17.04

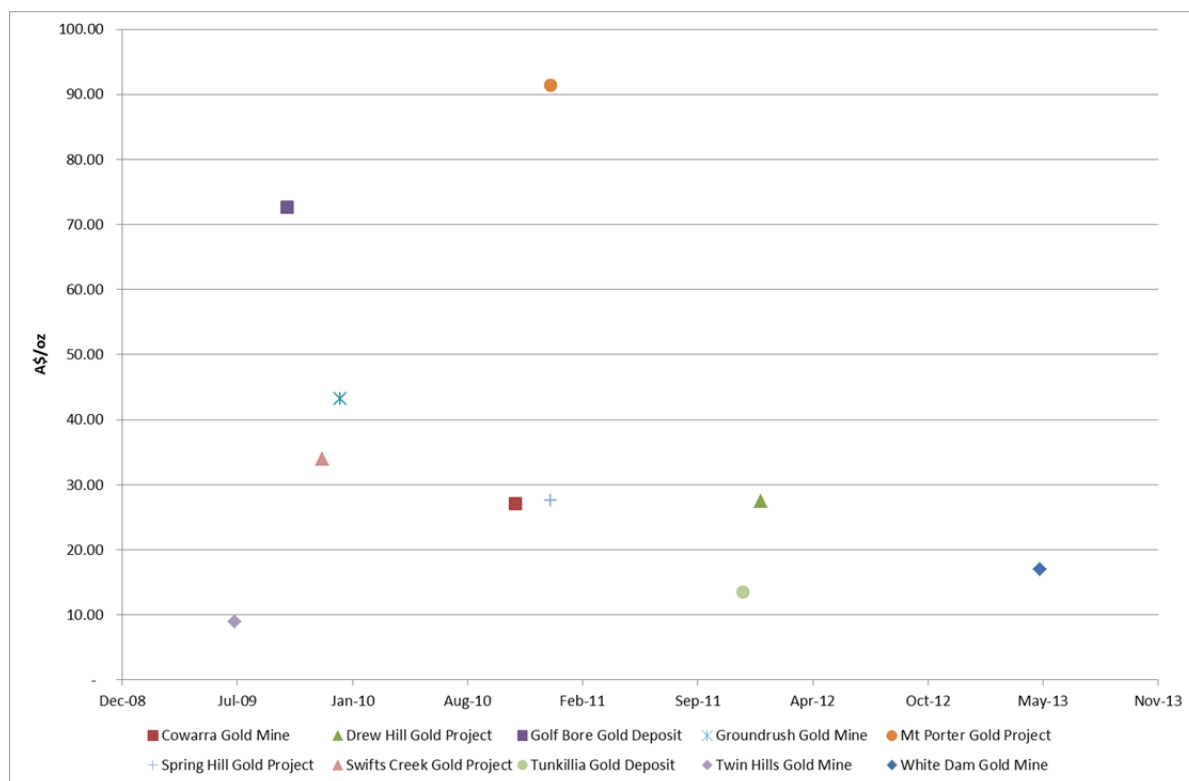
(Outlier transactions highlighted. Data sourced from Intierra and MEG databases)

**Table 6-3: Comparative Gold-Silver-Copper property transactions in Australia post-2008**

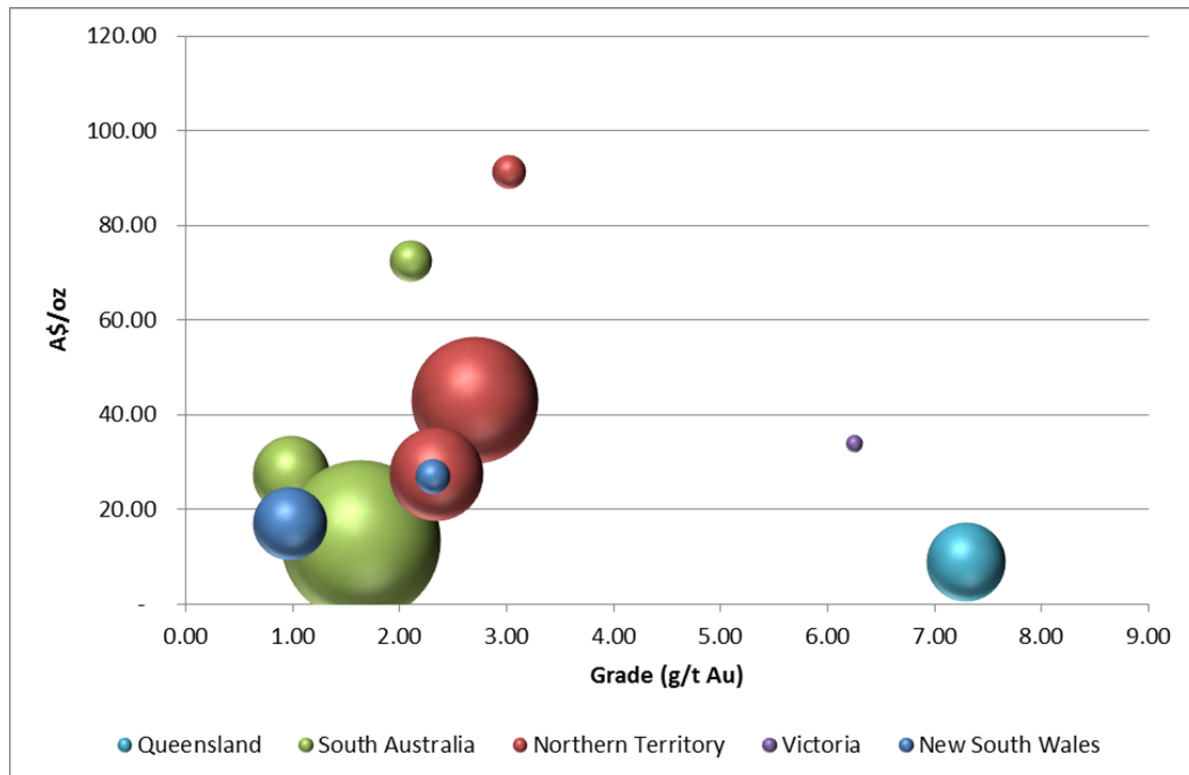
Project	Hera	Mayfield	Red Dome and Mungana	Tunkillia	Twin Hills '10	Twin Hills '09	Great Southern	Gullewa	Iron Blow
State	New South Wales	New South Wales	Queensland	South Australia	Queensland	Queensland	Western Australia	Western Australia	Northern Territory
Commodity	Gold, Zinc, Lead, Copper, Silver, Cobalt	Gold, Copper, Silver, Zinc, Iron Ore	Gold, Zinc, Silver, Copper, Lead, Molybdenum	Gold, Silver	Gold, Silver	Gold, Silver	Gold, Silver, Copper, Lead, Zinc	Gold, Copper, Silver	Gold, Silver, Lead, Zinc, Copper
Stage	Preproduction	Reserves Development	Pre-Production	Feasibility	Feasibility		Feasibility	Pre-Production	Reserves Development
Date	Jun-09	Apr-09	May-10	Dec-11	Sep-10	Jul-09	Mar-12	Jul-10	Dec-12
Gold price (A\$/oz)	1,175.42	1,245.87	1,377.23	1,626.98	1,353.61	1,156.93	1,588.21	1,364.41	1,607.94
Silver price (A\$/oz)	18.03	17.26	20.89	29.80	21.63	16.38	31.07	20.28	30.35
Copper price (A\$/tonne)	6,176.76	6,065.42	8,053.80	7,437.48	8,330.92	6,298.20	8,291.67	7,495.27	7,671.42
Cobalt price (A\$/pound)	17.99	21.68	24.99	13.26	18.30	21.87	13.08	20.08	12.89
Zinc price (A\$/tonne)	1,584.00	1,767.38	2,318.46	2,018.51	2,175.44	1,893.49	2,001.54	1,901.85	1,964.97
Lead price (A\$/tonne)	2,063.66	1,903.72	2,217.53	1,949.09	2,339.92	2,027.06	2,048.64	2,044.27	2,195.49
Molybdenum price (A\$/tonne)	31,846.19	35,567.79	32,585.08	27,569.91	32,585.08	31,203.96	28,840.61	17,582.91	23,174.69
Seller	CBH Resources Ltd	Monaro Mining NL and Robertsconsulting Pty Ltd	Kagara Ltd	Minotaur Exploration Ltd	Heemskirk Consolidated Ltd	Gold One International Limited	Phillips River Mining Limited	ATW Gold Corp	Crocodile Gold Corp
Synopsis	In June 2009, CBH Resources entered into an agreement with YTC Resources for the sale of its 100% interest in Hera and 80% interest in Nymagee for A\$12 million.	In April 2009, Capital Mining entered an agreement with Monaro Mining to earn up to a 75% interest in Mayfield by spending A\$200,000 on exploration.	In May 16, 2010, Kagara announced that the Chinese government had approved a \$20.8 million (A\$23.8 million) investment by Chinese state-owned Guangdong Foreign Trade Group (GFTG) in Kagara's gold spinoff, Brisbane-based Mungana Goldmines.	Minotaur Exploration Limited entered into a binding conditional agreement to sell its share of the Tunkillia gold project to Mungana Goldmines Ltd for A\$4M cash and \$2M in shares.	As of December 2010, Heemskirk divested its 40% interest Pajingo to Conquest for a total of \$43.8 million.	Gold One sold the Twin Hills Project for A\$1.75M in cash. North Queensland Metals acquired 60% of the project, and Heemskirk acquired 40%.	In late March 2012, Silver Lake Resources and Phillips River Mining announced an agreement whereby Silver Lake would acquire a 100% interest in the Great Southern project for A\$21 million in shares.	In July 2010, ATW entered into an agreement with Mutiny Gold whereby Mutiny could earn an interest in the Gullewa project. Mutiny could earn up to a 70% interest in the project by making all exploration and development expenditures and paying to ATW a total of A\$9 million. An additional 30% could be earned by completing a positive feasibility study and making an additional A\$4 million payment.	In December 2012, Crocodile Gold entered into a binding letter of intent with Pitchblack Resources Ltd, to sell a 90% interest in six properties including Iron Blow/Mt Bonnie and Maud Creek. As consideration for the acquisition of the properties, Pitchblack would pay \$500,000 cash, 10% of its issued equity, and incur \$4 million in exploration within two years of signing a definitive agreement.
Equity	100%	75%	16%	54.94%	40%	100%	100%	100%	90%
Price (A\$)	12,000,000	200,000	23,800,000	6,000,000	43,800,000	1,750,000	21,000,000	13,000,000	4,355,401
100% Price	12,000,000	266,667	148,750,000	10,921,005	109,500,000	1,750,000	21,000,000	13,000,000	4,839,334
Tons	3,300,000	1,550,000	72,300,000	15,500,000	3,745,000	830,000	20,005,000	3,320,000	3,174,876
grade Au (g/t)	2.67	1.04	0.8	1.63	3.06	7.3	1.69	5.31	2.08
Ounces Au	283,282	51,827	1,859,614	812,295	368,441	194,803	1,086,975	566,796	212,317
grade Ag (g/t)	15.13	7	5.6	3.29	2.99	9	28.25	5.19	100.9
Ounces Ag	1,605,267	348,838	13,017,297	1,639,540	360,012	240,168	18,169,856	553,987	10,299,412
grade Cu (%)	0.18	0.3	0.25				0.74	0.76	0.19
Tonnes Cu	5,940	4,650	180,750	-	-	-	148,037	25,232	6,032
Grade Zn (%)	3.35	0.48					0.7		3.28
Grade Pb (%)	2.72	0.11					1.19		0.76
Au metal ratio grade (g/t)	2.90	1.14	0.88	1.69	3.11	7.43	2.24	5.39	3.98
Au metal ratio (ounces)	307,949	56,662	2,057,072	842,325	374,194	198,203	1,442,535	575,032	406,753
% Ind+Meas	51.5	0	56.0	56.8	60.4	66.3			
\$/oz Au	42.36	5.15	79.99	13.44	297.20	8.98	19.32	22.94	22.79
\$/oz Au metal ratio	38.97	4.71	72.31	12.97	292.63	8.83	14.56	22.61	11.90

Note: (Outlier transactions highlighted. Data sourced from Intierra and MEG databases)



