## OGI GROUP LTD (TO BE RENAMED "MUSTANG RESOURCES LIMITED") ABN 34 090 074 785

## NOTICE OF GENERAL MEETING

**TIME**: 10:00am (WST)

**DATE**: 23 January 2015

**PLACE**: Level 7, 1008 Hay Street, Perth WA 6000

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

All Shareholders should refer to the Independent Expert's Report enclosed with this Notice of General Meeting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary, insert on (+61 3) 9349 1488.

## **CONTENTS PAGE** Business of the Meeting 1 Explanatory Statement (explaining the proposed Resolutions) 9 Glossary 37 Schedule 1 – Pro-forma capital structure 39 Schedule 2 – Pro-forma balance sheet 41 Schedule 3 – Timetables 44 Schedule 4 – Terms and Conditions of Performance Rights 45 Schedule 5 – Terms and Conditions of New Options 47 Schedule 6 – Calculation of voting power 50 Annexure 1 – Independent Expert's Report **Enclosed** Proxy Form Enclosed

## IMPORTANT INFORMATION

#### TIME AND PLACE OF MEETING

Notice is given that the general meeting of the Shareholders to which this Notice of Meeting relates will be held at 10:00am (WST) on 23 January 2015 at:

Level 7, 1008 Hay Street, Perth WA 6000.

#### YOUR VOTE IS IMPORTANT

The business of the Meeting affects your shareholding and your vote is important.

#### **VOTING ELIGIBILITY**

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the General Meeting are those who are registered Shareholders at 7:00pm (Sydney time) on 21 January 2015.

#### **VOTING IN PERSON**

To vote in person, attend the Meeting at the time, date and place set out above.

#### **VOTING BY PROXY**

To vote by proxy, please complete and sign the enclosed Proxy Form and return it by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, members are advised that:

each member has a right to appoint a proxy;

- the proxy need not be a member of the Company; and
- a member who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

New sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this Meeting. Broadly, the changes mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Further details on these changes are set out below.

## Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the chair the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

#### Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
  - o the proxy is not recorded as attending the meeting;
  - o the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

#### **BUSINESS OF THE MEETING**

#### **AGENDA**

#### 1. RESOLUTION 1 - CHANGE TO NATURE AND SCALE OF ACTIVITIES

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

"That, subject to and conditional upon the passing of all Acquisition Resolutions, for the purpose of ASX Listing Rule 11.1.2 and for all other purposes, approval is given for the Company to make a significant change in the nature and scale of its activities as a result of the Acquisitions and as further described in the Explanatory Statement."

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a 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 a direction on the Proxy Form to vote as the proxy decides.

## 2. RESOLUTION 2 – CONSOLIDATION OF CAPITAL

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

"That, subject to and conditional upon the passing of all Acquisition Resolutions, pursuant to section 254H of the Corporations Act, ASX Listing Rules 7.20 and 7.22.1 and for all other purposes, Shareholders approve and authorise the Company to consolidate the issued capital of the Company on the basis that:

- (a) every 67 Shares be consolidated into one Share; and
- (b) every 67 Options be consolidated into one Option,

(**Consolidation**) and otherwise on the terms and conditions set out in the Explanatory Statement."

## 3. RESOLUTION 3 – ISSUE OF SECURITIES TO VENDORS

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

"That, subject to and conditional on the passing of all Acquisition Resolutions, for the purposes of section 611 (Item 7) of the Corporations Act and for all other purposes, approval be given for the issue of the following Securities (all on a post-Consolidation basis) to the Vendors on completion of the Acquisitions:

- (a) 33,030,060 Shares;
- (b) 2,238,806 Class A Performance Rights;
- (c) 1,119,403 Class B Performance Rights;

- (d) 2,238,806 Class C Performance Rights;
- (e) 1,119,403 Class D Performance Rights;
- (f) 14,000,000 Class E Performance Rights;
- (g) 14,000,000 Class F Performance Rights;
- (h) 14,000,000 Class G Performance Rights;
- (i) 2,238,806 New Options; and
- (j) up to 50,955,224 Shares upon the vesting of the Performance Rights and exercise of the New Options contemplated by this Resolution,

and approval for the acquisition of a relevant interest in the issued voting shares of the Company by the Vendors and the Relevant Interest Parties otherwise prohibited by section 606(1) of the Corporations Act by virtue of the issue of those Securities and the potential conversion of the Performance Rights and exercise of the New Options (**Voting Acquisition**), on the terms and conditions set out in the Explanatory Statement."

**Voting Exclusion**: No votes may be cast in favour of this Resolution by:

- (a) the person proposing to make the acquisition and their associates; or
- (b) the persons (if any) from whom the acquisition is to be made and their associates.

Accordingly, the Company will disregard any votes cast on this Resolution by the Vendors and any of their associates.

**Expert's Report**: Shareholders should carefully consider the Independent Expert's Report prepared for the purpose of the Shareholder approval required under section 611 (Item 7) of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transactions the subject of this Resolution to the non-associated Shareholders in the Company. The Independent Expert has determined the issue of the Securities to the Vendors and the resulting Voting Acquisition is **not fair but reasonable** to the non-associated Shareholders.

## 4. RESOLUTION 4 – CAPITAL RAISING

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

"That, subject to and conditional on the passing of all Acquisition Resolutions, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 17,500,000 Shares on a post-Consolidation basis at an issue price or deemed issue price of \$0.20 per Share to raise up to \$3,500,000 on the terms and conditions set out in the Explanatory Statement accompanying this Notice."

**Voting Exclusion**: The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a 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 a direction on the Proxy Form to vote as the proxy decides.

#### 5. RESOLUTION 5 – PARTICIPATION OF RELATED PARTIES IN CAPITAL RAISING

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary resolution**:

"That, subject to and conditional on the passing of all Acquisition Resolutions, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given to enable Messrs Ritchie and Daymond (or their respective nominees) (**Participating Directors**) of the Company to participate in the Capital Raising up to an aggregate amount of \$65,000 on the terms and conditions set out in the Explanatory Statement."

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any of the Participating Directors of the Company and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a 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 a direction on the Proxy Form to vote as the proxy decides.

#### 6. RESOLUTION 6 - CHANGE OF COMPANY NAME

To consider and, if thought fit, to pass the following Resolution as a **special** resolution:

"That, subject to and conditional upon the passing of all Acquisition Resolutions, for the purposes of section 157(1)(a) of the Corporations Act and for all other purposes, approval is given for the name of the Company to be changed to 'Mustang Resources Limited'.

## 7. RESOLUTION 7 – ISSUE OF SHARES ON CONVERSION OF LOANS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to and conditional upon completion of the Acquisitions, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 30,500,000 Shares (on a post-Consolidation basis) on the terms and conditions set out in the Explanatory Statement."

**Voting Exclusion**: The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a 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 a direction on the Proxy Form to vote as the proxy decides.

## 8. RESOLUTION 8 – ISSUE OF SHARES ON CONVERSION OF CONVERTIBLE NOTES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to and conditional upon completion of the Acquisitions, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 2,600,000 Shares (on a postConsolidation basis) on the terms and conditions set out in the Explanatory Statement."

**Voting Exclusion**: The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a 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 a direction on the Proxy Form to vote as the proxy decides.

#### 9. RESOLUTION 9 – ISSUE OF SHARES AND NEW OPTIONS TO NOVUS CAPITAL

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to and conditional upon completion of the Acquisitions, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue 750,000 Shares and 1,500,000 New Options (each on a post-Consolidation basis) on the terms and conditions set out in the Explanatory Statement."

**Voting Exclusion**: The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a 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 a direction on the Proxy Form to vote as the proxy decides.

#### 10. RESOLUTION 10 – ISSUE OF NEW OPTIONS TO BOOMERANG CAPITAL

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to and conditional upon completion of the Acquisitions, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue 250,000 New Options (on a post-Consolidation basis) on the terms and conditions set out in the Explanatory Statement."

**Voting Exclusion**: The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a 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 a direction on the Proxy Form to vote as the proxy decides.

#### 11. RESOLUTION 11 – ISSUE OF NEW OPTIONS TO CPS SECURITIES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to and conditional upon completion of the Acquisitions, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue 250,000 New Options (on a post-Consolidation basis) on the terms and conditions set out in the Explanatory Statement."

**Voting Exclusion**: The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a 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 a direction on the Proxy Form to vote as the proxy decides.

#### 12. RESOLUTION 12 – ELECTION OF DIRECTOR – COBUS VAN WYK

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, subject to settlement of the Acquisitions occurring, approval is given for the appointment of Cobus van Wyk as a director of the Company effective from the date of settlement of the Acquisitions."

DATED: 22 December 2014

BY ORDER OF THE BOARD

Mark Freeman Director

#### **EXPLANATORY STATEMENT**

This Explanatory Statement has been prepared to provide information which the Directors consider to be material to Shareholders in deciding whether or not to pass the Resolutions which are the subject of the business of the Meeting.

Resolutions 1 to 7 (inclusive) are inter-conditional on all of those Resolutions being approved. If any of Resolutions 1 to 7 (inclusive) are not passed, then all of Resolutions 1 to 7 (inclusive) will be taken to have been rejected by Shareholders.

In the event any of Resolutions 1 to 7 are not approved, the remaining resolutions will not be voted on.