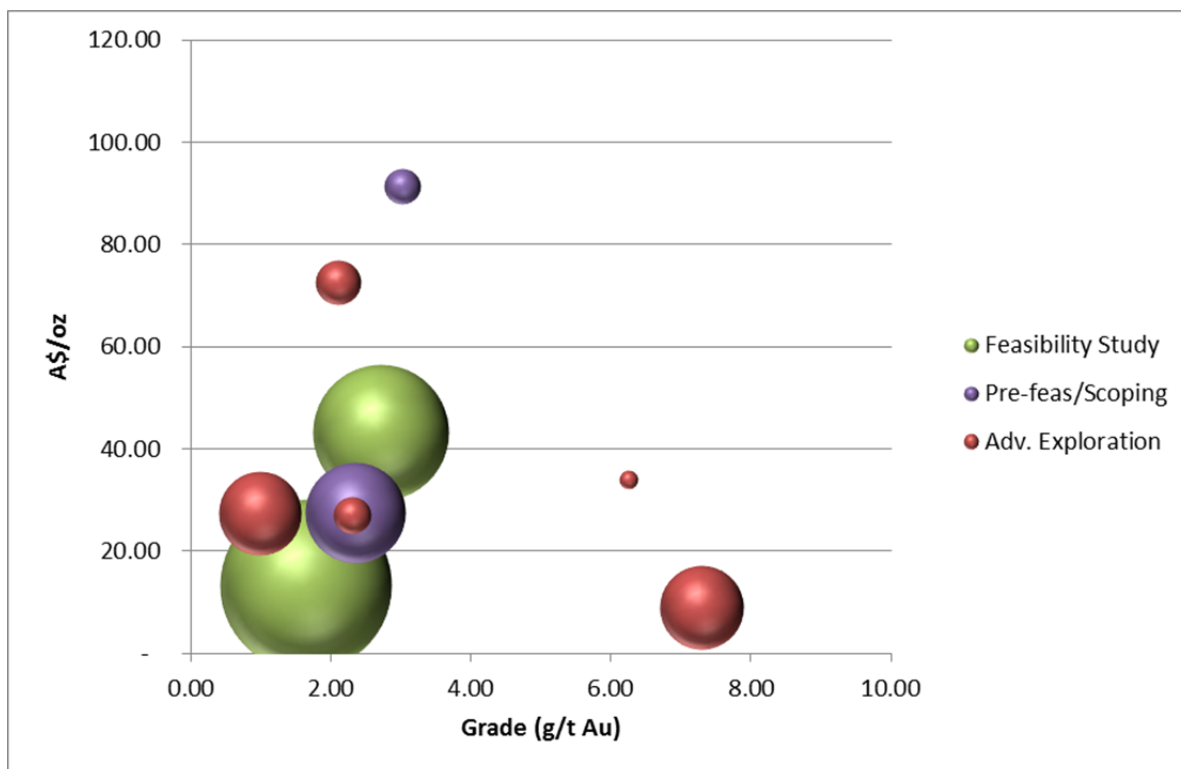


**Figure 6-5: Gold Resource Transactions in Australia Post-2008 (outliers excluded)**



**Figure 6-6: Gold Resource Transactions by State (outliers excluded)**

Note: Bubble size represents Au resource ounces

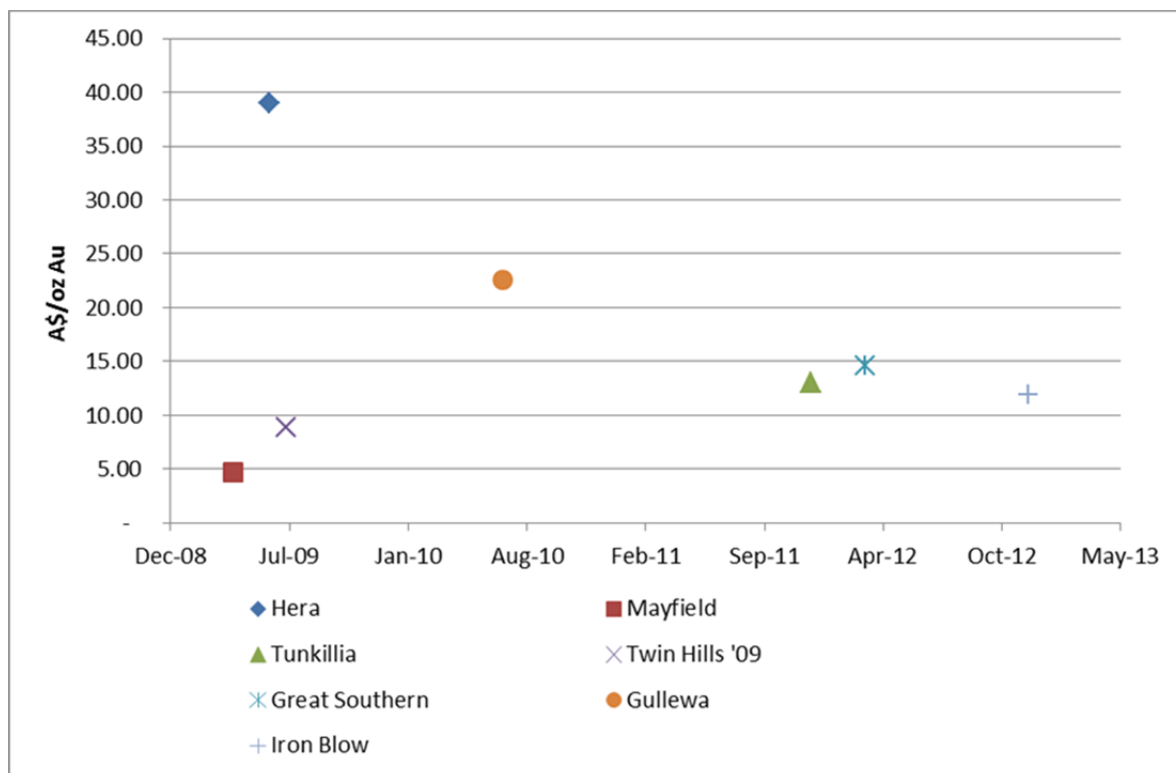


**Figure 6-7: Gold Resource Transactions by Project Status (outliers excluded)**

Note: Bubble size represents Au resource ounces

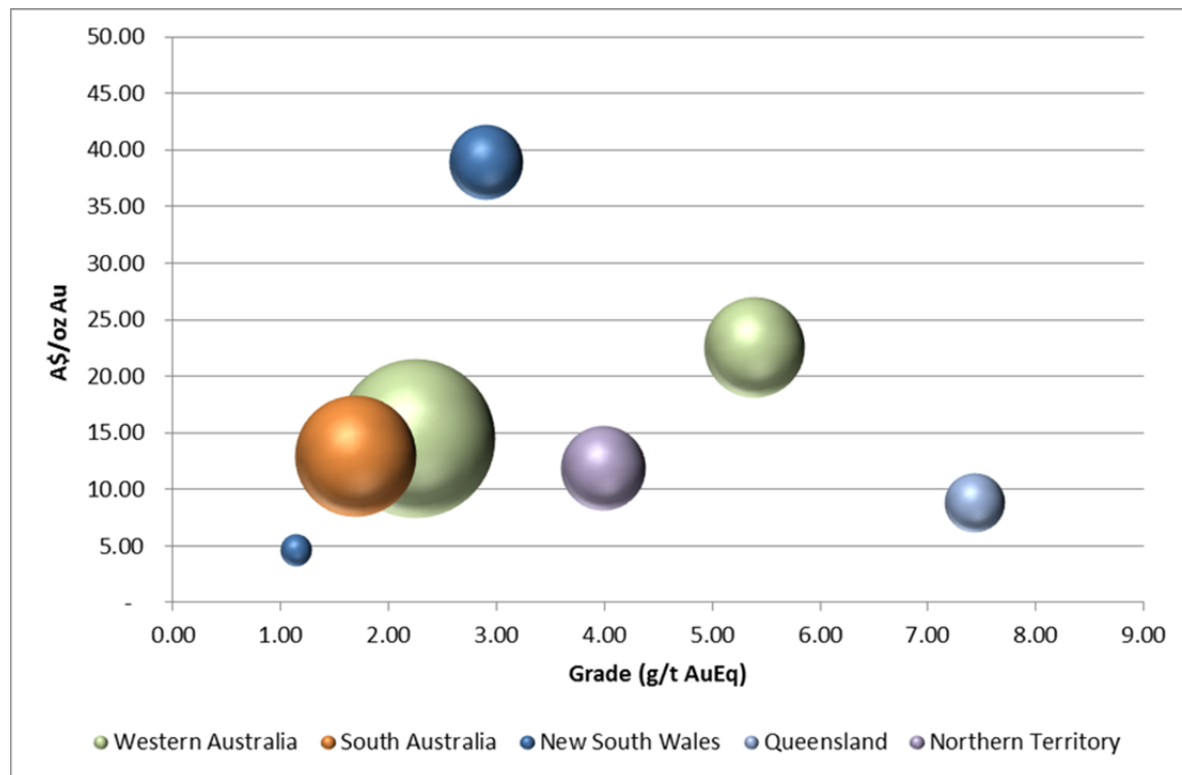
**Table 6-4: Analysis of gold transactions (A\$/oz Au)**

	December 2013 Comparative transaction summary
<b>No. of transactions</b>	10
<b>Minimum</b>	9.00
<b>Maximum</b>	91.39
<b>Median</b>	27.49
<b>Weighted Average</b>	25.71



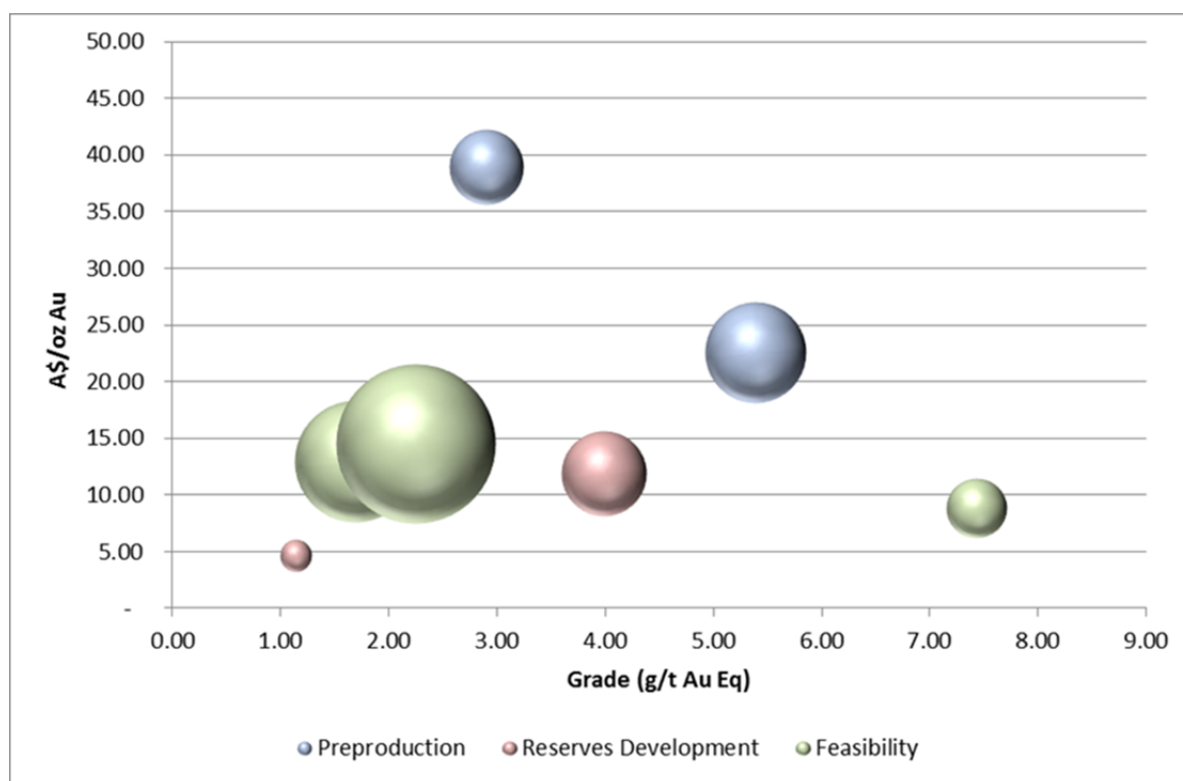
**Figure 6-8: Gold, Silver, Copper Resource transactions in Australia post-2008 (Outliers excluded)**

Note: Au resource metal ratio ounces



**Figure 6-9: Gold, Silver, Copper Resource transactions by state (Outliers excluded)**

Note: Bubble size represents Au resource metal ratio ounces



**Figure 6-10: Gold, Silver, Copper Resource transactions by project status (Outliers excluded)**

Note: Bubble size represents Au resource metal ratio ounces

**Table 6-5: Analysis of Gold-Silver-Copper transactions (A\$/oz per Au metal ratio)**

	All transactions		Outliers excluded	
No. of transactions	9		7	
	\$/oz Au	\$/oz Au metal ratio	\$/oz Au	\$/oz Au metal ratio
Minimum	5.15	4.71	5.15	4.71
Maximum	297.20	292.63	42.36	38.97
Median	22.79	14.56	19.32	12.97
Weighted Average	59.24	51.44	19.88	16.65

## 6.2.4 Gold - Comparison with Yardstick Method

In the Yardstick method of valuation, specified percentages of the spot price of the metal is used to value the Resources. Commonly used Yardstick factors are:

- Not in reported resource: <0.5% of spot price
- Inferred Resources: 0.5% to 1% of spot price
- Indicated Resources: 1% to 2% of spot price
- Measured Resources: 2% to 5% of spot price

SRK notes that the Yardstick Method is not generally considered to be a suitable primary Valuation method, but is considered an acceptable secondary Valuation method (Lawrence, 2012). In this case, SRK is of the opinion that the Yardstick valuation method supports the Valuation Range derived from the analysis of Comparable Transactions.

Using a gold price of A\$ 1,362.96/oz (average of December 2013), the factor derived from the analysis of comparative transactions (A\$17.67/oz) equates to approximately 1.30% of the spot price, which is in line with the generally accepted Yardstick factor for Indicated Resource. SRK notes that approximately 68% of the Mungana Resources and 66% of the Red Dome Resources have been classified by MUX as being above Inferred, i.e. either Indicated or Measured. As outlined previously, SRK's opinion is that the stated global figures for each deposit's Mineral Resources are acceptable as representation of global grades and tonnages. Therefore, the various resource classifications have not been valued separately.

For the nine (9) comparative transactions considered in deriving the valuation factor, the median was 57% or Resources above Inferred, and the weighted average was 70% above Inferred.

SRK prefers to rely on the actual factor derived from the analysis of the comparative transactions, as this is relevant to the particular style of mineralisation, geographic area and specific market conditions prevailing.

### 6.2.5 Base Metals Comparable Market Transactions

SRK considered a database of 10 transactions of exploration ground that was prospective for polymetallic base metal mineralisation, primarily zinc and copper, during the period January 2009 to December 2013. Of these 10 transactions, only eight (8) contained sufficient information necessary to analyse the transactions (Table 6-6).

SRK analysed these eight (8) transactions in terms of the price paid per square kilometre of tenement (Table 6-7), and related this to the copper and zinc prices at the time of the transactions.

The price paid per square kilometre of tenement was calculated by dividing the effective price paid for the tenement package by the area of the tenement package, to derive an implied \$/km<sup>2</sup> price. This was then normalised by multiplying the implied \$/km<sup>2</sup> price by the commodity price averaged over December 2013 divided by the commodity price (in \$/t) at the time of the transaction. This is shown for copper and zinc in the last two columns of Table 6-6 respectively.

In general, projects that contained current known Resources were valued much more highly than those that did not include current Resources and very large tenement areas were effectively valued lower on an area basis, even though the overall transaction price may still have been substantial.

SRK prefers to rely on the actual factor derived from the analysis of the comparative transactions, as this is relevant to the particular style of mineralisation, geographic area and specific market conditions prevailing.

SRK has also considered a database of 12 transactions which had estimated polymetallic base metal resources, primarily zinc and copper, at the time of the transaction, during the period January 2009 to December 2013 (Table 6-7).

**Table 6-6: Comparable base metal exploration ground transactions in the period January 2009 to December 2013**

Name	Location	Commodity	Date	Synopsis	\$/km <sup>2</sup>	Normalised to 27 Dec 2013 average Cu price	Normalised to 27 Dec 2013 average Zn price
Bonaparte	WA	Zn (Cu)	Aug-09	In August 2009, Mincor Resources entered an agreement with JOGMEC regarding its Bonaparte project, whereby JOGMEC would sole fund up to A\$2 million on exploration at Bonaparte. JOGMEC would spend a minimum of A\$430,000 within one year, may spend another A\$770,000 over a second year to earn a 24% interest, and another A\$800,000 to earn a 40% interest in the joint venture.	3,364.86	4,466.19	4,212.18
Yeneena	WA	Cu, Zn, Mn	Jan-09	In January 2009, Encounter Resources reported that it was earning a 75% interest in the Yeneena JV from Barrick Gold of Australia through the expenditure of \$2.8 million (A\$3 million) over five years.	1,163.02	2,955.02	2,233.61
Punt Hill	SA	Cu, Au, Zn, Ag, Pb	Sep-10	In September 2010, Monax Mining signed an option agreement with Antofagasta regarding its Punt Hill project whereby Antofagasta could earn a 51% interest in Punt Hill by spending \$4 million over four years.	3,466.28	3,522.11	3,632.59
Red Sky	Canada	Cu, Au, Zn	Sep-11	In September 2011, Colorado Resources announced an agreement with Kinross Gold regarding Colorado's Red Sky project whereby Colorado must spend C\$500,000 on exploration at the project before December 31, 2011; under certain terms and conditions, Kinross may elect to opt into a 50/50 joint venture at Red Sky and may further increase its interest to 75% by spending twice the amount spent by Colorado.	2,755.09	3,161.61	3,298.87
Lemieux Dome	Canada	Zn, Pb, Ag, Cu	Jan-12	In January 2012, Threegold entered a letter of agreement to sell its interest in the Lemieux Dome project to Capstock Financial for \$3.5 million (C\$3.5 million) in shares.	19,068.25	18,391.13	20,462.70
Arroyo Amarillo	Mexico	Cu, Au, Ag, Pb, Zn	Jun-11	In June 2011, Evrim Resources signed an option agreement with Vale Exploration Canada, a subsidiary of Vale SA, whereby Vale may acquire up to a 70% interest in Evrim's Arroyo Amarillo polymetallic project in Mexico. Vale will spend \$500,000 on exploration and pay \$50,000 in year one, at which time it may back out or elect to spend \$3.5 million on exploration and make payments totalling \$350,000 in year two to four to earn a 60% interest. Vale may elect to earn a further 10% interest by sole-funding and delivering an NI 43-1010-compliant feasibility study within 48 months of exercising the first option.	18,640.16	16,401.76	18,385.39
Norrmyran	Sweden	Cu, Zn	Jan-12	Antofagasta selected a second designated project--Norrmyran--under the 2011 copper exploration alliance with Eurasian Minerals (EMX) in Sweden. Antofagasta can earn an initial 51% interest in Norrmyran by spending a total of \$5 million over five years and making a one-time cash payment to EMX.	25,724.15	24,810.67	27,605.34
Bakir Tepe	Turkey	Cu, Au, Ag, Zn	Nov-09	In November 2009, KEFI Minerals entered a letter of intent with Centerra Gold for a joint venture at KEFI's Bakir Tepe project whereby Centerra could earn a 51% interest in the project by contributing \$750,000 to the joint venture over two years with a minimum expenditure of \$350,000 in the first year.	14,709.44	18,031.40	15,293.02

Input data sourced from MEG and Intierra databases

Note transactions highlighted in green relate to Australian properties

Table 6-7: Comparative polymetallic resource transactions in Australia for the period January 2009 to 27 December 2013

Name	Date	State	Synopsis	Seller	Buyer	Price (A\$)	Equity	100% Price	Tonnage	Zn Grade	Zn Contained	Cu Grade	Cu Contained	Pb Grade	Pb Contained	Ag Grade	Ag Contained (oz)	Au Grade	Au Contained
Walford Creek	May-11	Qld	In May 2011, Copper Strike entered into an agreement for the sale of the Walford Creek project to Aston Copper Pty Ltd as trustee for the Aston Copper Trust, for a cash sum of \$2.6 million (A\$2.5 million).	Copper Strike Ltd	Aston Copper Trust	2,600,000	100%	2,600,000	6,500,000	2.1%	137,000	0.60%	39,000	1.60%	104,000	25g/mt	5,224,000		
Mount Windsor	Dec-09	Qld	In December 2009, Liontown reached an agreement to sell the Liontown deposit to Kagara for \$4.1 million (A\$4.5 million) shares (\$2.05 million) and cash (\$2.05 million), the cash would be paid upon commencement of mining. Liontown would retain the gold rights to the property. (Kagara PR 12/29/09)	Liontown Resources	Kagara	4,100,000	100%	4,100,000	1,845,000	7.46%	138,000	0.56%	10,000	2.42%	45,000	27.938g/mt	1,657,000	0.55g/mt	33,000
Lady Loretta	Feb-11	Qld	In February 2011, Cape Lambert entered an agreement with Xstrata's wholly-owned subsidiary Noranda Pacific to sell its 25% joint venture interest in Lady Loretta for \$30.4 million (A\$30 million). Completion of the transaction was scheduled for 30 days after approvals were received. (Cape Lambert PR 2/4/11)	Cape Lambert Resources	Xstrata	30,400,000	25%	121,600,000	13,700,000	16.95%	2,322,000			5.79%	793,000	95.66g/mt	42,134,000		
Einasleigh	Jul-11	Qld	In July 2011, Kagara Ltd proposed to offer Copper Strike \$17.1 million (A\$16 million) and the cancellation of Kagara's 17.5% shareholding in Copper Strike valued at \$3.1 million, for a total consideration of \$20.2 million, in exchange for a 100% interest in Einasleigh. Taifeng HK and Jintai had 15 days to make a superior offer. (Copper Strike PR 7/5/11)	Copper Strike Ltd	Kagara	20,200,000	100%	20,200,000	21,565,000	1.17%	253,000	0.78%	167,000	0.47%	101,000	16.09g/mt	11,154,000	0.1g/mt	66,000
Panorama	Jan-11	WA	In January 2011, Venturex Resources entered a conditional agreement with CBH Resources to acquire a 100% interest in Panorama for A\$26.2 million (\$25.9 million) and a zinc offtake agreement with CBH's 95.6%-owner, Japanese smelter Toho Zinc. Venturex would finance the acquisition through an A\$36.8 million capital raising. (Venturex PR 1/21/11)	CBH Resources (Toho Zinc)	Venturex Resources	25,900,000	100%	25,900,000	19,300,000	3.14%	606,000	1.16%	224,000	0.20%	39,000	16.11g/mt	9,996,000		
Prairie Downs	Jun-10	WA	In mid-June 2010, Priaire Downs announced it signed an agreement with Ivernia giving Ivernia an option to earn up to 80% of the Prairie Downs project by investing \$9 million (A\$10 million) in exploration and issuing \$9 million (A\$10 million) in cash and shares to Prairie Downs.	Prairie Downs Metals	Ivernia Inc	18,000,000	80%	22,500,000	2,980,000	4.94%	147,000			1.59%	47,000	14.98g/mt	1,435,000		
Mount Cannindah	Dec-10	Qld	Planet Metals announced that it had signed a farm-in agreement with Drummond Gold Limited (ASX Code: DGO), whereby Drummond can earn up to 75% of the Mount Cannindah copper-gold project by spending \$6.75 million over a period of 4 years and 9 months. The project includes approximately 6km2 of granted mining leases and two surrounding EPMs.	Drummond Gold	Planet Metals	6,750,000	75%	9,000,000	7,470,000			0.97%	72,459					0.38	100,129
Bushranger	Sep-11	NSW	Newmont will have a 12 month option period ("Option Period") to evaluate the Bushranger Copper Project, during which time it must spend a minimum of A\$250,000 At any time during that 12 month period, Newmont can elect to exercise the option, and earn a 51% interest in the Bushranger Copper Project by spending a total of A\$1 million (including expenditures during the Option Period) over a period of 2 years from the date of the Agreement (the Farm In Period)	Lachlan Star	Newmont Exploration Pty	1,000,000	51%	1,960,784	27,700,000			0.45%	125,037			1.85	1,646,678	0.045	39,996
Menninnie Dam	Oct-12	SA	Musgrave Minerals Ltd announced that it has entered into a Heads of Agreement with Menninnie Metals Pty Ltd to earn up to a 75% interest in the Menninnie Dam silver-lead-zinc project in South Australia. Musgrave will commit to a minimum of \$1 million of expenditure on the project within the first 12 months. Musgrave will then have the option to spend an additional \$5 million on the project in a further four years to earn a 51% interest in the Project.	Menninnie Metals Pty	Musgrave Minerals	6,000,000	51%	11,764,706	7,700,000	3.10%	240,150			2.60%	201,360	27	6,682,212		
Myrtle	Oct-10	NT	Rox Resources Limited ("Rox", ASX: RXL) agreed the key terms of a farm-in and joint venture with Teck Australia Pty Ltd. Teck may sole fund an initial \$5 million to earn a 51% interest and a total of \$15 million expenditure to ultimately earn a 70% interest.	Rox Resources	Teck Australia Pty	15,000,000	70%	21,428,571	43,600,000	4.09%	1,780,000			0.95%	412,000				
Nanadie Well	Dec-13	WA	Under the terms of the Nanadie Well Farmin and Joint Venture Letter Agreement, Mithril can earn an initial 60% interest in the project tenements (ELs 51/1040, 1270, 1351, 1285, and EL20/797) by completing expenditure of \$2M within 4 years. Mithril can elect to earn a further 15% interest in the project tenements by completing additional expenditure of \$2M over a further 2 years (in total \$4M over 6 years to earn 75%).	Intermin Resources	Mithril Resources	4,000,000	75%	5,333,333	36,070,000			0.42%	151,494					0.064	74,219
Peelwood	Dec-13	NSW	Balamara Resources announced an agreement with UK AIM-listed company CEB Resources to farm into its Peelwood Zinc-Copper Project located in NSW, Australia. Under the agreement, CEB can earn up to a 49% interest in the Peelwood Project by spending \$1.2 million in three tranches over 12 months.	CEB Resources	Balamara Resources	1,200,000	49%	2,448,980	895,000	3.94%	35,339	0.80%	7,176	0.73%	7,014	16	445,770		

Notes: Data sourced from Intierra and MEG databases (now SNL).

**Table 6-8: Analysis of comparable base metal exploration ground transactions for the period January 2009 to December 2013**

Number of transactions		Total Transactions	Australian Transactions
		8	3
Range	\$/km <sup>2</sup>	1,163 – 25,724	1,163 – 3,466
	Normalised Cu price	2,955 – 24,811	2,955 – 4,466
	Normalised Zn price	2,233 – 27,605	2,233 – 4,212
Median	\$/km <sup>2</sup>	9,088	3,365
	Normalised Cu price	10,434	3,522
	Normalised Zn price	9,753	3,633
Weighted Average	\$/km <sup>2</sup>	5,083	2,470
	Normalised Cu price	5,803	3,487
	Normalised Zn price	5,804	3,166

The resource transactions in Table 6-7 above were analysed according to the stated total transaction values. All values and factors quoted are in Australian dollars. Metal ratio tonnes and ounces were calculated using the stated metal grades of the declared resources at the time of the transaction. This has allowed SRK to apportion the in-situ value of the resources by multiplying tonnes or ounces by the metal price at the time of the transaction, and then determine which percentage of the total transaction value should be attributed to each metal stated in the resource. SRK notes that this method does not account for differences in recoveries of the various elements, and implicitly assumes total recoverability.

The A\$110.04 per tonne of Zn implied by the Prairie Downs transaction was considered to be a high outlier, and the transaction was eliminated. This was considered justified as there are significant non-JORC compliant reserves in this project, and it is more advanced in terms of resource categories.

The A\$5.18 per tonne of Zn implied by the Walford Creek transaction was considered to be a low outlier, and the transaction was removed. This was considered justified by the fact that the project had a very low zinc grade.

SRK has not removed Cu outliers of the transactions due to the fact that the Cu Median and Average values when considering the remaining 10 transactions were very similar.

SRK has considered the **average** implied A\$ per tonne of Zn, Cu, Pb or per ounce of Ag and Au of the 10 transactions (Zn outliers removed) on the valuation of KZL assets, as presented in Table 6-9 below.

SRK's approach to the valuation of Base Metals Pre-Development projects is to value them using the valuation factors derived from the analysis of comparative market transactions and the Metal Transaction Ratio (MTR), which is the ratio of the transaction value to the gross dollar metal content, expressed as a percentage (Roscoe, 2012).



**Table 6-9: Analysis of comparable base metal resource transactions (A\$/t Cu, A\$/t Zn) for the period January 2009 to 27 December 2013**

With Outliers Considered	Zinc	Copper	Lead	Silver	Gold	MTR
Average	28.86	59.24	29.41	0.31	8.71	1.12%
Median	16.72	56.93	18.46	0.24	8.54	0.70%
Weighted Average	23.94	52.50	26.50	0.31	9.75	
Without Zn Outliers	Zinc	Copper	Lead	Silver	Gold	MTR
Average	20.65	64.45	22.41	0.24	8.71	0.81%
Median	16.72	63.55	18.46	0.24	8.54	0.70%
Weighted Average	22.14	54.08	25.96	0.31	9.75	

Note: MTR – Metal Transaction Ratio.

### 6.2.6 Base Metals - Comparison with Yardstick Method

In the Yardstick method of valuation, specified percentages of the spot price of the metal is used to value the Resources.

Commonly used Yardstick factors are:

- Not in reported Resource: <0.5% of spot price
- Inferred Resources: 0.5% to 1% of spot price
- Indicated Resources: 1% to 2% of spot price
- Measured Resources: 2% to 5% of spot price

SRK notes that the Yardstick Method is not generally considered to be a suitable primary Valuation method, but is considered an acceptable secondary Valuation method (Lawrence, 2012). In this case, SRK is of the opinion that the Yardstick valuation method supports the Valuation Range derived from the analysis of Comparable Transactions.

Using a zinc price of A\$ 2,198.40/t (average December 2013), the factor derived from the analysis of comparative transactions (A\$20.65) equates to approximately 0.94% of the spot price, which is in line with the generally accepted Yardstick factor for Inferred Resources. Using a copper price of A\$ 8,031.08/t (average December 2013), the factor derived from the analysis of comparative transactions (A\$64.45) equates to approximately 0.80% of the spot price, which is in line with the generally accepted Yardstick factor for Inferred Resources. As outlined previously, SRK's opinion is that the stated global figures for each deposit's Mineral Resources are acceptable as Inferred Resources only.

SRK prefers to rely on the actual factor derived from the analysis of the comparative transactions, as this is relevant to the particular style of mineralisation, geographic area and specific market conditions prevailing.

## 6.3 Valuation Basis

SRK has considered the declared Resources associated with the Mungana, Red Dome, Griffiths Hill/Red Dome and King Vol, the Exploration Targets associated with Red Dome Leach Pad, Shannon-Zillmanton, Mungana Base Metal Lode, Montevideo, Penzance, Victoria, Queenslander and Morrisons deposits, as well as the areal extent and exploration potential of the granted exploration tenure (Table 6-10).

**Table 6-10: Valuation Basis of the Exploration Assets**

Mineral Asset	Tenements	Development Stage	Valuation basis
Mungana/Mungana Base Metal Lode	ML 20640, ML 5319	Pre-Development / Advanced Exploration	Declared Resources / Exploration Target
Red Dome	ML 5176, ML 4928, ML 4977	Pre-Development	Declared Resources
Griffiths/Red Dome	ML 5176, ML 4928, ML 4977	Pre-Development	Declared Resources
King Vol	MLA 20658	Pre-Development	Declared Resources
Red Dome Leach Pad	ML 5176, ML 4928, ML 4977	Advanced Exploration	Exploration Target ounces
Shannon-Zillmanton	ML 4910, ML 4911, ML 4921	Advanced Exploration	Exploration Target ounces
Chillagoe (GRA)	EPM 7672, EPM 12902, EPM 14104, EPM 14108, EPM 15458, EPM 15459, EPM 18530	Exploration	Areal extent and exploration potential
Montevideo	EPM 7672	Advanced Exploration	Exploration Target
Penzance	EPM 15458	Advanced Exploration	Exploration Target
Victoria	EPM 15458	Advanced Exploration	Exploration Target
Queenslander	EPM 15458	Advanced Exploration	Exploration Target
Morrisons	EPM 15458	Advanced Exploration	Exploration Target
Chillagoe (100% MUX)	EPM 19064, EPM 19196	Exploration	Areal extent and exploration potential
Laura	EPM 19226	Exploration	Areal extent and exploration potential
OK Mines	EPM 19335	Exploration	Areal extent and exploration potential
Nyngan	EL 7751, EL 7752, EL8055, EL8053	Exploration	Areal extent and exploration potential

SRK notes that the VALMIN Code 2005 cautions against ascribing value to licenses under application. SRK is not aware of any competing applications but has applied a 30% discount to the valuation of tenements currently under application to account for the risk that the license applications may not be granted or that a reduced area might be approved.

King Vol is located within MLA 20658, which consists of an application license. However, the project is also within EL 15458 which consists of a granted exploration license. SRK has not applied a discount to account for the risk that the license may be not granted, as this valuation is focused on the resources and not reserves at this stage.

## 6.4 Valuation of Gold Predominant Pre-Development Projects as at 27 December 2013

SRK's approach to the valuation of Gold Predominant Pre-Development projects is to value them using the valuation factors derived from the analysis of comparative market transactions. This is cross-checked against the valuation range obtained using commonly applied Yardstick valuation approach.

SRK notes that in using the stated resource grades and the ratio of the metal prices to the gold price to calculate gold metal ratio ounces for these assets, the recoveries of the other metals is likely to be overstated, and the gold metal ratio ounces calculated is likely to be larger than what would be practically achievable.

### 6.4.1 Mungana Pre-Development Project

The Mungana Pre-Development Project resource consists of a total of 47.8 Mt at 0.68 g/t Au, 13 g/t Ag and 0.19 % Cu for 1,043,000 oz Au or approximately 1,622,000 oz Au metal ratio. SRK has considered comparable market transactions in valuing the Mungana Pre-Development Project. Due to the comparative technical risk inherent in Inferred Resources, SRK recommends a range of 35% above and below this target factor. This would yield a range of A\$12.0M to A\$24.9M on the basis of gold ounces, and A\$7.9M to A\$16.3M on the basis of gold metal ratio ounces.

The Yardstick factors of 0.5% to 2% of the spot price for Inferred and Indicated Resources would yield a range of A\$7.1M to A\$28.4M, using a spot price of A\$1,362.96/oz. This is in close agreement to the range derived using the factor obtained from the analysis of comparative transactions.

SRK suggests a preferred value towards the lower end of the suggested range, in recognition of the expected difficulties in converting the resources into reserves.

**SRK recommends that MUX's 100% interest in the Mungana Pre-Development Project, comprising 1,043,000 oz Au, be valued in the range A\$7.1M to A\$28.4M, with a preferred value of A\$12.0M.**

### 6.4.2 Red Dome Pre-Development Project

The Red Dome Pre-Development Project resource consists of a total of 75.1 Mt at 0.64 g/t Au, 5.2 g/t Ag and 0.22 % Cu, for 1,534,000 oz Au or approximately 2,142,000 oz Au metal ratio. SRK has considered comparable market transactions in valuing the Red Dome Pre-Development Project. Due to the comparative technical risk inherent in Inferred Resources, SRK recommends a range of 35% above and below this target factor. This would yield a range of A\$17.6M to A\$36.6M on the basis of gold ounces, and A\$11.6M to A\$24.0M on the basis of gold metal ratio ounces.