For the avoidance of doubt the Resolutions 1 to 7 (inclusive) are referred to as **Acquisition Resolutions** throughout this Notice.

## 1. BACKGROUND TO PROPOSED ACQUISITIONS

## 1.1 Details of the Acquisitions

On 4 August 2014, the Company announced it had entered into a conditional agreement with shareholders of Save River Diamonds Pty Ltd (ACN 169 674 177) (SRD) to acquire 78% of the issued capital of SRD (SRD Agreement).

On 8 September 2014, the Company announced it had entered into a conditional agreement with shareholders of Sese Diamonds Pty Ltd (ACN 169 674 186) (Sese) to acquire 74% of the issued capital of Sese (Sese Agreement).

On 20 October 2014, the Company announced it had entered into a conditional agreement with shareholders of Balama Resources Pty Ltd (ACN 601 395 368) (**Balama**) to acquire 100% of the issued capital of Balama (**Balama Agreement**).

The material terms of the SRD Agreement, Sese Agreement and Balama Agreement are as follows:

- (a) (Conditions precedent): Completion of the SRD Agreement, Sese Agreement and Balama Agreement is each conditional upon the satisfaction or waiver of the following conditions precedent:
  - (i) any and all authorisations and approvals which may be required by law (Australian or Mozambique) to implement the relevant Acquisition having been obtained, including under the ASX Listing Rules, the Corporations Act 2001 (Cth) (Corporations Act) any provision of a party's constitution or as may be required by ASIC or ASX, including (without limitation) the approval of the Company's shareholders for all relevant purposes;
  - (ii) the Company completing due diligence investigations on SRD, Sese or Balama as the context requires, its assets and the respective projects, and the sellers completing due diligence investigations on the Company, with results satisfactory to each of the Company, and sellers, in each of their absolute discretions;
  - (iii) there being no event, occurrence or change after the date of the relevant agreement that has or is reasonably likely to have a material adverse effect on the financial condition, assets,

liabilities, results of operations, profitability or prospects of SRD, Sese or Balama as the context requires or the respective projects, in the reasonable opinion of the Company;

- (iv) there being no event, occurrence or change after the date of the relevant agreement that has or is reasonably likely to have a material adverse effect on the financial condition, assets, liabilities, results of operations, profitability or prospects of the Company, in the reasonable opinion of the sellers;
- each party obtaining all third party consents, approvals or waivers required to effect the relevant Acquisition, each of which is unconditional or subject only to conditions reasonably acceptable to the parties;
- (vi) the Company receiving from ASX conditional approval to the reinstatement of the Company to trading on ASX following the completion of the relevant Acquisition;
- (vii) the Company undertaking a consolidation of its existing capital so as to enable it to satisfy condition 2 of ASX Listing Rule 2.1; and
- (viii) an independent expert opining that the respective Acquisition is in the best interests of Shareholders,

on or before 28 February 2015.

(b) (Consideration): The Company will satisfy the consideration for the Acquisitions through the issue of the following Consideration Securities (post Consolidation) (this is the subject of Resolution 3):

Acquisition	Shares	Performance Rights	New Options
SRD Agreement	11,194,030	3,358,209	1,119,403
Sese Agreement	11,194,030	3,358,209	1,119,403
Balama Agreement	10,000,000	42,000,000	nil

In addition, the Company will make the following cash payments under the Balama Agreement:

- (i) US\$100,000 to Regius Resources; and
- (ii) On conversion of the Class F Performance Rights: US\$1,500,000 to the vendor shareholders in proportion to their respective shareholdings in Balama Resources Pty Ltd.
- (c) (**Reimbursement**): On completion of the Acquisitions, the Company will reimburse costs incurred by Elba and Alimold on the Balama Project up to US\$200,000 subject to the receipt of invoices substantiating the expenses.
- (d) (**Debt conversion**): Elba and Alimold have agreed to convert a portion of the debt owing to them by SRD (\$100,000 and \$50,000 respectively) on completion of the Acquisitions at a deemed issue price per Share of \$0.20 being the same price as the Capital Raising (this issue of Shares is included in Resolution 3):

(e) (Board composition): It is proposed that following completion of the Acquisitions the board of the Company shall comprise:

Position	Name	Appointment
Non-Executive Director	Ian Daymond	30/7/2014
Executive Director	Chris Ritchie	14/11/2013
Executive Director	Cobus van Wyk	On completion of the Acquisitions
Non-Executive Director	Mark Freeman	30/7/2014

Details of the qualifications and experience of the Directors, current and incoming, are set out below.

# Chris Ritchie, B.Bus Acc, Grad Dip Int. Bus., FCPA FGIA (Executive Director & Company Secretary)

Mr Ritchie is a CPA with over twenty five (25) years' experience in ASX listed companies. Mr Ritchie has experience in the energy & resources sector with several of Australia's largest engineering contractors and services companies in the financial management of the construction of major oil and gas infrastructure projects. Mr Ritchie is a Fellow of CPA Australia and a Fellow of the Governance Institute of Australia. During the past three years, Mr Ritchie has not served as a director of any other listed companies.

#### Mark Freeman, B. Com, Grad Dip App Finance (Non-Executive Director)

Mr Freeman is a Chartered Accountant and has more than 18 years' experience in corporate finance and the resources industry. He has experience in strategic planning, business development, acquisitions and mergers, and project development general management. Prior experience with Mirabela Nickel Ltd, Exco Resources NL, Panoramic Resources NL and Matra Petroleum Plc. Mr Freeman is presently Managing Director of Grand Gulf Energy Ltd (ASX: GGE).

During the last three years, Mr Freeman has been a director of Quest Petroleum NL, Macro Energy Ltd and is currently a director of Tamaska Oil & Gas Ltd and Grand Gulf Energy Ltd.

## Ian Daymond, BA LL.B (Non-Executive Director)

Mr Daymond is a solicitor and consultant with more than 35 years' experience as an external or in-house lawyer in the mining and resources area. He was General Counsel and Company Secretary of Delta Gold Ltd for over 11 years which saw the company grow from a small gold explorer into one of the largest gold producers in Australia with significant platinum and gold mining interests in southern Africa. Mr Daymond has significant independent director experience, having served as a non-executive director of the International Base Metals Ltd with substantial copper interests in Namibia and is the former chairman of ElDore Mining Corporation Ltd (ASX:EDM), ActiveEX Ltd (ASX:AIV) and Copper Range Ltd (ASX: CRJ) and a former non-executive director of Hill End Gold Ltd.

Mr Daymond was the national chairman of the Australia-Southern Africa Business Council for 3 years and has substantial business, legal and corporate government precious, base metals and diamond projects, not only in Australia but also in southern Africa over the past 25 years. He is currently the Honorary Consul in NSW for the Republic of Botswana and a member of the Australia-Africa Mining Industry Group which promotes corporate social responsibility principles amongst Australian mining companies with activities in Africa.

During the last three years, Mr Daymond has not served as a director of any other listed company.

## Cobus van Wyk, B.Com (Executive Director)

Mr van Wyk, the Chief Executive Officer and co-founder of the Regius group of companies, obtained a Bachelor of Marketing at the Tshwane University of Technology in 1988 and completed his MBA at the University of Wales in 2003.

He started his career in the financial industry and capital markets in the Bankorp Group in South Africa during 1988. He started work on the Johannesburg Stock Exchange ("JSE") in 1994 and is a qualified portfolio manager and Stock Broker. He was accepted as a Member of the JSE in January 1996 after completing his Stockbrokers Exam at the University of the Witwatersrand. He became a member of Safex during 1996 on the derivatives market. Since 1999 Mr van Wyk was involved in corporate finance as part of his duties as member of the JSE.

Mr van Wyk has more than 23 years' experience in the financial services industry which he is applying to the mining sector. Mr van Wyk has more than 10 years' experience in mining and exploration ventures in Mozambique (tantalite & coal) as well as South Africa (platinum group metals).

The shareholders of SRD, Sese and Balama (**Vendors**) are as follows:

Vendor	SRD % ownership	Sese % ownership	Balama % ownership
Alimold	30%	25%	9%
Elba	38%	42%	33%
Regius Resources	-	-	49%
Keras	10%	7%	9%
Total	78%	74%	100%

Regius Exploration Pty Ltd, a wholly owned subsidiary of Regius Resources will hold the remaining 22% of SRD and Regius Diamonds Pty Ltd, a wholly owned subsidiary of Regius Resource, will hold the remaining 26% of Sese.

Regius Resources is entitled to have one representative on the board of each of the Company, SRD, Sese and Balama.

## 1.2 Details of the Projects

## Save River Diamonds Pty Ltd & Sese Diamonds Pty Ltd

SRD has a 65% interest in licence 4969L located in southern Mozambique near the border of Zimbabwe. 4969L covers an area of 21,660 hectares and was granted on 26 April 2012 for a period of 5 years.

Sese has a 70% interest in licence 4525L located in southern Mozambique near the border of Zimbabwe. 4525L covers an area of 2,383 hectares and was granted on 22 November 2011 for a period of 5 years.