The Yardstick factors of 0.5% to 2% of the spot price for Inferred and Indicated Resources would yield a range of A\$10.5M to A\$41.8M, using a spot price of A\$1,362.96/oz.

SRK suggests a preferred value towards the lower end of the suggested range, in recognition of the expected difficulties in converting resources into reserves due to the existence of flooded pits, lower grade, depth of resources and metallurgical issues due to problematic clay mineralogy encountered in the oxide profile at Red Dome.

**SRK recommends that MUX's 100% interest in the Red Dome Pre-Development Project, comprising 1,534,000 ounces of gold, be valued in the range A\$10.5M to A\$41.8M, with a preferred value of A\$17.6M.**

## 6.5 Valuation of Base Metals Predominant Pre-Development Projects as at 27 December 2013

SRK's approach to the valuation of Base Metals Pre-Development projects is to value them using the valuation factors derived from the analysis of comparative market transactions and the Metal Transaction Ratio (MTR), which is the ratio of the transaction value to the gross dollar metal content, expressed as a percentage (Roscoe, 2012). This is cross-checked against the valuation range obtained using commonly applied Yardstick valuation factors.

### 6.5.1 Griffiths Hill/Red Dome Pre-Development Project

KZL has a 100% interest in the Griffiths Hill/Red Dome Pre-Development Project, a polymetallic deposit with a copper predominant resource and a zinc predominant resource. SRK has considered comparable market transactions in valuing the Griffiths Hill/Red Dome Pre-Development Project. Based on SRK's analysis of comparable market transactions, factors for all the metals reported as resources have been derived for the valuation of declared total resources.

Due to the comparative technical risk inherent in Inferred Resources, SRK recommends a range of 35% above and below this target factor. This would yield a range of A\$1.0M to A\$3.7M for the Griffiths Hill/Red Dome Pre-Development Project copper predominant deposit, and a range of A\$0.03M to A\$0.12M for the zinc predominant deposit, on the basis of metal price per tonne obtained through the analysis of zinc and copper predominant comparable transactions. The final range for Griffiths Hill/Red Dome has been considered as A\$1.0M to A\$3.8M.

The Yardstick factors of 0.5% to 1% of the all metals spot prices (average December 2013) for Inferred Resources would yield a range of A\$1.7M to A\$3.4M.

SRK has also determined a range of A\$2.4M to A\$2.7M when applying the MTR valuation method. The lower value has been based on the median MTR (0.71%) and the higher value based on the average MTR (0.81%). SRK's preferred value is the average of each method's lowest value, which is in agreement to the range derived by the three methods and the difficult economic/funding market conditions at the time of the transaction.

**SRK recommends that KZL's 100% interest in Griffiths Hill/Red Dome Pre-Development Project be valued in the range A\$1.0M to A\$3.8M, with a preferred value of A\$1.7M.**

### 6.5.2 King Vol Pre-Development Project

KZL has a 100% interest in the King Vol Pre-Development Project, a polymetallic zinc predominant deposit. SRK has considered comparable market transactions in valuing the King Vol Pre-Development Project. Based on SRK's analysis of comparable market transactions, factors for all the metals reported as resources have been derived for the valuation of declared total resources.

King Vol is located within MLA 20658, which consists of an application license. However, the project is also within EL 15458 which consists of a granted exploration license. SRK has not applied a discount to account for the risk that the license may be not granted, as this valuation is focused on the resources and not reserves at this stage.

Due to the comparative technical risk inherent in Inferred Resources, SRK recommends a range of 35% above and below this target factor. This would yield a range of A\$2.9M to A\$11.2M.

The Yardstick factors of 0.5% to 2% of the all metals spot prices (average December 2013) for Inferred and Indicated Resources would yield a range of A\$3.4M to A\$13.6M.

SRK has also determined a range of A\$6.8M to A\$7.8M when applying the MTR valuation method. The lower value has been based on the median MTR (0.71%) and the higher value based on the average MTR (0.81%). SRK's preferred value is the average of each method's lowest value, which is in agreement to the range derived by the three methods and the difficult economic/funding market conditions at the time of the transaction.

**SRK recommends that KZL's 100% interest in King Vol Pre-Development Project be valued in the range A\$2.9M to A\$11.2M, with a preferred value of A\$4.4M.**

## 6.6 Valuation of Advanced Exploration Areas as at 27 December 2013

SRK's approach to valuing the Advanced Exploration areas is to discount the valuation factor for declared resources that has been derived from the analysis of transactions, and to apply the discounted factor to the target ounces. This is cross-checked against the valuation range obtained using commonly applied Yardstick valuation factors for material not in the reported resource category.

### 6.6.1 Red Dome Leach Pad Advanced Exploration

MUX has a 100% interest in the Red Dome Leach Pad Advanced Exploration area, which has been considered by SRK to have an Exploration Target of 6.9 Mt to 7.3 Mt at 0.22 g/t to 0.41 g/t Au, based on current exploration work (including drilling) and historic surface contours.

Based on SRK's analysis of comparable market transactions, a factor of A\$17.67/oz has been derived for the valuation of declared Resource ounces, and A\$11.60/oz for gold metal ratio ounces. SRK considers the use of a further factor of 0.7 to be reasonable in deriving a valuation for the Red Dome Leach Pad Advanced Exploration area, in order to account for the greater technical risk inherent in Exploration Targets as opposed to declared Resources. This factor is higher than the factor used for the Shannon-Zillmanton Advanced Exploration Area, due to the quantity of recent exploration work that has gone into defining the Exploration Target.

Due to the comparative technical risk inherent in Exploration Targets, SRK recommends a range of 50% above and below this target factor. This would yield a range of A\$0.5M to A\$1.5M for the Red Dome Leach Pad Advanced Exploration area on the basis of gold ounces, and A\$0.3M to A\$1.0M on the basis of gold metal ratio ounces.

The Yardstick factor of 0.5% of the spot price for material not in declared Resources would yield a target value of A\$0.5M, using a spot price of A\$1,362.96/oz. This is lower than the range derived above, although it is close to the lower end of the range. SRK suggests a preferred value towards the lower end of the suggested range, in recognition of the low grades.

**SRK recommends that MUX's 100% interest in the Red Dome Leach Pad Advanced Exploration area be valued in the range A\$0.3M to A\$1.5M, with a preferred value of A\$0.5M.**

### 6.6.2 Shannon-Zillmanton Advanced Exploration

Mungana has a 100% interest in the Shannon-Zillmanton Advanced Exploration area, which has been considered by SRK to have an Exploration Target of 2.5 Mt to 5.1 Mt at 0.46 to 0.86 g/t Au, based on previous exploration work (including drilling) and internal resource estimates. SRK considers the use of a further factor of 0.5 to be reasonable in deriving a valuation for an Exploration Target, in order to account for the greater technical risk inherent in Exploration Targets as opposed to declared Resources.

Due to the comparative technical risk inherent in Exploration Targets, SRK recommends a range of 50% above and below this target factor. This would yield a range of A\$0.4M to A\$1.1M for the Shannon-Zillmanton Advanced Exploration area on the basis of gold ounces, and A\$0.2M to A\$0.7M on the basis of gold metal ratio ounces.

The Yardstick factor of 0.5% of the spot price for material not in declared Resources would yield a target value of A\$0.6M, using a spot price of A\$1,362.96/oz. This lies within the range derived above. SRK suggests a preferred value towards the lower end of the suggested range, in recognition of the low grades and difficult market conditions.

**SRK recommends that MUX's 100% interest in the Shannon-Zillmanton Advanced Exploration area be valued in the range A\$0.2M to A\$1.1M, with a preferred value of A\$0.4M.**

### 6.6.3 Mungana Base Metal Lode Advanced Exploration

KZL has 100% interest in the Mungana Base Metal Lode Advanced Exploration area, a polymetallic zinc predominant deposit. SRK has considered this project has an Exploration Target of 44,000 tonnes at 10.5% Zn, 1.9% Cu, 0.1% Pb, 0.9g/t Au and 124g/t Ag. Based on SRK's analysis of comparable market transactions, factors for all the metals reported as resources have been derived for the valuation of declared total resources.

Due to the comparative technical risk inherent in Exploration Targets, SRK recommends a range of 50% above and below this target factor. This would yield a range of A\$0.1M to A\$0.3M for the Montevideo Advanced Exploration area on the basis of metal price per tonne obtained through the analysis of zinc predominant comparable transactions.

The Yardstick factor of 0.5% of the spot price for material not in declared Resources would yield a target value of A\$0.1M, using average December 2013 metals spot prices.

SRK has also determined a range of A\$0.16M to A\$0.18M when applying the MTR valuation method. The lower value has been based on the median MTR (0.71%) and the higher value based on the average MTR (0.81%). SRK's preferred value is the average of each method's lower value, which is in agreement to the range derived by the three methods and the difficult economic/funding market conditions at the time of the transaction.

**SRK recommends that KZL's 100% interest in the Mungana Base Metal Lode Advanced Exploration area be valued in the range A\$0.1M to A\$0.3M, with a preferred value of A\$0.1M.**

### 6.6.4 Montevideo Advanced Exploration

KZL has 100% interest in the Montevideo Advanced Exploration area, a polymetallic zinc predominant deposit. SRK has considered this project has an Exploration Target of 720,000 tonnes at 7.7% Zn, 0.2% Pb and 7g/t Ag. Based on SRK's analysis of comparable market transactions, factors for all the metals reported as resources have been derived for the valuation of declared total resources.

Due to the comparative technical risk inherent in Exploration Targets, SRK recommends a range of 50% above and below this target factor. This would yield a range of A\$0.6M to A\$1.7M for the Montevideo Advanced Exploration area on the basis of metal price per tonne obtained through the analysis of zinc predominant comparable transactions.

The Yardstick factor of 0.5% of the spot price for material not in declared Resources would yield a target value of A\$0.6M, using average December 2013 metals spot prices.

SRK has also determined a range of A\$0.9M to A\$1.0M when applying the MTR valuation method. The lower value has been based on the median MTR (0.71%) and the higher value based on the average MTR (0.81%). SRK's preferred value is the average of each method's lower value, which is in agreement to the range derived by the three methods and the difficult economic/funding market conditions at the time of the transaction.

**SRK recommends that KZL's 100% interest in the Montevideo Advanced Exploration area be valued in the range A\$0.6M to A\$1.7M, with a preferred value of A\$0.7M.**

### 6.6.5 Penzance Advanced Exploration

KZL has 100% interest in the Penzance Advanced Exploration area, a polymetallic deposit with a copper predominant resource and a zinc predominant resource.

SRK has considered this project has a copper predominant Exploration Target of 228,000 tonnes at 1.3% Zn, 3.2% Cu, 0.2 g/t Au, and 58 g/t Ag.

SRK has also considered this project has a zinc predominant Exploration Target of 85,000 tonnes at 6.2% Zn, 0.2% Pb, 0.7% Cu, 0.1 g/t Au, and 19 g/t Ag.

Based on SRK's analysis of comparable market transactions, factors for all the metals reported as resources have been derived for the valuation of declared total resources.

Due to the comparative technical risk inherent in Exploration Targets, SRK recommends a range of 50% above and below this target factor. This would yield a range of A\$0.3M to A\$0.9M for the Penzance Advanced Exploration area copper predominant deposit, and a range of A\$0.08M to A\$0.2M for the zinc predominant deposit, on the basis of metal price per tonne obtained through the analysis of zinc and copper predominant comparable transactions. The final range for Penzance has been considered as A\$0.4M to A\$1.1M.

The Yardstick factor of 0.5% of the spot price for material not in declared Resources would yield a target value of A\$0.4M for the copper predominant deposit and of A\$0.9M for the zinc predominant deposit, and a total of A\$1.3M, using average December 2013 metals spot prices.

SRK has also determined a range of A\$0.6M to A\$0.7M when applying the MTR valuation method. The lower value has been based on the median MTR (0.71%) and the higher value based on the average MTR (0.81%). SRK's preferred value is the low MTR value, which is in agreement to the range derived using the factor obtained from the analysis of comparative transactions and the Yardstick method.

**SRK recommends that KZL's 100% interest in the Penzance Advanced Exploration area be valued in the range A\$0.4M to A\$1.3M, with a preferred value of A\$0.6M.**

### 6.6.6 Victoria Advanced Exploration

KZL has 100% interest in the Victoria Advanced Exploration area, a polymetallic zinc predominant deposit. SRK has considered this project has an Exploration Target of 3,440,000 tonnes at 5.1% Zn, 1.0% Cu, 0.1g/t Au and 22g/t Ag. Based on SRK's analysis of comparable market transactions, factors for all the metals reported as resources have been derived for the valuation of declared total resources.

Due to the comparative technical risk inherent in Exploration Targets, SRK recommends a range of 50% above and below this target factor. This would yield a range of A\$3.1M to A\$9.2M for the Victoria Advanced Exploration area on the basis of metal price per tonne obtained through the analysis of zinc predominant comparable transactions.

The Yardstick factor of 0.5% of the spot price for material not in declared Resources would yield a target value of A\$3.7M, using average December 2013 metals spot prices.

SRK has also determined a range of A\$5.1M to A\$5.8M when applying the MTR valuation method. The lower value has been based on the median MTR (0.71%) and the higher value based on the average MTR (0.81%). SRK's preferred value is the average of each method's lower value, which is in agreement to the range derived by the three methods and the difficult economic/funding market conditions at the time of the transaction.

**SRK recommends that KZL's 100% interest in the Victoria Advanced Exploration area be valued in the range A\$3.1M to A\$9.2M, with a preferred value of A\$4.0M.**

### 6.6.7 Queenslander Advanced Exploration

KZL has 100% interest in the Queenslander Advanced Exploration area, a polymetallic zinc predominant deposit. SRK has considered this project has an Exploration Target of 1,570,000 tonnes at 4.4% Zn, 0.2% Pb, 0.5% Cu and 12g/t Ag. Based on SRK's analysis of comparable market transactions, factors for all the metals reported as resources have been derived for the valuation of declared total resources.

Due to the comparative technical risk inherent in Exploration Targets, SRK recommends a range of 50% above and below this target factor. This would yield a range of A\$1.0M to A\$3.0M for the Queenslander Advanced Exploration area on the basis of metal price per tonne obtained through the analysis of zinc predominant comparable transactions.

The Yardstick factor of 0.5% of the spot price for material not in declared Resources would yield a target value of A\$1.2M, using average December 2013 metals spot prices.

SRK has also determined a range of A\$1.7M to A\$1.9M when applying the MTR valuation method. The lower value has been based on the median MTR (0.71%) and the higher value based on the average MTR (0.81%). SRK's preferred value is the average of each method's lower value, which is in agreement to the range derived by the three methods and the difficult economic/funding market conditions at the time of the transaction.

**SRK recommends that KZL's 100% interest in the Queenslander Advanced Exploration area be valued in the range A\$1.0M to A\$3.0M, with a preferred value of A\$1.3M.**

### 6.6.8 Morrisons Advanced Exploration

KZL has 100% interest in the Morrisons Advanced Exploration area, a polymetallic zinc predominant deposit. SRK has considered this project has an Exploration Target of 1,930,000 tonnes at 5.4% Zn, 0.3% Pb, 0.6% Cu, 0.1g/t Au and 21g/t Ag. Based on SRK's analysis of comparable market transactions, factors for all the metals reported as resources have been derived for the valuation of declared total resources.

Due to the comparative technical risk inherent in Exploration Targets, SRK recommends a range of 50% above and below this target factor. This would yield a range of A\$1.6M to A\$4.8M for the Morrisons Advanced Exploration area on the basis of metal price per tonne obtained through the analysis of zinc predominant comparable transactions.

The Yardstick factor of 0.5% of the spot price for material not in declared Resources would yield a target value of A\$1.9M, using average December 2013 metals spot prices.



SRK has also determined a range of A\$2.6M to A\$3.0M when applying the MTR valuation method. The lower value has been based on the median MTR (0.71%) and the higher value based on the average MTR (0.81%). SRK's preferred value is the average of each method's lower value, which is in agreement to the range derived by the three methods and the difficult economic/funding market conditions at the time of the transaction.