The Save River Diamonds Project is located in southern Mozambique, next to the border with Zimbabwe (Figure 1). The area of interest is along the Save River, after the confluence with the Runde River (Figure adjacent). Save River Diamonds Pty Ltd owns 65% of L4969 (yellow outline) and Sese owns 70% of L4525 (white outline). The licence area is located where gravels, conglomerates and grits have been mapped on surface. The tertiary to quaternary aged sediments are potentially associated with alluvial diamonds. The geological model for this project is based on the Save and Runde Rivers having drained areas some 200 kms upstream with rich diamondiferous conglomerates and kimberlites (Murowa and Marange diamond fields in Zimbabwe) over millions of years. The profile of the Save/Runde Rivers from the Marange/Murowa areas in Zimbabwe to the Save River Diamonds Project shows a very steep gradient resulting in a high energy environment which

the Save River maintains until reaches the confluence with the Runde River. The topography then changes to a gentle and almost flat surface at the confluence of the rivers. This has resulted in a massive deposition of gravels on the concession area which is a substantial 40km x 10km in size.



Previous exploration work included radiometric images of the areas which showed channel features cutting across the concession. These features which are sub-parallel to the Save River, indicate that the river has migrated towards the north. Further airborne magnetic data confirmed the occurrence of a structure trending NE through the concession and is associated with structural displacements resulting in up-faulted sandstone units. The crosscutting structure formed a barrier which would have promoted the deposition of sediments and gravels on the west and eastern portion of the feature. In addition, a Ground Penetrating Radar Survey ("GPR") over the concession area was completed by TerravisionTM in April 2014. The GPR traverses confirmed the presence of a deep (14m) and wide (1-1.5km) palaeochannel in the western and central portion of the concession. Two GPR lines completed to the south of the concession mapped potential lower gravel terraces which have been affected by faulting and define a sandstone plateau and troughs with visible gravels on surface.

An exploration programme has been designed to validate the traverses and test for diamonds in all gravel settings. The programme will involve the collection of a minimum 50,000 tonnes and a maximum of 100,000 tonnes of material to test for

diamonds. A preliminary budget of US\$1.7 million is proposed for this work with the programme to commence immediately upon completion of the Acquisitions and be completed during 2014/2015. All gravels exposed during pitting and trenching will be processed for diamonds using rotary pans and Boesman jigs. Diamond size distribution and gravel volume estimates will be used to determine the grade of diamonds in the area and the depth continuity of troughs/grabens will be confirmed during pitting and trenching.

## Balama Resources Pty Ltd

Balama has direct interests in the following licences located in southern Mozambique near the border of Zimbabwe:

## **Balama Graphite Project**

Tenement	Ownership	Area	Status	Term
4661L	60% interest in licence through JV with licence holder. Agreement between Regius Exploration Limitada (wholly owned subsidiary of Regius in Mozambique) and Duplo Dragao Industrial Limitada	148.9Km²	Granted	Issue Date: 11-09-2012 Valid Until: 11-09-2018
4662L	60% interest in licence through JV with licence holder. Agreement between Regius Exploration Limitada (wholly owned subsidiary of Regius in Mozambique) and Duplo Dragao Industrial Limitada	95Km²	Granted	Issue Date: 01-10-2012 Valid Until: 01-10-2017
5873L	75% interest in licence through JV with licence holder. Agreement between Regius and Cosec Limitada	138Km²	Approved, awaiting grant	Issue Date: 22-07-2014 Valid Until: 22-07-2019
6636L	75% interest in licence through JV with licence holder. Agreement between Regius and Mr. Jacinto Gabriel Sitoe	46Km²	Granted	Issue Date: 16-07-2014 Valid Until: 16-07-2019
6678L	80% interest in licence through JV with licence holder. Agreement between Regius and Mr. Tomas Frederico Mandlate	32Km²	Granted	Issue Date: 18-03-2014 Valid Until: 18-03-2019
6527L	75% interest in licence through JV with licence holder. Agreement between Regius and Green Energy & Minerals Lda	210Km²	Granted	Issue Date: 07-03-2014 Valid Until: 07-03-2019

The Company through the acquisition of Balama Resources Pty Ltd has acquired a portfolio of 6 highly prospective tenements in Balama graphite province, Cabo Delgado, Mozambique. The Balama licences collectively make up >80,000ha (800sqkm) and are all underlain by the locally graphite bearing schists (green unit in the below map). Importantly, the tenements are all along geological strike of 2 recent major discoveries by Syrah Resources Ltd (ASX: SYR) and Triton Minerals Ltd (ASX:TON).

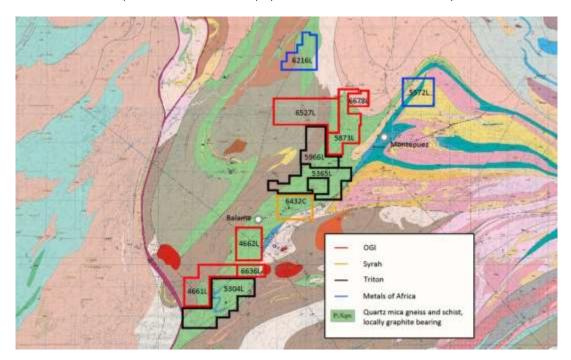
- > Syrah has identified one of the world's largest graphite deposits at Balama, containing high-grade zones combined with an exceptional quality product. Syrah has delineated an Inferred Resource of 1.15 billion tonne Graphite resource at 10.2% TGC and 0.23% V2O5.
- > Triton has identified the world's fourth largest graphite deposit at Nicanda Hill. The Inferred or Indicated Mineral Resources are defined as 1.457 billion tonnes at 10.7% TGC and 0.27% V2O5, containing 155.9 million tonnes of graphite and 3.93 Mt of V2O5.

A recent exploration program conducted by Balama Resources has discovered numerous graphite outcrops as well as electromagnetic anomalies consistent with graphite mineralisation (as graphite is a highly conductive mineral).

An extensive 42 km ground electromagnetic survey (EM-34) was concluded on the Balama graphite tenements during September 2014 which provided evidence of multiple areas of potential graphite mineralisation in all the tenements, further validated by numerous graphite outcrops discovered on the southern licences and the extrapolation of the neighbouring graphite deposit within licence 5966L into the Balama licence 5873L, directly north of it. Balama is currently processing all the gathered field data and the Company advised ASX on 11 November 2014 of the substantive positive results.

Within the Balama licences 5873L & 6527L a distinct positive anomaly is observed that strikes in a north-easterly direction from the established Graphitic carbon intersection on the neighbouring property (5966L) as illustrated in the below image providing very strong indications of graphite mineralisation on licence 5873L held by Balama.

The Company will focus on acquiring more Graphite concessions. In the first quarter of 2015 the Company plans on finalising environmental work and electromagnetic approvals, conducting the airborne electromagnetic survey, engaging with the geologists & geophysicists on drill target selection, setting up of a drilling camp in Balama and procuring & mobilising necessary minimum support equipment to commence initial drilling.



For further information in relation to the Projects, refer to the Independent Valuation Report prepared by Malcolm Castle and included as Annexure 1 to the Independent Expert's Report.

## 1.3 Material terms and obligations from third party agreements

## **SRD** and Sese Loan Facility

The Company has agreed to provide up to an aggregate of US\$1,700,000 to SRD and Sese to be used for the bulk sampling program on licence 4969L and licence 4525L which will be sole funded by SRD and is to be completed within a 12 month period. Interest will accrue on the amounts outstanding at 2.5% above LIBOR (London Interbank Offer Rate). In the event the Acquisitions do not proceed any portion of the funds that have been advanced together with accrued interest will be due and payable within 3 months.

## **SRD Joint Venture**

SRD will sole fund the exploration in two phases:

- (a) Phase 1: Up to US\$1,700,000 to complete a bulk sampling program on licence 4969L. Any diamonds recovered will be sold on the international market by open tender with SRD entitled to 100% of the net revenue until the loan and accrued interest is repaid in full.
- (b) Phase 2: Up to US\$10,000,000 to undertake full scale mining on licence 4969L. Any diamonds recovered will be sold on the international market by open tender with SRD entitled to 50% of the net revenue until the loan and accrued interest is repaid in full with the remaining 50% distributed to shareholders of the legal owner of the licence (of which SRD is a 65% holder).

## **Balama Project**

Licences other than 5873L

The Company will free carry the minority holders until a decision to mine is made on the relevant licence.

Licence 5873L

The Company will have the exclusive right to sole fund exploration and prospecting works on the licence until 31 July 2016. In addition, an aggregate of US\$4,000,000 is payable as follows:

- (a) US\$200,000 on or before 15 December 2014;
- (b) US\$700,000 on or before 15 February 2016; and
- (c) US\$3,100,000 on or before 31 July 2016.

## 1.4 Competent person's statement

The information in this Notice that relates to Exploration Results and Mineral Resources and is based on information compiled by Malcolm Castle, who is a Member of The Australasian Institute of Mining and Metallurgy. Malcolm Castle is a consultant to the Company. Mr Castle 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 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves'. Mr Castle consents to the inclusion in this Notice of the matters based on his information in the form and context in which it appears.

#### 1.5 Pro forma capital structure

The capital structure of the Company following completion of the Acquisitions and issues of all Shares contemplated by this Notice is set out in Schedule 1.

#### 1.6 Pro forma balance sheet

An unaudited pro-forma balance sheet of the Company following completion of the Acquisitions and issues of all Shares contemplated by this Notice is set out in Schedule 2.

## 1.7 Indicative timetable

An indicative timetable for completion of the Acquisitions and subsequent reinstatement of Shares to trading on the Official List of ASX is set out in Schedule 3.

## 1.8 Benefits of the Acquisition

The Directors are of the view that the following non-exhaustive list of benefits may be relevant to a Shareholder's decision on how to vote on the Resolutions:

(a) The Company will be exposed to a greater diversity of commodities including diamonds, graphite and vanadium.

- (b) Diamond trial mining and exploration can be commenced immediately on the granted tenements. This will permit a higher percentage of Shareholder Funds to be used for exploration activities in the near future.
- (c) The Balama graphite project is regarded as highly promising with strong potential to move quickly to advanced exploration status with a modest exploration program.
- (d) On completion of the Acquisitions the Company will hold various interests in a substantial tenement package totalling 94,000 hectares in Mozambique.
- (e) The Company will be well positioned to gain access to additional project opportunities within the highly prospective Mozambique mineral belt.
- (a) Completion of the Loans (which will be satisfied by conversion to Shares subject to Shareholder approval) and the Capital Raising will provide the Company with significant funds for exploration of the Projects.
- (b) The potential increase in market capitalisation of the Company following completion of the Acquisitions and the associated capital raising may lead to increased coverage from investment analysts, access to improved equity capital market opportunities and increased liquidity which are not currently present.
- (c) The appointment of Mr Cobus van Wyk as Director provides the Company with extensive experience and a proven track record within the diamond and graphite exploration sector.

## 1.9 Risks of the Acquisition

The Directors are of the view that the following non-exhaustive list of risks may be relevant to a Shareholder's decision on how to vote on the Resolutions:

- (a) the Vendors will collectively become major Shareholders of the Company and have a significant influence over the operations of the Company;
- (b) current Shareholders will have their voting power in the Company significantly diluted;
- (c) current Shareholders will be exposed to additional risks associated with the Projects including:
  - (i) Mineral exploration is a high risk activity and future discoveries of economic mineral deposits cannot be guaranteed.
  - (ii) The Projects are generally at brownfields exploration status and have been subject to little modern exploration.
  - (iii) There are as yet no defined reserves or resources on the Projects.
  - (iv) Despite the best efforts of the Company, there is no guarantee of exploration success, and even if there is exploration success, there is no guarantee that development of any such success will be commercially viable.

- (v) Commodity prices and exchange rates fluctuate and are affected by numerous factors beyond the control of the Company, including demand and production levels. Movements in commodity prices and exchange rates will impact on the business.
- (vi) The Company's success largely depends on the competencies of its Directors and management, particularly their knowledge and ability to operate in the mining industry and the Company's ability to retain these key executives. Background to the New Directors is set out in Section 1.1(e).
- (vii) The Company's ability to raise further funds within an acceptable timeframe, of a sufficient amount, and on terms acceptable to the Company will vary according to a number of factors which may be beyond its reasonable control. These factors include: the results of exploration, subsequent feasibility studies, economic conditions, development and mining, availability of debt and equity financing and the movement in pricing of relevant commodities and exchange rates.
- (viii) Absence of agreements with minority holders. On completion of the Acquisitions SRD and Save will not be wholly owned by the Company and SRD, Save and Balama will not be the sole registered holder of their respective licences. Contractual terms exist in relation to the initial exploration activities proposed by the Company but subsequent to the sole funding periods there are no formal terms governing the joint venture relationship of the various parties. The Company intends to negotiate formal agreements with the various parties during the sole funding period, however, where a formal agreement is not entered the ability of the Company to proceed with further activities on the licences may be impaired.
- (i) The Projects are in Mozambique and may have the following country specific risks:
  - (A) the Company's ability to carry on its business in the normal course may be adversely affected by considerations associated with economic, social or political instability or change, hyperinflation, changes in regulatory regimes affecting foreign ownership, Government participation, working conditions, exchange rate fluctuations and/or changes to the mining licensing and regulatory regimes in Mozambique.
  - (B) title to the tenements and the Company's interest in them will be subject to renewal or grant at the discretion of the relevant regulatory authorities. Furthermore, mining tenements and operations are generally subject to specific legislative conditions and governmental edicts from time to time. If for any reason such conditions are unable to be met for whatever reason with respect to the Tenements, this could affect the good standing of the Tenements or restrict their ability to be renewed. Loss of any interest in the Tenements in this way could result

in a loss to the Company through the loss of opportunity to discover or develop mineral resources on the tenements.

- the Company's ability to successfully exploit the tenements commercially will depend on a robust transport and service infrastructure network in Mozambique to deliver equipment, supplies and resources to and from any mining operations. Development of such transport or service infrastructure may be unpredictable and not up to the standard generally seen in more developed nations. Material delays in the transportation of equipment, supplies and resources may delay the development of the Tenements and have an adverse effect the Company's business, results of operations and financial condition.
- (D) Access to and the ability to develop the tenements may depend on negotiating access and compensation arrangements with local communities and landholders. The ability to successfully conclude those arrangements and the exact quantum of any compensation payable are unknown at the date of this document.

## 1.10 Intentions if Acquisitions are not approved

If the Resolutions are not passed and the Acquisitions are not completed, the Company then the Company's present intention is to continue with its current management and exploration and investment strategy in oil and gas exploration in the Gulf Coast of the USA.

#### 1.11 Director's recommendation

The Directors do not have any material personal interests in the outcome of the Resolutions and unanimously recommend that Shareholders vote in favour of the Resolutions as they consider the proposed Acquisitions and associated issue of Securities under Resolutions 1 and 3 to be in the best interests of Shareholders for the following reasons:

- (a) after assessment of the benefits and risks referred to in Sections 1.8 and 1.9 the Directors are of the view that the benefits outweigh the risks; and
- (b) the Independent Expert has determined the issue of the Consideration Shares to be **not fair but reasonable** to the non-associated Shareholders.

### 2. RESOLUTION 1 – APPROVAL TO CHANGE THE NATURE AND SCALE OF ACTIVITIES

#### 2.1 General

Resolution 1 seeks approval from Shareholders for a change in the nature and scale of the activities of the Company to change the focus of the Company's activities to the exploration and mining of diamonds on the Projects and any other projects subsequently identified by the Company as having the potential to add value for Shareholders consistent with this new focus.

As outlined in Section 1.2 of this Explanatory Statement, the Company has entered into the Agreement whereby the Company proposes to acquire a majority

ownership in both SRD and Sese and sole ownership of Balama.

The Agreements are subject to the Conditions Precedent as summarised above and a detailed description of the Projects in which SRD, Sese and Balama have an interest is also outlined above.

## 2.2 Legal requirements

ASX Listing Rule 11.1 provides that where an entity proposes to make a significant change, either directly or indirectly, to the nature or scale of its activities, it must provide full details to ASX as soon as practicable and comply with the following:

- (a) provide to ASX information regarding the change and its effect on future potential earnings, and any information that ASX asks for;
- (f) if ASX requires, obtain the approval of holders of its shares and any requirements of ASX in relation to the notice of meeting; and
- (g) if ASX requires, meet the requirements of Chapters 1 and 2 of the ASX Listing Rules as if the company were applying for admission to the official list of ASX.

ASX has indicated to the Company that, given the proposed change in the nature and scale of the Company's activities, it requires the Company to:

- (a) obtain Shareholder approval for the change in nature and scale of its activities; and
- (b) in accordance with ASX Listing Rule 11.1.3, re-comply with the admission requirements set out in Chapters 1 and 2 of the ASX Listing Rules as if the Company were applying for admission to the official list of ASX.

#### 2.3 Suspension until re-compliance with Chapters 1 and 2 of the ASX Listing Rules

The Company's securities will be subjected to a trading halt or suspension and thereby cease trading on ASX prior to market open on the day of the Meeting.

If the Resolutions are approved at the Meeting, it is expected that the Company's securities will remain suspended from quotation until the Company has completed the Acquisitions and re-complied with Chapters 1 and 2 of the ASX Listing Rules, including by satisfaction of conditions precedent to reinstatement imposed by ASX.

If the Resolutions are not approved at the Meeting, it is expected that the Company's securities will be reinstated to quotation on ASX after the Company announces the results of the Meeting in accordance with the ASX Listing Rules and Corporations Act.

#### 3. RESOLUTION 2 – CONSOLIDATION

## 3.1 Background

Resolution 2 seeks Shareholder approval to consolidate the number of Shares and Options on issue on a 1 for 67 basis (**Consolidation**).

The purpose of the Consolidation is to implement a more appropriate capital structure for the Company going forward and to seek to comply with relevant ASX

Listing Rules when the Company seeks to obtain re-quotation of its Shares on ASX, should Shareholder approval be obtained for the Acquisition Resolutions.

The Directors intend to implement the Consolidation prior to completion of the Acquisitions and prior to the proposed issues of Securities pursuant to the Acquisition Resolutions, but the Consolidation will only occur if Shareholders approve those Resolutions.

## 3.2 Legal requirements

Section 254H of the Corporations Act provides that a company may, by resolution passed in a general meeting, convert all or any of its shares into a larger or smaller number.

The ASX Listing Rules also require that the number of Options on issue be consolidated in the same ratio as the ordinary capital and the exercise price amended in inverse proportion to that ratio. The Company does not currently have any Options on issue.