**SRK recommends that KZL's 100% interest in the Morrisons Advanced Exploration area be valued in the range A\$1.6M to A\$4.8M, with a preferred value of A\$2.0M.**

## 6.7 Valuation of MUX 100% Exploration Areas as at 27 December 2013

In valuing MUX's Exploration Areas, SRK has first removed the areas of the mining leases which contain the declared Resources and the Exploration Targets valued separately.

SRK has considered the expenditure requirement to maintain the tenements in good standing, the expenditure to date on the tenements, and the planned expenditure on the tenements, as disclosed by MUX. In addition, SRK has considered the exploration potential of the tenements in carrying out a modified Kilburn valuation of the tenements.

Finally, SRK considered the implied value of the ground holding by applying an area-based valuation factor derived from the analysis of comparative transactions.

### 6.7.1 Modified Kilburn Methodology

The Geoscientific or modified Kilburn method of valuation, as described by Kilburn (1990), attempts to quantify the relevant technical aspects of a property through the use of appropriate multipliers (factors) applied to an appropriate base (or intrinsic) value. The intrinsic value is referred to as the Base Acquisition Cost (BAC), and is critical as it forms the standard base from which to commence a valuation. It represents "the average cost to identify, apply for and retain a base unit of area of title".

Multipliers or factors are considered for Off-property aspects, On-property aspects, Anomaly aspects and Geological aspects. These multipliers are applied sequentially to the BAC to estimate the Technical Value for each tenement. A further Market Factor is then considered to derive a Fair Market Value.

SRK has used a BAC of A\$550/km<sup>2</sup> for Queensland, A\$1,210/km<sup>2</sup> for New South Wales, and A\$175/km<sup>2</sup> for South Australia. The values for Queensland and New South Wales are in line with recent valuation reports by Agricola, Xstract Mining Consultants and Optiro. The value for South Australia has been derived by SRK, based on the current application fees, expenditure commitments and average tenement holding size in South Australia.

SRK has assessed the Market Factor so that the average A\$/km<sup>2</sup> factor for all licenses assessed, is similar to the area-based valuation factor derived from the market analysis.

The rating criteria used for assessing the modifying factors are provided in Table 6-11 and the ratings per tenement are provided in Table 6-12, Table 6-13 and Table 6-14.

**Table 6-11: Geoscientific ratings table (after Xstract, 2010)**

Rating	Off Property Factor	On Property Factor	Anomaly Factor	Geological Factor
0.1				Unfavourable geological setting
0.5			Extensive previous exploration gave poor results	Poor geological setting
0.9			Poor results to date	Generally favourable geological setting, under cover
1	No known mineralisation in district	No known mineralisation on lease	No targets outlined	Generally favourable geological setting
1.5	Minor workings	Minor workings or mineralised zones exposed	Target identified, initial indications positive	
2	Several old workings in district	Several old workings or exploration targets identified		Significant grade intercepts evident, but not linked on cross or long sections
2.5			Significant mineralised zones exposed in prospective host rock	
3	Mine or abundant workings with significant previous production	Mine or abundant workings with significant previous production	Several economic grade intercepts on adjacent sections	
3.5				
4	Along strike from a major deposit (s)	Major mine with significant historical production		
5	Along strike from a world class deposit			
10		World class mine		

**Table 6-12: Modified Kilburn Valuation Table – MUX 100% Assets**

					Off property		On Property		Anomaly		Geology		Technical Value			Valuation		
Tenement	Holder	Area (km <sup>2</sup> )	BAC	Equity	Low	High	Low	High	Low	High	Low	High	Low	High	Market Factor	Low	High	Preferred
<b>Nyngan</b>		<b>755</b>	<b>913,188.79</b>	<b>100%</b>									<b>1,369,783</b>	<b>12,152,666</b>		<b>521,186</b>	<b>4,620,520</b>	<b>2,570,853</b>
EL 7751	MUNGANA GOLDMINES LTD	260	315,158.02	100%	1.5	3	1	1.5	1	2	1	2	472,737	5,672,844	0.40	189,095	2,269,138	1,229,116
EL 7752	MUNGANA GOLDMINES LTD	123	148,485.43	70%	1.5	3	1	1.5	1	1.5	1	2	222,728	2,004,553	0.40	62,364	561,275	311,819
EL 8055	NYNGAN GOLD PTY LTD	79	95,413.48	100%	1.5	3	1	1.5	1	1.5	1	2	143,120	1,288,082	0.40	57,248	515,233	286,240
EL 8053	NYNGAN GOLD PTY LTD	293	354,131.86	100%	1.5	3	1	1.5	1	1	1	2	531,198	3,187,187	0.40	212,479	1,274,875	743,677
<b>Chillagoe 100% MUX</b>		<b>354</b>	<b>194,652</b>	<b>100%</b>									<b>403,703</b>	<b>3,590,134</b>	0.40	<b>161,481</b>	<b>1,436,054</b>	<b>798,767</b>
EPM 19064	MUNGANA GOLDMINES LTD	26	14,398	100%	2	4	1.5	2	1	1.5	1	2	43,195	345,563	0.40	17,278	138,225	77,752
EPM 19196	MUNGANA GOLDMINES LTD	328	180,254	100%	2	4	1	1.5	1	1.5	1	2	360,508	3,244,570	0.40	144,203	1,297,828	721,016
<b>Laura Exploration Ground</b>		<b>211</b>	<b>116,086</b>	<b>100%</b>									<b>348,258</b>	<b>2,611,936</b>	0.40	<b>139,303</b>	<b>1,044,775</b>	<b>592,039</b>
EPM 19226	MUNGANA GOLDMINES LTD	211	116,086	100%	2	3	1.5	2	1	1.5	1	2.5	348,258	2,611,936	0.40	139,303	1,044,775	592,039
<b>OK Mines Exploration Ground</b>		<b>20</b>	<b>10,839</b>	<b>100%</b>									<b>21,679</b>	<b>146,330</b>	0.40	<b>6,070</b>	<b>40,972</b>	<b>23,521</b>
EPM 19335	MUNGANA GOLDMINES LTD	20	10,839	70%	2	3	1	1.5	1	1.5	1	2	21,679	146,330	0.40	6,070	40,972	23,521

**Table 6-13: Modified Kilburn Valuation Table – Chillagoe GRA before the Proposed Transaction**

					Off property		On Property		Anomaly		Geology		Technical Value			Valuation		
Tenement	Holder	Area (km <sup>2</sup> )	BAC	Equity	Low	High	Low	High	Low	High	Low	High	Low	High	Market Factor	Low	High	Preferred
<b>Chillagoe</b>		<b>616</b>	<b>338,681</b>	<b>50%</b>									<b>2,497,626</b>	<b>23,326,689</b>	0.40	<b>499,525</b>	<b>4,665,338</b>	<b>2,582,431</b>
EPM 7672	KAGARA LTD	82	45,093	50%	2	4	1.5	3	1.5	2.5	1	2.5	202,917	3,381,943	0.40	40,583	676,389	358,486
EPM 12902	KAGARA LTD	46	25,159	50%	2	4	1	1.5	1	1.5	2	2.5	100,635	566,074	0.40	20,127	113,215	66,671
EPM 14104	KAGARA LTD	16	9,021	50%	2	4	1	1.5	1	1.5	1	2	18,041	162,370	0.40	3,608	32,474	18,041
EPM 14108	KAGARA LTD	79	43,293	50%	2	4	1.5	2	1.5	2	1	2	194,819	1,385,378	0.40	38,964	277,076	158,020
EPM 15458	MUNGANA PTY LTD	282	154,898	50%	2	4	2	3	1.5	3	2	3	1,858,778	16,728,999	0.40	371,756	3,345,800	1,858,778
EPM 15459	MUNGANA PTY LTD	105	57,616	50%	2	4	1	1.5	1	1.5	1	2	115,232	1,037,085	0.40	23,046	207,417	115,232
EPM 18530	MUNGANA PTY LTD	7	3,602	50%	2	4	1	1.5	1	1.5	1	2	7,204	64,840	0.40	1,441	12,968	7,204

**Table 6-14: Modified Kilburn Valuation Table – Chillagoe GRA after the Proposed Transaction**

					Off property		On Property		Anomaly		Geology		Technical Value			Valuation		
Tenement	Holder	Area (km <sup>2</sup> )	BAC	Equity	Low	High	Low	High	Low	High	Low	High	Low	High	Market Factor	Low	High	Preferred
<b>Chillagoe</b>		<b>616</b>	<b>338,681</b>	<b>100%</b>									<b>2,497,626</b>	<b>23,326,689</b>	0.40	<b>999,050</b>	<b>9,330,675</b>	<b>5,164,863</b>
EPM 7672	KAGARA LTD	82	45,093	100%	2	4	1.5	3	1.5	2.5	1	2.5	202,917	3,381,943	0.40	81,167	1,352,777	716,972
EPM 12902	KAGARA LTD	46	25,159	100%	2	4	1	1.5	1	1.5	2	2.5	100,635	566,074	0.40	40,254	226,429	133,342
EPM 14104	KAGARA LTD	16	9,021	100%	2	4	1	1.5	1	1.5	1	2	18,041	162,370	0.40	7,216	64,948	36,082
EPM 14108	KAGARA LTD	79	43,293	100%	2	4	1.5	2	1.5	2	1	2	194,819	1,385,378	0.40	77,927	554,151	316,039
EPM 15458	MUNGANA PTY LTD	282	154,898	100%	2	4	2	3	1.5	3	2	3	1,858,778	16,728,999	0.40	743,511	6,691,600	3,717,555
EPM 15459	MUNGANA PTY LTD	105	57,616	100%	2	4	1	1.5	1	1.5	1	2	115,232	1,037,085	0.40	46,093	414,834	230,463
EPM 18530	MUNGANA PTY LTD	7	3,602	100%	2	4	1	1.5	1	1.5	1	2	7,204	64,840	0.40	2,882	25,936	14,409

### 6.7.2 Chillagoe Exploration Area 100% MUX

SRK considers the Chillagoe Exploration Area 100% MUX consisting of EPM 19064 and EPM 19196, covering an area of 354 km<sup>2</sup>, to be an Exploration Area as defined by the VALMIN Code. The expenditure commitment for retaining the licenses for 5 years is A\$0.77M (Table 6-15).

**Table 6-15: Chillagoe Exploration Area Expenditure Commitment**

Licenses	Area	Commitment	Expenditure	Planned
EPM 19064, EPM 19196	354 km <sup>2</sup>	A\$770,000	A\$33,878	A\$730,000

SRK has also conducted a Geoscientific Rating (modified Kilburn) valuation of the property (Table 6-12) based on the rating matrix in Table 6-11. SRK has used as Base Acquisition Cost of A\$550/km<sup>2</sup> for Queensland, and a Market Factor of 0.4. This has yielded a “preferred” value of A\$0.8M for the property. SRK considers this a suitable high boundary for the valuation.

The value of the Exploration Area is considered as a factor of the areal extent of the tenure. SRK has derived a factor for the valuation of the Exploration Area based on an analysis of comparable transactions.

Based on the analysis of transactions, SRK has used a factor of A\$1,103/km<sup>2</sup> for the valuation of the Exploration Area, which gives a valuation of approximately A\$390,000. This is consistent with the “low” value derived from the Kilburn method, and can be considered a suitable minimum value for the Exploration Area.

SRK notes that the valuation derived from the modified Kilburn method is similar to the expenditure commitment for retaining the property. SRK considers the average of these two values (\$0.8M) to define the high end of SRK’s preferred valuation range.

**Based on SRK’s analysis, SRK recommends that MUX’s interest in the Chillagoe 100% MUX Exploration Area comprising 354 km<sup>2</sup> be valued in the range \$0.4M to \$0.8M, with a preferred value of \$0.6M.**

### 6.7.3 Laura Exploration Area

SRK considers the Laura Exploration Area, consisting of EPM 19226 and covering an area of 211 km<sup>2</sup>, to be an Exploration Area as defined by the VALMIN Code.

The expenditure commitment for retaining the license has not been informed.

SRK has also conducted a Geoscientific Rating (modified Kilburn) valuation of the property (Table 6-12) based on the rating matrix in Table 6-11. SRK has used as Base Acquisition Cost of A\$550/km<sup>2</sup> for Queensland, and a Market Factor of 0.4. This has yielded a “preferred” value of A\$0.6M for the property. SRK considers this a suitable high boundary for the valuation.

The value of the Exploration Area is considered as a factor of the areal extent of the tenure. SRK has derived a factor for the valuation of the Exploration Area based on an analysis of comparable transactions.

Based on the analysis of transactions, SRK has used a factor of A\$1,103/km<sup>2</sup> for the valuation of the Exploration Area, which gives a valuation of approximately A\$233,000 when corrected for equity interest. SRK considers this value to define the low end of SRK’s preferred valuation range.

**Based on SRK’s analysis, SRK recommends that MUX’s interest in the Laura Exploration Area comprising 211 km<sup>2</sup> be valued in the range A\$0.2M to A\$0.6M, with a preferred value of A\$0.4M.**

### 6.7.4 OK Mines Exploration Area

SRK considers the OK Mines Exploration Area, consisting of EPM 19065 and covering an area of 20 km<sup>2</sup>, to be an Exploration Area as defined by the VALMIN Code.

The expenditure commitment for retaining the license for 5 years is A\$6,000 (Table 6-16).

**Table 6-16: OK Mines Exploration Area Expenditure Commitment**

License	Area	Commitment
EPM 19335	20 km <sup>2</sup>	A\$6,000

SRK has also conducted a Geoscientific Rating (modified Kilburn) valuation of the property (Table 6-12) based on the rating matrix in Table 6-11. SRK has used as Base Acquisition Cost of A\$550/km<sup>2</sup> for Queensland, and a Market Factor of 0.4. This has yielded a “preferred” value of A\$24,000 for the property. SRK considers this a suitable high boundary for the valuation.

The value of the Exploration Area is considered as a factor of the areal extent of the tenure. SRK has derived a factor for the valuation of the Exploration Area based on an analysis of comparable transactions.

Based on the analysis of transactions, SRK has used a factor of A\$1,103/km<sup>2</sup> for the valuation of the Exploration Area, which gives a valuation of approximately A\$20,000 when corrected for equity interest.

**Based on SRK’s analysis, SRK recommends that MUX’s interest in the OK Mines Exploration Area comprising 20 km<sup>2</sup> be valued in the range A\$20,000 to A\$24,000, with a preferred value of A\$22,000.**

### 6.7.5 Nyngan Exploration Area

SRK considers the Nyngan Exploration Area, consisting of EL 7751, EL 7752 (Renewal Pending), EL 8055, EL 8053 and covering an area of 755 km<sup>2</sup>, to be an Exploration Project as defined by the VALMIN Code.

The expenditure commitment for retaining the granted licenses for 2 years is A\$211,000 (Table 6-17), with A\$105,500 due for the first year.

**Table 6-17: Nyngan Exploration Area Expenditure Commitment**

Licenses	Area	Commitment	Expenditure	Planned
EL 7751, EL 7752, EL 8055, EL 8053	755 km <sup>2</sup>	A\$211,000	\$88,102	A\$285,000

SRK has also conducted a Geoscientific Rating (modified Kilburn) valuation of the property (Table 6-12) based on the rating matrix in Table 6-11. SRK has used as Base Acquisition Cost of A\$1,210/km<sup>2</sup> for New South Wales, and a Market Factor of 0.4. This has yielded a “preferred” value of A\$2.6M for the property. SRK considers this a suitable high boundary for the valuation.

The value of the Exploration Area is considered as a factor of the areal extent of the tenure. SRK has derived a factor for the valuation of the Exploration Area based on an analysis of comparable transactions.

Based on the analysis of transactions, SRK has used a factor of A\$1,103/km<sup>2</sup> for the valuation of the Exploration Area, which gives a valuation of approximately A\$833,000 when corrected for equity interest.

SRK notes that the planned expenditure is similar to the commitment for the package. SRK considers the average of these two values (\$248,500) to define the low end of SRK's preferred valuation range.

**SRK recommends that MUX's interest in the Nyngan Exploration Area comprising 755 km<sup>2</sup> be valued in the range A\$0.2M to A\$2.6M, with a preferred value of A\$0.8M.**

### 6.7.6 Chillagoe Exploration Area (GRA)

SRK has considered the expenditure requirement to maintain the tenements in good standing, the expenditure to date on the tenements, and the planned expenditure on the tenements, as disclosed by MUX. In addition, SRK has considered the exploration potential of the tenements in carrying out a modified Kilburn valuation of the tenements.

Finally, SRK considered the implied value of the ground holding by applying an area-based valuation factor derived from the analysis of comparative transactions.

Both valuation methods employed here implicitly include potential credits from any gold mineralisation that may be present. As the gold mineralisation in this region is intimately associated with base metal mineralisation, any future potential mining operations would most likely recover gold along with the base metals. It is therefore not geologically reasonable, or reasonably feasible, to calculate a separate value for the gold mineralisation in isolation.

#### Before 27 December 2013

SRK considers the Chillagoe Exploration Area (GRA), consisting of EPM 7672, EPM 12902, EPM 14104, EPM 14108, EPM 15458, EPM 15459, and EPM 18530 and covering an area of 615.86 km<sup>2</sup>, to be an Exploration Area as defined by the VALMIN Code. The 7 licenses are held by KZL, either directly or through its 100% held subsidiary. MUX before 27 December 2013 owned only the gold rights to these tenements through the GRA. SRK has assessed MUX's interest in these tenements as equivalent to a 50% equity interest, for the sake of valuation, as at the initial stage it is not possible to predict if a resource that may be found would be predominantly gold or base metal resource.

The expenditure commitment for retaining the licenses for 5 years is A\$1.38M (Table 6-18), which has been extrapolated from the expenditure commitment for the licenses directly held by MUX. MUX's portion of this will be A\$0.67M.

**Table 6-18: Chillagoe Exploration Area Expenditure Commitment**

Licenses	Area	Commitment	Expenditure	Planned
EPM 7672, EPM 12902, EPM 14104, EPM 14108, EPM 15458, EPM 15459, EPM 18530	615.86 km <sup>2</sup>	A\$670,000*	A\$1,849,122	A\$2,900,000

\* Commitment for 615.86 km<sup>2</sup> calculated based on factoring 50% commitment from MUX commitment of A\$770,000 for 354 km<sup>2</sup>

SRK has conducted a Geoscientific Rating (modified Kilburn) valuation of the property (Table 6-13) based on the rating matrix in Table 6-11. SRK has used as Base Acquisition Cost of A\$550/km<sup>2</sup> for Queensland and a Market Factor of 0.4. This has yielded a preferred value of A\$2.6 M for the properties. SRK considers this a suitable high boundary for the valuation.

SRK has also used an analysis of transactions to value the Exploration Assets. The value of the Exploration Area is considered as a factor of the areal extent of the tenure. SRK has derived a factor for the valuation of the Exploration Area based on an analysis of comparable transactions.

Based on the analysis of transactions, SRK has used a factor of A\$1,103/km<sup>2</sup> for the valuation of the Exploration Area, which gives a valuation of approximately A\$340,000 when corrected for equity interest. This is consistent with the “low” value derived from the Kilburn method, and the average of these two values (approximately A\$400,000) can be considered a suitable preferred value for the Exploration Area properties, which is in agreement to the difficult economic/funding market conditions at the time of the transaction. This is also reasonable when taking into account the expenditure commitment value.

**Based on SRK’s analysis, SRK recommends that MUX’s assessed 50% interest in the Chillagoe Exploration Area (GRA) before the Proposed Transaction, comprising 615.86 km<sup>2</sup> be valued in the range A\$0.3M to A\$2.6M, with a preferred value of A\$0.4M.**

### **After 27 December 2013**

SRK has considered the Comparable Transactions method for valuing the Chillagoe GRA Exploration Areas. In this method, a value is derived for a package of tenements based on the areal extent of the tenement package, and a factor derived from the analysis of comparable transactions.

SRK analysed these eight transactions in terms of the price paid per square kilometre of tenement and related this to the copper and zinc prices at the time of the transactions.

SRK has selected the area-weighted average \$/km<sup>2</sup> value for the Australian transactions analysed (Table 6-6), normalised to the December 2013 average zinc price of A\$2,198.40/t, to define the low end of the valuation range. The weighted average normalised zinc price for the Australian transactions, considering the average zinc price at the time of each transaction, was A\$3,166/km<sup>2</sup>.

The high end of the valuation range is defined by the area-weighted average \$/km<sup>2</sup> value for all transactions analysed, factored to the December 2013 average copper price of A\$8,031.08/t. The weighted average copper price for all transactions, considering the average copper price at the time of each transaction, was A\$5,803/km<sup>2</sup>.

**Using the Comparable Transactions method of valuing exploration ground, SRK has derived a Valuation Range of \$2.0M to \$3.6M for the Chillagoe GRA tenement package of 615.86 km<sup>2</sup>.**

SRK has also considered the Modified Kilburn method for valuing the Chillagoe Exploration Areas. In this method, values are derived for individual tenements, based on the areal extent of the tenement, an average base cost of acquiring and holding a tenement, and individually assessed factors that are correlated with mineralisation potential.

Using the criteria described in the Table 6-11, SRK assigned high and low ratings to each parameter for each tenement (Table 6-18). A Base Acquisition Factor of A\$550/km<sup>2</sup> was used, and Market Factors were assigned on the basis of SRK’s review of the tenements.

Because the numerical scale for the Kilburn factors is somewhat arbitrary, the Kilburn method returns a technical value that does not automatically relate to the market price of tenements at any particular time. The relationship between the Kilburn technical value and the market value is modelled by applying a market factor to the technical valuation.

The Kilburn market factor was arrived at by estimating a factor that resulted in the average preferred price per area for the entire package being similar to the average price per area calculated from the analysis of transactions. In the case of the KZL tenements, this market factor is 0.4.

**Using the Modified Kilburn method of valuing exploration ground, SRK has derived a Valuation Range of A\$1.0M to A\$9.3M, with a preferred value of A\$5.2M for the Chillagoe GRA tenement package of 615.86 km<sup>2</sup>.**

The Modified Kilburn method has yielded a comparatively large valuation range, which recognises the high risk involved in early-stage (pre-resource) exploration properties. In these types of properties, there is a material risk of extensive exploration work not resulting in economic deposits being identified and defined. There is also great opportunity, in that successful exploration may result in deposits of economic significance being identified.

The valuation by means of applying suitable valuation factors derived from the analysis of comparable transactions has yielded a narrower valuation range, which may better indicate how the market values these types of projects. The Modified Kilburn valuation range supports the Comparable Transactions range, in that it brackets the Comparable transactions range, lending credence on a technical basis to the market-derived valuation range.

The fact that these tenement packages are associated with recent mining activity, and the presence of advanced exploration with existing resources, justifies a preferred value that is closer to the upper end of the market-derived valuation range. The presence of these resources within or adjacent to the tenement packages is what drives the upper end of the Kilburn valuation range.

SRK's preferred value is the average of each method's lower value, which is in agreement to the range derived by the methods and the difficult economic/funding market conditions at the time of the transaction.

**Based on SRK's analysis, SRK recommends that MUX's assessed 100% interest in the Chillagoe Exploration Area (GRA) after the Proposed Transaction, comprising 615.86 km<sup>2</sup> be valued in the range A\$1.0M to A\$5.2M, with a preferred value of A\$1.5M.**



## 7 Conclusion and Valuation Summary

Grant Thornton commissioned SRK to prepare an ITR and valuation report of MUX mineral assets in Australia. The Report has been undertaken under the guidelines of the VALMIN Code (2005 Edition), which incorporates the JORC Code.

SRK undertook a high level review of the KZL and MUX resources, for the purpose of determining their validity from a valuation perspective. SRK's opinion is that the Mineral Resource Estimates for Mungana, Red Dome, Griffiths Hill/Red Dome and King Vol deposits do not present fatal flaws and that the stated global figures for Mineral Resources are acceptable as representation of global grades and tonnages. Additional consideration of a geological or spatially meaningful approach to classification is recommended to address possible future issues with potentially poor conversion to reserves. Therefore, for the purposes of valuation only the global resource estimates were considered.

All the Exploration Areas consist of exploration assets which are inherently speculative in nature, involving varying, high degrees of exploration risk.

While the VALMIN Code 2005 states that decisions as to which valuation methodology is used are the responsibility of the Expert or Specialist, where possible, SRK considers a number of methods. The aim of this approach is to compare the results achieved using different methods to select a preferred value within a valuation range. This reflects the uncertainty in the data and interaction of the various assumptions inherent in the valuation.

SRK has recommended preferred values and value ranges for KZL and MUX exploration properties on the basis of declared Resources, Exploration Targets and areal extent of tenure. SRK has recommended value ranges for Pre-Development Projects, Advanced Exploration Areas and Exploration Areas on the basis of an analysis of recent comparable transactions involving gold, silver, zinc, lead and copper properties in Australia.

In the case of the Gold Predominant Pre-Development Projects and Advanced Exploration Areas, SRK has compared the \$/oz and the \$/oz metal ratio valuation factor applied to the generally accepted Yardstick factors, and considers that SRK's valuation factor is reasonable on this basis. SRK preferred value was then determined within the range of possible values obtained for each deposit, considering all the available information provided by MUX.

In the case of the zinc and copper predominant Pre-Development Projects and Advanced Exploration Areas, SRK has compared the \$/tonne or ounce valuation factor applied to the generally accepted Yardstick factors and the Metal Transaction Ratio (MTR) method, and considers that SRK's valuation factor is reasonable on this basis. SRK preferred value was then determined within the range of possible values obtained for each deposit, considering all the available information provided by KZL.

In the case of the Exploration Areas, SRK has also considered exploration commitments and expenditure, as well as a modified Kilburn rating system to arrive at a valuation range.

SRK understands there is value on MUX's 4% production royalty over the payable minerals attributable to KZL in the Red Dome Copper Zone stated in the GRA. However, SRK considers that it is not appropriate to apply production royalty valuation to exploration properties, as the financial outlook is too uncertain to value this consideration meaningfully. It is SRK's opinion that the inclusion of production royalty considerations will have the effect of inflating the transaction value. In addition, there are other legal and financial risks associated to GRA that once factored could also have a significant impact to the final value. Therefore, SRK has not attributed a value range to the

existing production royalty over the Red Dome Copper Zone. SRK believes this value is immaterial in the scheme of the Proposed Transaction.

SRK is not aware of any other royalty agreement involving the MUX mineral assets considered in this Valuation Report.

SRK notes that the VALMIN Code 2005 cautions against ascribing value to licenses under application. SRK is not aware of any competing applications but has applied a 30% discount to the valuation of tenements under application or pending renewal to account for the risk that the license applications may not be granted or that a reduced area might be approved.

SRK notes that King Vol is located within MLA 20658, which consists of an application license. However, the project is also within EL 15458 which consists of a granted exploration license. SRK has not applied a discount to account for the risk that the license may be not granted, as this valuation is focused on the resources and not reserves at this stage.

SRK's recommended valuation ranges and preferred values for each project are detailed in Tables 7-1, 7-2 and 7-3. SRK has produced a Fair Market Value (as defined by VALMIN Code 2005). SRK preferred values includes additional technical considerations related to the mineralisation, such as grade and depth. It also considers the information verbally provided by MUX management team on the results of preliminary technical studies. The review of these studies was not part of SRK scope of work.

**Table 7-1: Summary of SRK's Valuation of GRA assets on a stand-alone basis before the Proposed Transaction as of 27/12/2013**

Project	Owner	Low Value (A\$M)	High Value (A\$M)	Preferred Value (A\$M)
<b>Pre-Development Projects</b>				
Mungana*	MUX	7.1	28.4	12.0
Red Dome**	MUX	10.5	41.8	17.6
<b>Total Pre-Development Projects</b>		<b>17.6</b>	<b>70.2</b>	<b>29.6</b>
<b>Advanced Exploration Areas</b>				
Red Dome Leach Pad	MUX	0.3	1.5	0.5
Shannon-Zillmanton	MUX	0.2	1.1	0.4
<b>Total Advanced Exploration Areas</b>		<b>0.5</b>	<b>2.6</b>	<b>0.9</b>
<b>Exploration Areas</b>				
<b>Chillagoe (GRA)</b>	<b>50% MUX</b>	<b>0.3</b>	<b>2.6</b>	<b>0.4</b>
<b>Total GRA Before Transaction</b>		<b>18.4</b>	<b>75.4</b>	<b>30.9</b>

Note: Chillagoe (GRA) before the proposed transaction was only 50% owned by MUX and did not include rights to explore base metals, which led to a value lower than 50% of the value after the transaction is completed.

**\*Mungana Pre-Development Project:** SRK suggests a preferred value towards the lower end of the suggested range, in recognition of the expected difficulties in converting the resources into reserves. This is related to the existence of flooded underground workings, lower grade and the depth of underground workings. There are also issues that can accompany mining around existing underground voids (from KZL's extraction of the base metal lode). The impact of the depth of the underground resource is minimized by the presence of a decline in place to 650 m.

**\*\*Red Dome Pre-Development Project:** SRK suggests a preferred value towards the lower end of the suggested range, in recognition of the expected difficulties in converting resources into reserves due to the existence of flooded pits, lower grade, depth of resources and metallurgical issues due to problematic clay mineralogy encountered in the oxide profile at Red Dome.

**Table 7-2: Summary of SRK's Valuation of Northern Assets as a whole following completion of the Proposed Transaction as of 27/12/2013**

Project	Owner	Low Value (A\$M)	High Value (A\$M)	Preferred Value (A\$M)
<b>Pre-Development Projects</b>				
Mungana*	MUX	7.1	28.4	12.0
Red Dome**	MUX	10.5	41.8	17.6
Griffiths Hill/Red Dome***	KZL	1.0	3.8	1.7
King Vol***	KZL	2.9	11.2	4.4
<b>Total Pre-Development Projects</b>		<b>21.5</b>	<b>85.2</b>	<b>35.7</b>
<b>Advanced Exploration Areas</b>				
Mungana Base Metal Lode***	KZL	0.1	0.3	0.1
Penzance***	KZL	0.4	1.1	0.6
Queenslander***	KZL	1.0	3.0	1.3
Morrison's***	KZL	1.6	4.8	2.0
Victoria***	KZL	3.1	9.2	4.0
Montevideo***	KZL	0.6	1.7	0.7
Red Dome Leach Pad	MUX	0.3	1.5	0.5
Shannon-Zillmanton	MUX	0.2	1.1	0.4
<b>Total Advanced Exploration Areas</b>		<b>7.3</b>	<b>22.7</b>	<b>9.6</b>
<b>Exploration Areas</b>				
<b>Chillagoe (GRA)</b>	<b>100% MUX</b>	<b>1.0</b>	<b>5.2</b>	<b>1.5</b>
<b>Total After Transaction</b>		<b>29.8</b>	<b>113.1</b>	<b>46.8</b>

Note: Chillagoe (GRA) after the proposed transaction will be 100% owned by MUX and will include rights to explore base metals. SRK's opinion is that this area is more prospective for base metals and, therefore, there is no direct relationship between the value prior and after the transaction.

**\*Mungana Pre-Development Project:** SRK suggests a preferred value towards the lower end of the suggested range, in recognition of the expected difficulties in converting the resources into reserves. This is related to the existence of flooded underground workings, lower grade and the depth of underground workings. The impact of the depth of the underground resource is minimized by the presence of a decline in place to 650 m.

**\*\*Red Dome Pre-Development Project:** SRK suggests a preferred value towards the lower end of the suggested range, in recognition of the expected difficulties in converting resources into reserves due to the existence of flooded pits, lower grade, depth of resources and metallurgical issues due to problematic clay mineralogy encountered in the oxide profile at Red Dome.

**\*\*\*Base Metal Projects preferred values:** SRK has considered the average of the lower values derived from each of the three methods (comparable transactions, Yardstick and MTR) as the preferred value for all the Base Metal Projects. This is the reason why preferred values are towards the lower range.