#### 3.3 Fractional entitlements

Not all Security holders will hold that number of Shares or Options (as the case may be) which can be evenly divided by 67. Where a fractional entitlement occurs, the Company will round that fraction down to the nearest whole Security.

#### 3.4 Taxation

It is not considered that any taxation implications will exist for Security holders arising from the Consolidation. However, Security holders are advised to seek their own tax advice on the effect of the Consolidation and the Company, the Directors and the Proposed Directors and their advisers do not accept any responsibility for the individual taxation implications arising from the Consolidation or the other Acquisition Resolutions.

## 3.5 Holding statements and Option certificates

From the date of the Consolidation all holding statements for Shares and Options will cease to have any effect, except as evidence of entitlement to a certain number of Securities on a post-Consolidation basis.

After the Consolidation becomes effective, the Company will arrange for new holding statements for Shares and Options to be issued to their respective holders.

It is the responsibility of each Security holder to check the number of Shares or Options held prior to disposal or exercise (as the case may be).

#### 3.6 Effect on capital structure

The estimated effect which the Consolidation will have on the capital structure of the Company is set out in the table in Schedule 1.

## 3.7 Indicative timetable

If Resolution 2 and all the other Acquisition Resolutions are passed, the Consolidation of capital is proposed to take effect pursuant to the timetable in Schedule 3 in accordance with the timetable as set out in Appendix 7A (paragraph 5) of the ASX Listing Rules.

#### 4. RESOLUTION 3 – ISSUE OF SECURITIES TO VENDORS

#### 4.1 General

Resolution 4 seeks Shareholder approval for the purpose of section 611 (Item 7) of the Corporations Act to allow the Company to issue the Consideration Securities to the Vendors in consideration for the Acquisitions as well as the acquisition of a relevant interest in the issued voting shares of the Company by the Vendors and and the Relevant Interest Parties otherwise prohibited by section 606(1) of the Corporations Act by virtue of the issue of those Securities and the potential conversion of the Performance Rights and exercise of the New Options (Voting Acquisition).

The terms and conditions of the Performance Rights and New Options are set out in Schedules 4 and 5 respectively.

Assuming there is no change to the Vendor's relevant interest in Shares or the capital structure of the Company as at the date of this Notice (other than the issue of the Consideration Securities and subsequent conversion of the Performance Rights and exercise of the Options as well as minimum Capital Raising of \$1,050,000 and the issue of Shares contemplated by Resolutions 7, 8 and 9) the Vendor's voting power in the Company will increase as detailed in Schedule 6. The Vendor's voting power will be a lesser amount where the maximum Capital Raising is completed and prior to the conversion of the Performance Rights and exercise of the Options.

Pursuant to ASX Listing Rule 7.2 (Exception 16), shareholder approval pursuant to ASX Listing Rule 7.1 is not required where approval is being obtained pursuant to section 611 (Item 7) of the Corporations Act. Accordingly, if Resolution 4 is passed by the requisite majority, the issue of the Consideration Securities will be made without using the Company's 15% annual placement capacity and the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1.

The Corporations Act and ASIC Regulatory Guide 74 set out a number of regulatory requirements which must be satisfied. These are summarised below.

#### 4.2 Section 606 of the Corporations Act – Statutory Prohibition

Pursuant to section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% and below 90%,

(Prohibition).

## **Voting power**

The voting power of a person in a body corporate is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

#### **Associates**

For the purposes of determining voting power under the Corporations Act, a person (second person) is an "associate" of the other person (first person) if:

- (a) (pursuant to section 12(2) of the Corporations Act) the first person is a body corporate and the second person is:
  - (i) a body corporate the first person controls;
  - (ii) a body corporate that controls the first person; or
  - (iii) a body corporate that is controlled by an entity that controls the first person;
- (b) the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or
- (c) the second person is a person with whom the first person is acting or proposes to act, in concert in relation to the company's affairs.

An entity controls another entity if it has the capacity to determine the outcome of decisions about that other entity's financial and operating policies.

A relevant agreement includes an agreement, arrangement or understanding, whether written or oral, formal or informal and whether or not having legal or equitable force.

Associates are, therefore, determined as a matter of fact. For example where a person controls or influences the board or the conduct of a company's business affairs, or acts in concert with a person in relation to the entity's business affairs.

By virtue of being parties to the Agreements for the Acquisitions, the Vendors will be associates at the time of settlement of the Acquisitions. No representation is made that the Vendors will remain associates following completion of the Acquisitions and Capital Raising and therefore the indicated total voting power in the Company moving forward may not be as high as set out in this Notice.

There are no persons who are associates of the Vendor in accordance with this definition.

#### Relevant interests

Section 608(1) of the Corporations Act provides that a person has a relevant interest in securities if they:

- (a) are the holder of the securities;
- (b) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (c) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

In addition, section 608(3) of the Corporations Act provides that a person has a relevant interest in securities that any of the following has:

- (a) a body corporate in which the person's voting power is above 20%;
- (b) a body corporate that the person controls.

The following parties (**Relevant Interest Parties**) will have a relevant interest in the securities to be issued to the Vendors:

- (a) Frank Petruzzelli is deemed to hold a relevant interest in the securities Elba holds in the Company, on the basis that his voting power in Elba is greater than 20%. Frank Petruzzelli does not have any associates with an existing relevant interest in the Company.
- (b) Tom Booth is deemed to hold a relevant interest in the securities Alimold holds in the Company, on the basis that his voting power in Alimold is greater than 20%. Tom Booth does not have any associates with an existing relevant interest in the Company.
- (c) Charles Mostert is deemed to hold a relevant interest in the securities Keras holds in the Company, on the basis that his voting power in Keras is greater than 20%. Charles Mostert does not have any associates with an existing relevant interest in the Company.
- (d) Cobus van Wyk is deemed to hold a relevant interest in the securities Regius Resources holds in the Company, on the basis that his voting power in Regius Resources is greater than 20%. Cobus van Wyk does not have any associates with an existing relevant interest in the Company.
- (e) Christiaan Jordaan is deemed to hold a relevant interest in the securities Regius Resources holds in the Company, on the basis that his voting power in Regius Resources is greater than 20%. Christiaan Jordaan does not have any associates with an existing relevant interest in the Company.

#### 4.3 Reasons why section 611 approval required

Item 7 of section 611 of the Corporations Act provides an exception to the Prohibition described in Section 4.2 above, whereby a person and their associates may acquire a relevant interest in a company's voting shares with shareholder approval.

The Vendors are associates as they are acting or proposing to act, in concert at the time of completion of the Acquisitions and therefore in determining their voting power, their relevant interests will be aggregated. However, there is no determination that the Vendors will continue to be associates for the purpose of the Corporations Act following completion of the Acquisitions.

Accordingly, the relevant interests of the Vendors and their associates in the Company after implementation of all the Acquisition Resolutions (when aggregated) will increase from nil to more than 20%.

On this basis, the Company seeks Shareholder approval for the proposed issues under Resolution 3 in accordance with item 7 of section 611 of the Corporations Act to enable the Vendors and their associates to increase their voting power in the Company in excess of the threshold limit prescribed by the Corporations Act.

Accordingly, the Company is seeking the approval of Shareholders under item 7 of section 611 of the Corporations Act in respect of the proposed issues of Securities contemplated by Resolution 3.

# 4.4 Specific Information Required by section 611 Item 7 of the Corporations Act and ASIC Regulatory Guide 74

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for Item 7 of section 611 of the Corporations Act. Shareholders are also referred to the Independent Expert's Report which is enclosed at Annexure 1.

## (a) Identity of persons proposing to participate in the issue and their associates

If Resolutions 3 is passed and on completion of the Acquisitions, the persons who will hold a relevant interest in the Consideration Securities, along with their associates (if any), are the Vendors and the Relevant Interest Parties.

Other than the Vendors being considered associates of each other for the purposes of the Acquisitions there are no associates of Vendors for the purposes of determining its voting power under the Corporations Act. It is noted that there is no determination that the Vendors will continue to be associates for the purpose of the Corporations Act following completion of the Acquisitions.

There are no associates of the Relevant Interest Parties for the purposes of determining its voting power under the Corporations Act.

#### (a) Changes in voting power

The maximum extent of the increase in voting power in the Company resulting from the Acquisitions as well as the voting power resulting from the Voting Acquisition for the Vendors, the Relevant Interest Parties and their respective associates is set out in Schedule 6.

## (b) Intentions as to the future of the Company

Other than as disclosed elsewhere in this Explanatory Statement and changes pursuant to the Acquisitions and the Resolutions, the Company understands that the Vendors and their associates (including the Proposed Directors):

- (i) have no intention of making any significant changes to the business of the Company;
- (ii) have no intention to inject further capital into the Company;
- (iii) have no intention of making changes regarding the future employment of the present employees of the Company;

- (iv) do not intend to redeploy any fixed assets of the Company;
- (v) do not intend to transfer any property between the Company and the Vendors or any entity associated with any one of them;
- (vi) do not intend to significantly change the financial policy of the Company, however the Vendors may choose to implement a dividend policy but make no forecast as to whether any dividend will be payable; and
- (vii) other than the proposed appointments referred to in Section 1.1(e), have no intention to change the composition of the Board.

These intentions are based on the Company's understanding of the Vendors' and their associates' intentions as at the date of this Notice and on information concerning the Company its businesses and the business environment which is known to the Vendors and their associates at the date of this Notice.

Final decisions regarding these matters will only be made by the Vendors and their associates (including the Proposed Directors), together or individually, in light of material information and circumstances at the relevant time. Accordingly, the statements set out above are statements of current intention only, which may change as new information becomes available or as circumstances change.

## (c) Directors' interests

No Directors are related parties of any of the Vendors or any of their associates. Nor do the Directors have any interest in any shares in the Vendors or their respective associates (to the extent that they are companies).

#### 4.5 Benefits of the issue of the Consideration Securities

The Directors are of the view that the non-exhaustive list of benefits set out in Section 1.8 are relevant to a Shareholder's decision on how to vote on Resolution 4 as well as all other Resolutions.

#### 4.6 Risks of the issue of the Consideration Shares

The Directors are of the view that the non-exhaustive list of risks set out in Section 1.9 are relevant to a Shareholder's decision on how to vote on Resolution 4 as well as all other Resolutions.

#### 4.7 Recommendations of Directors

The Directors do not have any material personal interests in the outcome of Resolution 4 and unanimously recommend that Shareholders vote in favour of Resolution 4 as they consider the proposed issue of the Consideration Securities to be in the best interests of Shareholders for the following reasons:

(a) after assessment of the benefits and risks referred to in Sections 1.8 and 1.9 the Directors are of the view that the benefits outweigh the risks; and

(b) the Independent Expert has determined the issue of the Consideration Securities to be **not fair but reasonable** to the non-associated Shareholders.

## 4.8 Independent Expert's Report

The Independent Expert's Report (a copy of which is attached as Annexure 1 to this Explanatory Statement) sets out a detailed examination of the issue of the Consideration Securities to the Vendors to enable non-associated Shareholders to assess the merits and decide whether to approve Resolution 4.

The Independent Expert's Report concludes that the transactions contemplated by Resolution 4 are not fair but reasonable to the non-associated Shareholders.

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 sources of information and assumptions made.

## 5. RESOLUTION 4 – CAPITAL RAISING

#### 5.1 General

Resolution 4 seeks Shareholder approval for the issue of up to 17,500,000 Shares (on a post-Consolidation basis) at an issue price of \$0.20 per Share to raise up to \$3,500,000 (Capital Raising).

The Capital Raising will be undertaken via the issue of a prospectus (**Prospectus**) to assist in complying with Chapters 1 and 2 of the ASX Listing Rules which is required to obtain re-instatement of its Shares to trading on the Official List of ASX on completion of the Acquisitions.

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

The effect of Resolution 4 will be to allow the Company to issue up to 17,500,000 Shares pursuant to the Capital Raising during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity under ASX Listing Rule 7.1.

## 5.2 Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the Capital Raising:

- (a) the maximum number of Shares to be issued under Resolution 4 is 17,500,000 Shares, on a post-Consolidation basis;
- (b) the Shares will be issued no later than 3 months after the date of the General Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the Shares will occur on the same date;
- (c) the issue price will be \$0.20 per Share;

- (d) the Shares are proposed to be issued to the applicants of the Capital Raising under a Prospectus. No related party of the Company will participate in the Capital Raising other than as approved under Resolution 5:
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as, the Company's existing Shares on issue; and
- (f) the Company intends to use the funds raised from the Shares issued under the Capital Raising in conjunction with the funds advance to the Company by the Loans in the following manner:

Issue Budget	Min	Max
Trial mining Diamonds	(2,142,857)	(2,142,857)
Balama Exploration Project	(2,023,810)	(2,023,810)
Balama Rental Payments	(238,095)	(238,095)
Administration Costs	(700,000)	(700,000)
Repayment of Save		
Payments to Elba	(73,000)	(73,000)
Payments to Alimold	(100,000)	(100,000)
Balama Payments		
Payments to Regius	(178,571)	(178,571)
Payments to Elba/Alimold	(210,024)	(210,024)
Payments to Keras Capital	(178,000)	(178,000)
Repayment of Convertible Notes	(250,000)	(250,000)
Estimated Cost of Issue	(687,940)	(834,940)
Total	(6,782,297)	(6,929,297)
Funds from Prospectus	1,050,000	3,500,000
Funds from Converting notes	5,874,001	5,874,001
Sale of US Assets	684,524	684,524
Remaining cash funds	826,228	3,129,228

## 6. RESOLUTION 5 – PARTICIPATION OF RELATED PARTIES IN CAPITAL RAISING

#### 6.1 General

Resolution 5 seeks Shareholder approval for the issue of up to an aggregate of 325,000 Shares on a post-Consolidation basis, to Messrs Ritchie and Daymond (or their respective nominees) (**Participating Directors**) arising from their participation in the Capital Raising (the **Participation**).

The proportion to be issued between each Participating Director has not been determined.

For the avoidance of doubt Shares issued to the Participating Directors (or their respective nominees) will form part of, and are not additional to, the Shares issued under the Capital Raising.

## 6.2 Chapter 2E of the Corporations Act

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

The Participation will result in the issue of Shares which constitutes giving a financial benefit and each of the Participating Directors is a related party of the Company by virtue of being a Director.

The Directors consider that Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required in respect of the Participation as the Shares proposed to be issued to the Participating Directors (or their respective nominees) will be on the same terms as Shares issued to non-related party participants in the Capital Raising and as such the giving of the financial benefit is on arm's length terms.

## 6.3 ASX Listing Rule 10.11

ASX Listing Rule 10.11 requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

As the issue of Shares to the Participating Directors involves the issue of Shares to a related party of the Company, Shareholder approval pursuant to ASX Listing Rule 10.11 is required unless an exception applies. It is the view of the Directors that the exceptions set out in ASX Listing Rule 10.12 do not apply in the current circumstances.

### 6.4 Technical information required by ASX Listing Rule 10.13

Pursuant to and in accordance with ASX Listing Rule 10.13, the following information is provided in relation to the Participation:

- (a) the Shares will be issued to Messrs Ritchie and Daymond (or their respective nominees);
- (b) the maximum number of Shares to be issued is 325,000;
- (c) the Shares will be issued no later than 1 month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules);

- (d) the issue price will be \$0.20 per Share, being the same as all other Shares proposed to be issued under the Capital Raising;
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and
- (f) the funds raised will be used for the same purposes as for the Capital Raising.

Approval pursuant to ASX Listing Rule 7.1 is not required for the Participation as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of Shares to the Participating Directors will not be included in the use of the Company's 15% annual placement capacity pursuant to ASX Listing Rule 7.1.

#### 7. RESOLUTION 6 – CHANGE OF NAME

Section 157(1)(a) of the Corporations Act provides that a company may change its name if the company passes a special resolution adopting a new name.

Resolution 6 seeks the approval of Shareholders for the Company to change its name to "Mustang Resources Limited".

If Resolution 6 is passed the change of name will take effect when ASIC alters the details of the Company's registration.

The Board proposes this change of name on the basis that it more accurately reflects the proposed future operations of the Company, if the Acquisitions are completed.

Resolution 6 is not inter-conditional with the other Resolutions. However the Company will only change its name where all of the Acquisition Resolutions are passed.

#### 8. RESOLUTION 7 – ISSUE OF SHARES ON CONVERSION OF LOANS

## 8.1 General

On 28 November 2014, the Company announced to ASX it had raised \$6,000,000 through equity loans which will automatically convert, together with accrued interest, into Shares on completion of the Acquisitions (**Loans**). The Loans are unsecured and bear an interest rate of 10% per annum calculated and accrued monthly.

Resolution 7 seeks Shareholder approval for the issue of up to 30,500,000 Shares (on a post-Consolidation basis) in consideration for the satisfaction of the Loans and accrued interest up to 31 January 2015 (Loan Conversion). Where the Loan Conversion occurs prior to 31 January 2015 less than the maximum number of Shares will be issued as the interest will only accrue up to the date of the Loan Conversion.

In the event Shareholder approval is not obtained or completion of the Acquisitions does not occur by 31 January 2015, or such other date as agreed between the Company and the lenders, the Loans may still be converted at the election of the Lenders subject to the Company complying with the requirements of the ASX Listing Rules and Corporations Act at that time. Alternatively the lenders may demand repayment within 180 days of notice of such demand.

A summary of ASX Listing Rule 7.1 is set out in Section 5.1.

The effect of Resolution 7 will be to allow the Company to issue the Shares pursuant to the Loan Conversion during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

## 8.2 Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the Loan Conversion:

- (a) the maximum number of Shares to be issued is 30,500,000 (on a post-Consolidation basis);
- (b) the Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the Shares will occur on the same date, being automatically on completion of the Acquisitions;
- (c) the deemed issue price will be \$0.20 per Share (on a post-Consolidation basis);
- (d) the Shares will be issued to clients of brokers engaged by the Company for the Loan raising. None of these parties are a related party of the Company;
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and
- (f) no funds will be raised from the Loan Conversion as the Shares are being issued in satisfaction of repayment of the Loans, however the funds advanced to the Company by the Loans will be aggregated with the funds received under the Capital Raising and used as detailed in Section 5.2(f).