**Table 7-3: Summary of SRK's Valuation of other exploration assets held by MUX before the Proposed Transaction outside the GRA as of 27/12/2013**

Project	Owner	Low Value (A\$M)	High Value (A\$M)	Preferred Value (A\$M)
<b>Exploration Areas</b>				
Chillagoe (100% MUX)	MUX	0.4	0.8	0.6
Laura	MUX	0.2	0.6	0.4
OK Mines	MUX	0.02	0.02	0.02
Nyngan	MUX	0.2	2.6	0.8
<b>Total Exploration Areas</b>		<b>0.8</b>	<b>4.0</b>	<b>1.8</b>

**Compiled by:**

Caue Pauli de Araujo  
Senior Consultant (Geology)

**Peer Reviewed by:**

Deborah Lord  
Principal Consultant (Geology)

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<http://www.munganagoldmines.com.au>

<http://www.kagara.com.au/>

<http://www.theaustralian.com.au>

# Appendices

## **Appendix A: Independent Reports on Tenements: Environmental and Licensing Professionals Pty Ltd and HopgoodGanim**



## SRK Report Client Distribution Record

Project Number: MUN004

Report Title: Independent Technical Review and Mineral Resource Valuation of Kagara Ltd and Mungana Goldmines Ltd

Date Issued: 28 May 2014 and 3 June 2014

Name/Title	Company
Andrea de Cian	Grant Thornton Corporate Finance Pty Ltd

Rev No.	Date	Revised By	Revision Details
0	31/01/2014	Caue Pauli de Araujo	Draft Report
1	21/03/2014	Caue Pauli de Araujo	Final Report
2	07/04/2014	Caue Pauli de Araujo	Final Report
3	17/04/2014	Caue Pauli de Araujo	Final Report
4	24/04/2014	Caue Pauli de Araujo	Final Report
5	28/05/2014	Caue Pauli de Araujo	Final Report
5_Client	3 June 2014	Deb Lord	Copy of Final Report as MS Word version

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## **CONFIDENTIAL REPORT**

**Valuation and  
Summary Appraisal Report <sup>USPAP 8-2 (b)</sup>  
Of  
Equipment**

In the matter of

**Mungana Goldmines Ltd**

located at

**Mungana Mine, near Chilligoe QLD**

Effective date of valuation: <sup>USPAP 8-2 (b) (vi)</sup>

**29<sup>th</sup> January 2014**

Basis of valuation: <sup>USPAP 8-2 (b) (ii)</sup>

### **Financial Reporting**

Client: <sup>USPAP 8-2 (b) (i)</sup>

**Mungana Goldmines Ltd**

Intended Users: <sup>USPAP 8-2 (b) (i)</sup>

**Mungana Goldmines Ltd & Shareholders  
Grant Thornton**

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## USPAP Compliance

This report has been compiled in accordance with the *Uniform Standards of Professional Appraisal Practice (USPAP)*. USPAP holds several fundamental tenets of practice for the professional valuer to follow. These include ethics of conduct, management, confidentiality and record keeping. USPAP additionally sets standards of competency, methodology and continued professional training.

USPAP is designed to promote and maintain a high level of public trust in valuation practice by establishing minimum requirements for appraisers. Valuers must develop and communicate their analysis, opinions and conclusions to clients and intended users of their services in a manner that is both meaningful and not misleading.

The reader is reminded of the relevant USPAP compliance clauses via superscripts in the report. Superscript references in the title and headings refer to the Appraisal Standards Board USPAP.<sup>1</sup>

However, it should be noted that USPAP rules and conduct do not and cannot supplant local laws and regulations. Departures from USPAP standards are known as “jurisdictional exceptions” and when such exceptions occur they will be clearly stated in this report.

This report is defined as a summary appraisal report. USPAP stipulates that such reports must contain the following information as a minimum.

1. State the identity of the client and any intended users.
2. State the intended use (purpose) of the appraisal.
3. Summarise information sufficient to identify the property involved in the appraisal, including the physical and economic property characteristics relevant to the assignment.
4. State the property interest appraised.
5. State the type and definition of value and cite the source of definition.
6. State the effective date of the appraisal and the date of the report.
7. Summarise the scope of work used to develop the appraisal.
8. Summarise the information analysed, the appraisal methods and techniques employed, and the reasoning that supports the analyses, opinions, and conclusion; exclusion of the sales approach, cost approach or income approach must be explained.
9. State as appropriate to the class of the property involved, the use of the property existing as of the date of value and the use of the property reflected in the appraisal; and, when an opinion of highest and best use was developed by the appraiser, summarise the support and rationale for that opinion.
10. Clearly and conspicuously state all extraordinary assumptions and hypothetical conditions and state that their use might have affected the assignment results.
11. Include a signed certification in accordance with standard rule 8.3.

## TRANSMITTAL ADVICE

Wednesday, 5 February 2014

Ben-Louis Ludik  
Chief Financial Officer & Company Secretary  
Mungana Goldmines Ltd  
GPO 780, Brisbane, QLD 4001

Dear Ben-Louis,

As per your instructions we submit a USPAP summary valuation appraisal report for the assets of Mungana Goldmines Ltd located at Mungana Mine, near Chilligoe QLD.

The 'Uniform Standards of Professional Appraisal Practice' methodology, ethics and reporting format were employed during this valuation assignment and the appraiser has considered all three approaches to value but applied the market approach to the asset listed assuming 'Fair Market Value' & 'Orderly Liquidation Value' as of the effective date of 29th January 2014.

Subject to the matters as set out in this Confidential Report it is the undersigned valuers' independent, unbiased and professional opinion, using the valuation approaches and methods and subject to the assumptions and limiting conditions described in this report, that the aggregated estimated 'Fair Market Value' & 'Orderly Liquidation Value' of all assets, inclusive of GST, are as follows:

<b>Fair Market Value - Installed (FMV-I)</b>	<b>\$ 16,484,500.00</b>
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<b>Fair Market Value (FMV)</b>	<b>\$ 7,580,000.00</b>
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The client is now advised to read the entire report in order to fully comprehend how the opinions of value were determined.

Thank you for the opportunity to be of service in this matter. If you have any questions regarding the method of approach, value concept or indicated values please do not hesitate to contact the undersigned valuer.

Yours sincerely,

*Signature*

Steve Wall  
General Manager & Senior Valuer, Hassall's  
Certified Practicing Valuer (Plant & Machinery) # 267  
USPAP Compliant 2014.



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**Purpose of the valuation** <sup>USPAP 8-2 (b) (ii)</sup>

The purpose of the valuation is to provide Mungana Goldmines Ltd, its Shareholders and Grant Thornton with estimated values of the identified or listed assets.

**Definitions of value** <sup>USPAP 8-2 (b) (v)</sup>

The client has engaged Hassall's to undertake an distinct valuation, as an Independent Expert for the assets of Mungana Goldmine, Qld. The valuation is; 'Fair Market Value - Installed' (FMV-I) & 'Fair Market Value' (FMV).

The following definitions have been used: <sup>3</sup>

- i. ***Fair Market Value - Installed*** is the estimated amount, expressed in terms of money that may reasonably be expected for an installed property in an exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy or sell, and both fully aware of all relevant facts, including installation, as of a specific date. (This amount includes all normal direct and indirect costs, such as installation and other assemblage costs, to make the property fully operational but does not have to be supported by the business earnings.)
- ii. ***Fair Market Value*** - is an opinion expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date.

## Approach & Scope of Work USPAP 7-2, USPAP 8-2 (b) (vii)

In forming an opinion of value for the assets described in this report various investigations and background research was undertaken including the following:

1. *Identification of the problem to be solved.* The basis and purpose of valuation was determined from communications with the client. In this appraisal Mungana Goldmines Ltd along with their Shareholders and advisors Grant Thornton have requested an Independent Expert Appraisal Report for their own Financial Use. The value required is 'Fair Market Value - Installed' (FMV-I) & 'Fair Market Value' (FMV).

NOTE: Independent Expert in this matter is that of a qualified Valuer / Appraiser. Under both USPAP and Auctioneers and Valuers Association certification we are both independent and expert as appraisers. We are not purporting to be an Independent Expert under the requirements of ASIC Regulatory Guide 111 'contents of expert reports' or RG112 'independence of experts'.

2. *Site visit and data collection:* The assets in the scope of this report were inspected by Hassalls Representative Valuer, Mr. Ross Van, on 22nd & 23rd of January 2014 at Mungana Mine, QLD
3. *Application of approaches to value.* In order to determine value by the three accepted methods (see page 7 for a detailed explanation) research was undertaken where appropriate to (a) determine the replacement cost new of the plant and equipment and establish reasonable estimates of applicable depreciation (b) collect valid and recent sales on comparable plant and equipment on an appropriate basis and (c) for applicable plant collect sufficient financial information so that future net incomes could be projected and their current worth be calculated in order to determine the assets value.

In order to produce credible valuations information on the subject assets has been gathered from as many sources as practically possible including, where applicable, the original equipment manufacturer, equipment dealers, auction houses, the internet and industry professionals that could help provide meaningful data on the subject assets.

In this assignment although all methods of valuation were considered it became clear at an early stage that the best approach was to utilise the 'market approach' and attention was focused on obtaining as much useful market comparable information as practical.

4. *Calculations, final opinion of value and reporting:* After applying the most applicable method a value was determined or calculated for each piece of property. A report of the final values highlighting any limitations in approach or assumptions made during the process was then completed and submitted.

## Appraisal Methodology USPAP 7-4, USPAP 8-2 (b) (viii)

In determining the values of the subject machinery and equipment, the appraiser has considered and reviewed; the three traditionally accepted approaches to asset valuation. These include *The Market Approach (Sales Comparison Approach)*, *The Cost Approach* and the *Income Approach* to valuation. The Three approaches are briefly defined as follows:

### 1. Market Approach

This approach, is also known as the "Comparison Sales Approach", is based upon the collection and analysis of recent sales and offering prices of similar pieces of machinery and equipment. The primary intent of the market approach is to determine the desirability of the assets and recent sales offerings of similar assets currently on the market in order to arrive at an indication of the "*most probable*" selling price for the assets being appraised. These differences may include, but are not limited to: *Manufacturer, Age of the Equipment, Size and Type, Features and Accessories, Physical Location, Market Conditions, Seller's Motivation, Quality, Quantity, price and Type of Sale*. If the comparable sales are not exactly similar to the asset being appraised, adjustments must be made to bring them as closely in line as possible with the subject property.

### 2. Cost Approach

This approach measures the value of an asset by determining, as accurately as possible, the current *Replacement Cost New* (RCN) of an asset and then deduction from this value, various elements of depreciation, including: *Normal Service Life Deterioration; Physical Deterioration (including Excessive Service Life Deterioration); Technical Obsolescence; Functional Deterioration and Economic Obsolescence*. When the subject asset is not new, the current cost must be adjusted for all forms of depreciation as of the effective date of the appraisal.

### 3. Income Approach

The Income Approach also referred to as the *Income Stream Approach*, is used to measure the *present worth* of the anticipated *future economic benefits (including income)* of the ownership of a group of assets, usually in the form of an ongoing business. This approach assists a buyer in determining how much they can afford to pay for a business based on the future income potential and the related risk of ownership. This approach is not generally applied to individual pieces of machinery and equipment, due to the difficulty of identifying the income stream associated with a particular asset. The anticipated cash flows which are likely to be available as a result of owning and operating the subject equipment are projected over a period of time and then converted to present value by applying a discount rate. The discount rate is designed to take into consideration the risks associated with the ownership of the equipment under appraisal and also attempts to provide appropriate compensation to the potential investor for the risks assumed in the purchase of these assets. The sum total both positive and negative of all discounted cash flows provides the appraiser an estimation of the present value of the equipment being considered.



## Appraisal Methodology (cont.)

The scenario considers the likely result should the subject assets be sold in an open market sale between a seller under a no significant time duress (say greater than 6 months) and a willing buyer who is an end user of the equipment.

Both the buyer and the seller have knowledge of the use and purpose for which this equipment is adapted and for which it is capable of being used. This value also assumes the equipment will be sold "as is condition, where is location", and the buyer assumes the costs to dismantle and remove.

Accordingly, the appraiser has selected **'Fair Market Value - Installed' (FMV-I) & 'Fair Market Value' (FMV)** as an appropriate valuation premise for this purpose.

## Development

Market (Sales) and Cost Approaches to value were considered. The appraiser has chosen to place a greater emphasis on the Market (Sales) Approach to Value on this project and has taken into consideration the actual condition of the equipment as of the date of inspection, the actual age, normal anticipated useful life, the appraisers understanding of the technology changes, if any, that might affect the secondary market, the present secondary market conditions, recent sales of similar equipment both domestically and internationally where it makes sense, current new replacement cost today of the major equipment, estimated time of delivery for new orders from the manufacturer where applicable, original equipment cost where necessary and specifically, opinions expressed by various industry experts were considered.

In determining the 'Fair Market Value - Installed' (FMV-I) & 'Fair Market Value' (FMV) of the subject machinery and equipment, the appraiser has used a conventional Market or Sales Comparison Approach to valuation, and has taken into consideration several factors, including:

- The actual condition of the equipment as of the date of inspection, including recent repairs, modifications or upgrades which may have been performed on this equipment.
- The actual age of the equipment, normal anticipated useful life, and the appraiser's opinion as to the remaining useful life of the equipment appraised. The appraiser has also considered changes in technology that often have the effect of making some aspects of this equipment obsolete.
- Present market demand for this type of equipment, both domestically and internationally.
- Recent comparable sales of similar equipment, both in the used machinery market place and in the liquidation market place, including public auctions.
- Current new replacement cost today (including foreign currency fluctuations) of the subject equipment.

- Manufacturer's current estimated delivery time for similar new equipment.
- The original purchase cost of the subject equipment, where appropriate.
- Writer has assumed that the original distributors of the machinery and equipment, will support and assist Mungana Goldmines Ltd with the remarketing and sale of the equipment to new buyers should the need occur.
- Writer has assumed that Mungana Goldmines Ltd has supplied accurate information regarding original equipment costs, accounting information, equipment useful life years, installation service dates, engineering technology, production capacity and other information used by the writer in regards to costs, competitors, manufacturing capacity and manufacturing process.
- Writer has relied on the information supplied by manufacturers when developing depreciation, useful life, original equipment costs and other relevant accounting information to assist in the analysis and development of opinion of values.

## **Research**

Original equipment manufacturers, used equipment dealers, equipment brokers and vendors were contacted to discuss general industry trends, changes in equipment technology, relationships between new and used prices, and overall levels of marketability.

A review of recent auction results of similar assets was also reviewed where applicable. Where auction data was used; the writer has not included a buyer's premium, if there was one.

The appraiser reviewed equipment invoices, maintenance records, equipment productivity reports and other company information on the assets that were necessary, available, and pertinent in order to assist in the development of the appraised values.

Additionally we relied on information provided by Mungana Goldmines Ltd representatives for specifications, original equipment costs, equipment useful life years, installation in service dates, new cost of equipment, spare parts and service availability and other information used by the writer in regards to costs, competitors, operating capacity and production process.

**Identification and Description of property appraised** USPAP 8-2 (b) (iii)

As previously outlined the assets were inspected on 22nd & 23rd of January 2014 at Mungana Mine, QLD. Our inspection of the assets in scope indicated that most components were purchased new in 2007 to 2009 with the exception of the Mills; these have been fully refurbished with new liners supplied.

The assets in scope were engineered and fabricated for assembly utilizing fully bolted construction that can be dismantled into sections or to structural and plant component units

NOTE: The assets in scope (plant) are incomplete and have been on care and maintenance since the installation and have not produced any product. Many of the require items are in storage awaiting installation.

Based upon our visual (only) inspection the assets are described as in a 'Very Good' condition as defined below <sup>5</sup>:

***Very Good (VG)*** This term describes an item of equipment in excellent condition capable of being used to its fully specified utilisation for its designed purpose without being modified and without requiring any repairs and abnormal maintenance at the time of inspection or within the foreseeable future.

A detailed description of the assets may be found in Appendix F, and further definitions may be found in Appendix B.

## **Valuation Considerations**

### **Highest & Best Use** USPAP 7-3 (a), USPAP 8-2

The equipment identified in this report is used in the manufacture of the products produced and services performed at this facility. The machine was on site and was in service and in operation at the time of the writers visit.