## 9. RESOLUTION 8 – ISSUE OF SHARES ON CONVERSION OF CONVERTIBLE NOTES

## 9.1 General

The Company has previously issued various classes of convertible notes (Convertible Notes).

The Company has sought agreement with the holders of the Convertible Notes to automatically convert all remaining Convertible Notes including accrued interest on completion of the Acquisitions at the same price as the issue price of Shares under the Capital Raising.

Resolution 8 seeks Shareholder approval for the issue of up to 2,600,000 Shares (on a post-Consolidation basis) in consideration for the conversion of the Convertible Notes (**Note Conversion**) and interest accruing.

In the event Shareholder approval is not obtained or completion of the Acquisitions does not occur by 31 January 2015, the Convertible Notes will remain on their current terms in which case the Company would seek to extend the time

for repayment unless the holders converted the outstanding amounts to Shares in accordance with their original terms.

A summary of ASX Listing Rule 7.1 is set out in Section 5.1.

The effect of Resolution 8 will be to allow the Company to issue the Shares pursuant to the Note Conversion during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

## 9.2 Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the Note Conversion:

- (a) the maximum number of Shares to be issued is up to 2,600,000 (on a post-Consolidation basis);
- (b) the Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the Shares will occur on the same date, being automatically on completion of the Acquisitions;
- (c) the deemed issue price will be \$0.20 per Share (on a post-Consolidation basis);
- (d) the Shares will be issued to holders of the Convertible Notes. None of these parties are a related party of the Company;
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and
- (f) no funds will be raised from the Note Conversion as the Shares are being issued in satisfaction of conversion of the Convertible Notes.

## 10. RESOLUTION 9 – ISSUE OF SHARES AND NEW OPTIONS TO NOVUS CAPITAL

#### 10.1 General

Resolution 9 seeks Shareholder approval for the issue of 750,000 Shares and 1,500,000 New Options (on a post-Consolidation basis) to Novus Capital Limited (or its nominees) (AFSL 238168) in consideration for brokerage services provided to the Company in relation to the Capital Raising and Loans.

In addition to the Shares and New Options, the Company will pay to Novus Capital Limited a financial advisory fee of \$30,000 (plus GST), a lead broker/management fee of 1% of the funds raised by Novus Capital Limited under the Capital Raising and through the Loans and a brokerage fee of 5% of the funds raised by Novus Capital Limited under the Capital Raising and through the Loans (each excluding Shareholders applying for additional Shares to increase their holding to a parcel of Shares worth \$2,000 based on the issue price of Shares under the Capital Raising).

A summary of ASX Listing Rule 7.1 is set out in Section 5.1.

The effect of Resolution 9 will be to allow the Company to issue the Shares and New Options during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

## 10.2 Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to Resolution 9:

- (a) the maximum number of Shares and New Options to be issued is 750,000 and 1,500,000 respectively;
- (b) the Shares and New Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue will occur on the same date, being on completion of the Acquisitions;
- (c) the deemed issue price will be \$0.20 per Share and nil per Option (each on a post-Consolidation basis);
- (d) the Shares and New Options will be issued to Novus Capital Limited (or its nominees) (AFSL 238168) who is not a related party of the Company;
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (f) the New Options will be issued on the terms and conditions set out in Schedule 5; and
- (g) no funds will be raised as the Shares and New Options are being issued in consideration for brokerage services provided to the Company in relation to the Capital Raising and Loans.

#### 11. RESOLUTION 10 – ISSUE OF NEW OPTIONS TO BOOMERANG CAPITAL

#### 11.1 General

Resolution 10 seeks Shareholder approval for the issue of 250,000 New Options (on a post-Consolidation basis) to Boomerang Capital Pty Ltd (ACN 602 020 913) (or its nominees) in consideration for brokerage services provided to the Company in relation to the Capital Raising and Loans.

In addition to the New Options, the Company will pay to Boomerang Capital Pty Ltd a brokerage fee of 5% of the funds raised by Boomerang Capital Pty Ltd under the Capital Raising and Loans.

A summary of ASX Listing Rule 7.1 is set out in Section 5.1.

The effect of Resolution 10 will be to allow the Company to issue the New Options during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

## 11.2 Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to Resolution 10:

- (a) the maximum number of New Options to be issued is 250,000;
- (b) the New Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue will occur on the same date, being on completion of the Acquisitions;
- (c) the New Options will be issued for nil cash consideration in satisfaction of brokerage services provided to the Company in relation to the Capital Raising and Loans;
- (d) the New Options will be issued to Boomerang Capital Pty Ltd (or its nominees) who is not a related party of the Company;
- (e) the New Options will be issued on the terms and conditions set out in Schedule 5; and
- (f) no funds will be raised as the New Options are being issued in consideration for brokerage services provided to the Company in relation to the Capital Raising and Loans.

#### 12. RESOLUTION 11 – ISSUE OF NEW OPTIONS TO CPS SECURITIES

#### 12.1 General

Resolution 11 seeks Shareholder approval for the issue of 250,000 New Options (on a post-Consolidation basis) to CPS Securities (or its nominees) in consideration for brokerage services provided to the Company in relation to the Capital Raising and Loans.

A summary of ASX Listing Rule 7.1 is set out in Section 5.1.

The effect of Resolution 11 will be to allow the Company to issue the New Options during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

## 12.2 Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to Resolution 11:

- (a) the maximum number of New Options to be issued is 250,000;
- (b) the New Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue will occur on the same date, being on completion of the Acquisitions;
- (c) the New Options will be issued for nil cash consideration in satisfaction of brokerage services provided to the Company in relation to the Capital Raising and Loans;

- (d) the New Options will be issued to CPS Securities (or its nominees) who is not a related party of the Company;
- (e) the New Options will be issued on the terms and conditions set out in Schedule 5; and
- (f) no funds will be raised as the New Options are being issued in consideration for brokerage services provided to the Company in relation to the Capital Raising and Loans.

## 13. RESOLUTION 12 - ELECTION OF DIRECTOR - COBUS VAN WYK

## 13.1 Background

Regius is entitled to nominate one person to be appointed a director of the Company effective on and from completion of the Acquisitions.

## 13.2 Constitution requirements

Clause 6.1(c) of the Constitution provides that the Company may by resolution elect any natural person to be a director, either as an addition to existing directors or as otherwise provided by the Constitution.

Clause 6.1 (m) (ii) permits the Directors to nominate a person for election at a shareholder meeting. The Directors have nominated Cobus van Wyk for election at this Meeting with his appointment being subject to and effective from completion of the Acquisitions.

## 13.3 Background and qualifications

Details of the background and qualification of Cobus van Wyk are set out in Section 1.1(e).

#### 13.4 Board recommendation

The board recommends shareholders vote in favour of resolution 12.

#### **GLOSSARY**

\$ means Australian dollars.

**Acquisitions** has the meaning given to that term in Section 1.1.

**Acquisition Resolutions** means the inter-conditional resolutions in this Notice being Resolution 1-7 (inclusive).

Alimold means Alimold Pty Ltd (ACN 008 593 084).

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited.

**ASX Listing Rules** or **Listing Rules** means the Listing Rules of ASX.

**Board** means the current board of directors of the Company.

**Business Day** means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Chair means the chair of the Meeting.

Company means OGI Group Ltd (ACN 090 074 785).

Corporations Act means the Corporations Act 2001 (Cth).

**Directors** means the current directors of the Company.

**Elba** means Elba Investments (Pty) Ltd (ACN 006 799 113).

**Explanatory Statement** means the explanatory statement accompanying the Notice.

**General Meeting** or **Meeting** means the meeting convened by the Notice.

Keras Capital means Keras Capital (Pty) Ltd (ACN 114 441 155).

**Notice** or **Notice** of **Meeting** means this notice of meeting including the Explanatory Statement and the Schedules, the Annexures and the Proxy Form.

**Option** means an option to acquire a Share.

**Optionholder** means a holder of an Option.

**Proxy Form** means the proxy form accompanying the Notice.

**Regius Resources** means Regius Resources Group Ltd, a company registered under the laws of England and Wales with company number 8718309.

**Resolutions** means the resolutions set out in the Notice, or any one of them, as the context requires.

**Section** means a section of the Explanatory Statement unless otherwise specified.

**Security** means a security issued or to be issued in the capital of the Company, including a Share, Performance Right or an Option.

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means a holder of a Share.