The assets would serve their highest and best uses in the application for which they were originally designed and manufactured.

### **Effective date of the valuation** USPAP 7-2 (d), USPAP 8-2 (b) (vi)

The effective date of the valuation is the date at which the valuation opinion applies and only for the stated purpose. Only known or knowable information available as of the effective date of the valuation is to be considered in the development of an opinion of value.

It is important to understand that the effective date may be quite different to the date the report was produced.

This is true for valuations that are retrospectively or prospectively based. For example a valuation for a house destroyed by fire may be required retrospectively for insurance purposes. Clearly the effective date of the report in that case would be earlier than the actual report date.

For this report the effective date for the valuation is 29th January 2014.

The reporting date is 5<sup>th</sup> February 2014.

### **Statement of Confidentiality**

Hassalls Valuation Services does not disclose confidential information or assignment results prepared for our clients to anyone other than the client and persons specifically authorized by the client, state enforcement agencies and third parties as may be authorized by law, and duly authorized professional peer review committees who are equally charged not to disclose confidential information. Information received from our named client is confidential where that information is not available from public sources.

**Valuers Special Commentary.**

The value estimates attributed for the plant is made on the basis of the plant being whole or in modular sections. This takes into account that it is complete engineered operational entity with support infrastructure that is suitable for the design purposes.

Variations in these estimates may occur due to the influence of the cost of dismantling, project location (remote) and the cost of relocation and re-erection however it is possible that an upside to these estimates could be achieved should a company be in urgent need for a plant or need to capitalize on an existing commodity price.

It is also considered that the plant would be supplied with all available engineering drawings, manuals, design documentation and all intellectual property.

Consideration in Deriving Opinion:

We have taken into account the information supplied and the following influencing factors:

- Our opinion of the equipment as described in the attached schedule that serves as a guide to the major areas from our site inspection.
- The age of the plant and its present condition.
- The present or current market conditions.
- That the plant is not complete, also electrical and pipe work to be completed.
- We have not included any Office furniture and equipment, Tooling, Spare parts, Fuel and Oil stock, Electrical Power Lines to site.
- All concrete foundations throughout the Plant, Buildings and Walkways etc. are fixtures with no saleable value.
- The Buildings on site are either demountable or of bolted construction or fully transportable modules as in Offices, Amenities, and Camp site buildings.

The current market for plants of this nature has been steady with the mineral and gold prices stabilised around their present level. Delivery times for new equipment are also a major consideration when looking at what the market will pay. The major limiting factor in the market is the availability to procure finance to the mining sector; this has restrained some of these developments. The demand for plant may also decline with any strong negative change in commodity prices.

**Certification of Appraisal** USPAP 8-3

*I certify that, to the best of my knowledge and belief that the statements of fact contained in this report are true and correct and that;*

- a) The reported analysis, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and is the writer's personal, unbiased professional analysis, opinions and conclusions. Values rendered are an opinion of the appraiser and are not a guarantee of value. The appraiser has considered highest and best use, market level and alternate use in the course of the analysis.
- b) I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment and we have no present or prospective interest in the assets that are the subject of this report, and there is no personal interest or bias with respect to the parties involved.
- c) Hassalls has not performed other services as an appraiser or in any other capacity, regarding the property that is the subject of this report within a three year period immediately preceding acceptance of this assignment.
- d) Our engagement in this assignment was not contingent upon developing or reporting predetermined results and our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favours the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of the appraisal.
- e) The analysis, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) and Standards and Procedures of Professional Appraisal Ethics and Practice as defined by the Association of Machinery and Equipment Appraisers.
- f) Hassalls has personally viewed, unless otherwise stated, the assets that are the subject of this report and we believe no pertinent information was withheld or overlooked, and I, the undersigned, further certify that I have not been influenced in any way during the preparation of this appraisal report by any parties having a financial or other interest in this report.
- g) The American Society of Appraisers has a code of professional ethics and a continuing educational program for all of its members. I am in compliance and up to date with all the requirements for those programs.

Signed this day: 5<sup>th</sup> February 2014

Effective Date: 29<sup>th</sup> January 2014

Steven G Wall

General Manager & Senior Valuer, Hassall's

Certified Practicing Valuer (Plant & Machinery) #267 & USPAP Compliant 2013

**Limiting Conditions, Hypothetical Conditions & Extraordinary Assumptions** USPAP 8-2  
(b) (x)

This plant, machinery and equipment valuation is made subject to the following:

**(A) General limiting conditions**

1. All facts and data set forth in this report are true and correct to the best of the valuers knowledge.
2. The determined values are inclusive of Goods and Services Tax.
3. The fee for this valuation report is not contingent upon the values reported.
4. Neither the Valuer nor any officer, employee or contractor of Hassall's has any financial interest in the property valued.
5. The valuation is made solely for the use of the client and intended users to whom it is addressed and no other. No responsibility to any third party is, or will be, accepted for any part of the valuation.
6. Hassalls consents to this report being included, in full, in Grant Thornton's Independent Expert's Report in the form and context in which the valuation assessment is provided, and not for any other purpose.
7. This valuation is solely for the use of the party to whom it is addressed and is only valid for a period of four (4) months from the date of this letter.
8. Physical condition in most instances has been determined by observation or indication by others. Any unknown conditions existing at the time of inspection could alter the value. No responsibility is assumed for latent defects of any nature whatsoever which may affect value, nor for any expertise required to disclose such conditions.
9. The valuation assumes the equipment is being maintained in accordance with the manufacturer's recommendations and all applicable and relevant service and repair history would be available to any purchaser at the time of sale.
10. No investigation of legal title to the property, unless explicitly stated otherwise, has been made and the claim to the property has been assumed to be valid.
11. No additional values have been made in regard to such intangibles as patents, trademarks or goodwill. Additionally items such as Operating Software or Building Fixtures have been excluded.
12. Matters of a legal nature or with tax consequences have not necessarily been considered in this report. The reader should consult a competent legal advisor and/or a qualified tax accountant for information and opinions in those areas.

13. Information, estimates and opinions furnished by the appraiser and contained in this report were obtained from sources considered reliable and believed to be true and correct; however, no responsibility for the accuracy of such items furnished to the appraiser can be assumed by the appraiser. No liability or responsibility is expressed for results from actions taken by anyone as a result of this report. Further, there is no accountability, obligation, or liability to any third party.
14. Machinery and equipment appraisers are called on for valuation and verification for equipment from many different fields of business. It is impossible for any appraiser to be an authority in every field of machinery/equipment. Therefore, the appraiser has endeavoured to use basic sound, accepted methodologies in any assignment. When applicable conversations with those dealing daily in a specific field were conducted, and all final evaluations are founded on prudence and best effort on the part of the appraiser. Conclusion is arrived at from many years of experience in the sale and appraisal of machinery and equipment. The final form of this report is made possible by omitting many details used in estimating, yet not considered essential to the report. Due to the complexities and variables on the many items of fixed assets, itemised values become the guideline for justification rather than individual summaries for each conclusion.
15. The Valuer has endeavoured to use due diligence in all market comparisons. If possible, multiple comparisons of similar items sold within a reasonable and applicable time period usually provide substance for a credible value determination. However, at times it is not possible to find any direct sales comparisons that have actually sold. In these cases, the appraiser has relied heavily on comments and testimony from sources considered reliable (dealers, auctioneers, manufacturers, wholesalers for example) in arriving at the final value estimate.
16. Each item in the valuation has been individually assessed with regard to a total package at auction sale. The values shown are not intended for the piecemeal selling of separate items. In the event that any item included in this valuation is separately sold or is withdrawn from sale or is to be sold either at a time different to the other items or from a different location then a re-valuation of the remaining items will be necessary.
17. In most cases, equipment is itemised, although certain areas require a group estimate, in which case the listings are shown in the quantity column as 'Lot'. This is usually applied in nominal value areas that require general descriptions for applications elsewhere, or in areas where difficulty of access for total description would have required additional time not justified by the items being valued.
18. It is assumed that all equipment has standard features commensurate with its normal operation. For instance, machinery might include: guards, electrical starters, switch-gear, safety equipment, wiring, conduit/piping and electrical, pneumatic or hydraulic controls systems, or other peripheral items considered standard for operating the indicated model or type of equipment. This type of detailed listing is not described for each machine due to repetition, time, cost, and description length within the listing. An attempt is made, however, to indicate any non-standard features at an appropriate point within the investigation.



19. Description of items made as part of this report is believed correct to the best ability of the appraiser. Any errors or omissions were unintentional and should not affect the value assignment.
20. The subject equipment may or may not conform to local EHS / OHS standards. The sole responsibility for conforming rests with the owner of the subject equipment and may not necessarily affect the final estimate of value reported herein.
21. The valuation has been prepared in good faith on the basis that full disclosure of all information and salient points which may affect the valuation. The compliers of this report and signatories of the certification, expressly disclaim all liability for any loss or damage (including economic and consequential loss) suffered by any person acting or relying on the valuation notwithstanding any act or omission, representation, negligence, default or lack of care by any person.
22. The valuation concept used in this report is one accepted by the client.

**(B) Extraordinary assumptions specific to the assignment**

- *The appraisers have assumed that the invoices provided by Mungana Goldmines Ltd are an accurate reflection of the actual cost at time of acquisition.*
- *The appraisers have assumed that the plant would meet its forecast production / processing design parameters if/when operational.*

**(C) Hypothetical conditions specific to the assignment**

- *N/A*



*The best in the field*

## APPENDICES

**A. LETTER OF ENGAGEMENT**

***NOT INCLUDED***

On File

## B. DEFINITIONS

All definitions except for 'encumbered' and 'unencumbered' extracted from "Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical Assets", The American Society of Appraisers, Second Edition, 2005, pages 68-70 and 553-595. "Encumbered" and "Unencumbered" are taken from the Farlex Financial Dictionary.

***Encumbered*** A property or asset owned by one party on which a second party reserves the right to make a valid claim, e.g., a bank's holding of a mortgage encumbers property.

***Excellent (E)*** this term describes those items that are in a near new condition and have had very little use.

***Extraordinary Assumption*** is an assumption, directly related to the specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions.

The most common extraordinary assumption would be where a piece of machinery or plant is assumed to be in working order but was not actually observed by the valuer to be operating or functioning.

***Fair (F)*** This term describes those items of equipment which because of their condition are being used at some point below their fully specified utilisation because of the effects of age and/or application and which may require general repairs and some replacement of minor elements in the foreseeable future to raise them to become utilised to or near their original condition.

***Fair Market Value*** is the estimated amount, expressed in terms of money that may be reasonably expected for a property in an exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy or sell, and both fully aware of all relevant facts, as of a specific date.

***Fair Market Value in Continued Use*** is the estimated amount, expressed in terms of money, that may reasonably be expected for a property in an exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy or sell, and both fully aware of all relevant facts, including installation, as of a specific date, and assuming that the earnings support the value reported. (This amount includes all normal direct and indirect costs to make the property fully operational and may not readily pertain to aircraft.)

***Fair Market Value - Installed*** is the estimated amount, expressed in terms of money that may reasonably be expected for an installed property in an exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy or sell, and both fully aware of all relevant facts, including installation, as of a specific date. (This amount includes all normal direct and indirect costs, such as installation and other assemblage costs, to make the property fully operational but does not have to be supported by the business earnings.)

***Fair Market Value - Removal*** is the estimated amount, expressed in terms of money, that may reasonably be expected for a property, between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy or sell and both fully aware of all relevant facts, as of a specific date, considering the cost of removal of the property to another location.

***Forced Liquidation Value*** is the estimated gross amount expressed in terms of money that could be typically realised from a properly advertised and conducted public auction, with the seller being compelled to sell with a sense of immediacy on an as-is, where-is basis, as of a specific date.

***Good (G)*** This term describes those items of equipment which are in good operating condition. They may or may not have been modified or repaired and are capable of being used at or near their fully specified utilisation.

***Hypothetical assumption*** is an assumption that is contrary to what exists but is supposed for the purpose of analysis.

An example of a hypothetical assumption is where a valuer might, for insurance purposes, be requested to provide an opinion of value for a piece of plant that has been destroyed by fire on the basis that it is still operational.

***Liquidation cost*** is the replacement cost new as defined in the insurance policy less the replacement cost new of the items specifically excluded in the policy, if any, as of a specific date.

***Insurance Value Depreciated*** is the liquidation cost new less accrued depreciation considered for insurance purposes as defined in the insurance policy or other agreements, as of a specific date.

***Orderly Liquidation Value in place*** is the estimated gross amount expressed in terms of money that could typically be realised from a failed facility, assuming that the entire facility would be sold intact within a limited time to complete the sale, as of a specific date.

***New (N)*** this term describes new items that have not been used before.

***Orderly Liquidation Value*** is the estimated gross amount expressed in terms of money, that could be typically realised from a liquidation sale, given a reasonable period of time to find a purchaser(s) with the seller being compelled to sell on an as-is, where-is basis as of a specific date.

***Poor (P)*** term describes those items of equipment which because of their condition can be used only at some point well below their fully specified utilisation, and it is not possible to realise full capacity in their current condition without extensive repairs and/or the replacement of major elements in the near future.

***Reproduction cost new*** is the current cost of reproducing a new replica of a property with the same or closely similar materials.

***Replacement cost new*** is the current cost new, of a similar new property having the nearest equivalent utility as the property being appraised.

***Salvage Value (S)*** is the estimated amount expressed in terms of money that may be expected for the whole property or a component of the whole property that is retired from service for use elsewhere, as of a specific date.

***Scrap Value (X)*** is the estimated amount expressed in terms of money that could be realised for the property if it were sold for its material content, not for a productive use, as of a specific date.

***Unencumbered property or assets Property*** that is not subject to any creditor claims or liens.

***Very Good (VG)*** This term describes an item of equipment in excellent condition capable of being used to its fully specified utilisation for its designed purpose without being modified and without requiring any repairs and abnormal maintenance at the time of inspection or within the foreseeable future.

## **C. REFERENCES**

1. Appraisal Standards Board USPAP publication July1, 2006.
2. Deleted
3. The American Society of Appraisers "*Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical Assets*", McGraw-Hill Book Company, New York,, 2005, pages 567 and 569 respectively
4. The American Society of Appraisers, "*Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical Assets*", McGraw-Hill Book Company, New York, 2005, page 585
5. The American Society of Appraisers, "*Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical Assets*", McGraw-Hill Book Company, New York, 2005, page 587-588
6. American Society of Appraisers, "*Valuing Machinery & Equipment: The Fundamentals of Appraising Machinery and Technical Assets*", McGraw-Hill Book Company, New York, 2005, pages 565 -595

## **D. VALUERS QUALIFICATIONS**

### **Steven Wall**

Steve is the General Manager and Senior Valuer for Hassall's. Steve's professional's background is a unique combination of Financial Services and Appraisal expertise in formal appraisals, residual value advice, industry analysis, equipment & valuation advice, pricing and remarketing of assets through the Asia Pacific region.

Steve has over 18 years' experience in valuing and appraising a wide variety of business assets covering many diverse industries including Mining, Drilling, Transportation, Material Handling, Marine, Construction, Forestry and Primary Industries.

In 2007 Steve successfully passed the 'Uniform Standards of Professional Appraisal Practice examination. USPAP is an internationally recognised valuer's qualification that sets high standards of professionalism with the aim of increasing client confidence by producing clear, concise and credible valuations without bias or contingent fees.

Steve has been full member of the Auctioneers & Valuers Association for over 15 years and holds the title of Certified Practising Valuer (Plant & Machinery), number 267 and Steve is currently Vice President of the Australian Chapter of the American Society of Appraiser's (ASA).



**E. VALUATION SUMMARY**

	<b>Fair Market Value</b>	<b>Fair Market Value Installed</b>
Processing Plant Stored Plant	\$ 6,585,000	\$ 15,000,000
Buildings	\$ 505,000	\$ 750,000
Camp Site	\$ 340,000	\$ 555,000
Vehicles	\$ 123,000	\$ 147,500
Sundry Plant	\$ 27,000	\$ 32,000
<b>TOTAL</b>	<b>\$ 7,580,000</b>	<b>\$ 16,484,500</b>

## F. ASSET LIST AND PHOTOGRAPHS



