**WST** means Western Standard Time as observed in Perth, Western Australia.

# SCHEDULE 1 - PRO-FORMA CAPITAL STRUCTURE

Shares	Pre- Consolidation	Post- Consolidation
Shares on issue as at the date of this Notice (subject to rounding for the Consolidation)	483,856,094	7,221,732
Shares issued pursuant to Resolution 3	-	33,030,060
Shares issued pursuant to Resolution 4 (includes any participation pursuant to Resolution 5) (assumes maximum amount of \$3,500,000 is raised)	-	17,500,000
Shares issued pursuant to Resolution 7	-	30,500,000
Shares issued pursuant to Resolution 8	-	2,600,000
Shares issued pursuant to Resolution 9	-	750,000
Total Shares on issue on completion of the Acquisitions	-	90,851,942

Options <sup>1</sup>	Pre- Consolidation	Post- Consolidation
Unquoted exercisable at \$0.50 each on or before 19 March 2016 (pre-Consolidation) / Unquoted exercisable at \$33.50 each on or before 19 March 2015 (post-Consolidation)	1,800,000	26,865
Unquoted exercisable at \$0.06 each on or before 19 April 2016 (pre-Consolidation) / Unquoted exercisable at \$4.02 each on or before 19 April 2016 (post-Consolidation)	400,000	5,970
Unquoted exercisable at \$0.03 each on or before 22 May 2016 (pre-Consolidation) / Unquoted exercisable at \$2.01 each on or before 22 May 2016 (post-Consolidation)	1,000,000	14,925
Unquoted exercisable at \$0.0375 each on or before 27 June 2016 (pre-Consolidation) / Unquoted exercisable at \$2.5125 each on or before 27 June 2016 (post-Consolidation)	440,000	6,567
Unquoted exercisable at \$0.03 each on or before 31 July 2016 (pre-Consolidation) / Unquoted exercisable at \$2.01 each on or before 31 July 2016 (post-Consolidation)	536,000	8,000
Unquoted exercisable at \$0.0275 each on or before 6 September 2016 (pre-Consolidation) / Unquoted exercisable at \$1.8425 each on or before 6 September 2016 (post-Consolidation)	524,445	7,827

Options <sup>1</sup>	Pre- Consolidation	Post- Consolidation
Unquoted exercisable at \$0.0036 each on or before 10 November 2017 (pre-Consolidation) / Unquoted exercisable at \$0.2412 each on or before 10 November 2017 (post-Consolidation)	10,000,000	149,253
Options issued pursuant to Resolution 3 (terms and conditions contained in Schedule 5)	-	2,238,806
Options issued pursuant to Resolution 9 (terms and conditions contained in Schedule 5)	-	1,500,000
Options issued pursuant to Resolution 10 (terms and conditions contained in Schedule 5)	-	250,000
Options issued pursuant to Resolution 11 (terms and conditions contained in Schedule 5)	-	250,000
Total Options on issue on completion of the Acquisitions	-	4,458,213

#### Notes:

<sup>1</sup> As at the date of this Notice the Company has the following classes of quoted Options on issue which are due to expire prior to the Meeting (31 December 2014):

- (a) 6,923,082 Options exercisable at \$1.25; and
- (b) 25,849,847 Options exercisable at \$0.50.

Given the Share price at the date of this Notice it is not expected that any of these Options will be exercised in which case they would lapse on 31 December 2014. On that basis these two classes of Options have not been included in the above table which sets out the pro-forma capital structure on completion of the Acquisitions.

Performance Rights	Pre- Consolidation	Post- Consolidation
Class A – issued pursuant to Resolution 3	-	2,238,806
Class B – issued pursuant to Resolution 3	-	1,119,403
Class C – issued pursuant to Resolution 3	-	2,238,806
Class D – issued pursuant to Resolution 3	-	1,119,403
Class E – issued pursuant to Resolution 3	-	14,000,000
Class F – issued pursuant to Resolution 3	-	14,000,000
Class G – issued pursuant to Resolution 3	-	14,000,000
Total Performance Rights on issue on completion of the Acquisitions	-	48,716,418

## SCHEDULE 2 - PRO-FORMA BALANCE SHEET

The unaudited pro-forma balance sheet has been prepared to provide information on the assets and liabilities of the Company and pro-forma assets and liabilities of the Company as noted below. The historical and pro-forma financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

# Balance Sheet and Pro Forma Balance Sheet as at 30 June 2014

	Audited as at				Pro forma		Pro forma	Pro forma	Pro forma
Statement of Financial Position	30-Jun-14	Subse	equent events	A	djustments	Adjustments			
seacement of Financial Fosicion					Minimum		Maximum	Minimum	Maximum
	\$'000		\$'000		\$'000		\$'000	\$'000	\$'000
CURRENT ASSETS									
Cash assets	1,478	a/e	5,023	j	577	ι	2,880	7,078	9,381
Receivables	1,232	b	685					1,917	1,917
Other	26							26	26
TOTAL CURRENT ASSETS	2,736		5,708		577		2,880	9,021	11,324
NON-CURRENT ASSETS									
Property, plant and equipment	6							6	6
Exploration and evaluation assets	0	С	730					730	730
Oil and gas properties	777	d	(530)					247	247
Other	250							250	250
TOTAL NON-CURRENT ASSETS	1,033		200		0		0	1,233	1,233
TOTAL ASSETS	3,769		5,908		577		2,880	10,254	12,557
CURRENT LIABILITIES									
Payables	1,765							1,765	1,765
Financial Liabilities	2,086	е	(1,836)					250	250
Cash call	37							37	37
Provisions	111	f	(85)					26	26
TOTAL CURRENT LIABILITIES	3,999		(1,921)		0		0	2,078	2,078
NON-CURRENT LIABILITIES									
Financial liabilities	0		0					0	C
Derivative liabilities	0		0					0	C
Provisions	183	g	(36)					147	147
TOTAL NON-CURRENT LIABILITIES	183		(36)		0		0	147	147
TOTAL LIABILITIES	4,182		(1,957)		0		0	2,225	2,225
NET ASSETS	(413)		7,865		577		2,880	8,029	10,332
Contributed equity	112,249	h	8,418	k	577	m	2,880	121,244	123,547
Reserves	642							642	642
Accumulated losses	(113,304)		(553)					(113,857)	(113,857)
Total Equity	(413)		7,865		577		2,880	8,029	10,332

# Pro Forma Adjustment Notes:

a. Convertible Loan Agreements Less payments to project vendors	6,000 (677) 5,323	320 AUD US plus up to USD 300
b. Receivable upon the sale of US Oil Assets	685	USD 575,000 @0.8394
c. Issue of 32.3 million shares for exploration assets	730	Based on the market value of the assets acquired - preferred value
d. Disposal of US Oil Assets at book value	(530)	USD 499,641 @ 0.9420
e. Conversion of Convertible Notes	(1,536)	
Redemption of Convertible Security	(300)	
	(1,836)	
f. Reduction in current provision due to sale of US Oil Assets	(85)	
g. Reduction in non-current provisions due to sale of US Oil Assets	(36)	
h. Issued Equity Shares issued on conversion of Convertible Notes Shares issued on conversion of	1,536	
Convertible Loans Shares issued in lieu of interest on	6,000	
Convertible Loans Shares issued in Lieu of interest on S3	121	
Con Notes	31	
Shares issued on acquistion of Diamond & Graphite Assets	730	
	8,418	
i. Net loss on Subsequent Events Profit on Sale of US Oil Assets Interest on convertible loans Interest on S3 Con Notes Cost of payment to project vendors	276 (121) (31) (677) (553)	
Capital raising	Minimum 1,050	Maximum j 3,500

6% of total capital raised (includes con loans)plus 200k	623		770
Cost of capital raising - cash	473	j	62
Cost of capital raising - shares	150	k	150
Calculation of profit on sale of US oil asset Disposal of properties with a book value of	s 530		
Consideration received - receivable	685		
Reduction in provisions current	85		
Reduction in provisions non-current	36	_	
Profit on sale	276		

# SCHEDULE 3 - TIMETABLES

# Acquisition

Event	Date
ASX announcement of Acquisitions	4 August 2014 8 September 2014 20 October 2014
Notice of meeting sent to Shareholders	On or before 22 December 2014
Prospectus lodged with ASIC	9 January 2015
Shareholder meeting (Securities commence suspension from trading until recompliance with Chapters 1 and 2 of the ASX Listing Rules)	23 January 2015
Complete Capital Raising	30 January 2015
Satisfaction (or waiver) of other conditions precedent to Acquisitions	On or before 31 January 2015
Completion of Acquisitions	4 February 2015
Securities resume trading on ASX	9 February 2015

# Consolidation

Event	Date
Shareholder approval of Consolidation	23 January 2015
ASX advised that Shareholders have approved Consolidation	23 January 2015
Last day for trading in pre-Consolidation Securities	27 January 2015
Trading in post-Consolidation Securities on a deferred settlement basis commences	28 January 2015
Last day for the Company to register transfers on a pre-Consolidation basis	30 January 2015
First day for the Company to register Securities on a post-Consolidation basis and first day for issue of holding statements	2 February 2015
Despatch date. Deferred settlement market ends.  Last day for the Company to send notice to each Security holder  Last day for Securities to be entered into the Security holders holdings	6 February 2015
Normal trading in post-Consolidation Securities commences (subject to Securities resuming trading on ASX following recompliance with Chapters 1 and 2 of the ASX Listing Rules in relation to the change of nature and scale of activities)	9 February 2015

#### SCHEDULE 4 - TERMS AND CONDITIONS OF PERFORMANCE RIGHTS

#### Terms applicable to all classes of Performance Rights

- (a) Subject to the satisfaction of the vesting condition set out in paragraph (b), each Performance Right vests to one Share.
- (b) The Performance Rights will vest on satisfaction of the Vesting Condition.
- (c) Upon:
  - (i) a takeover bid under Chapter 6 of the Corporations Act having been made in respect of the Company and;
    - (A) having received acceptances for not less than 50.1% of the Company's shares on issue; and
    - (B) been declared unconditional by the bidder; or
  - (ii) a Court granting orders approving a compromise or arrangement for the purposes of or in connection with a scheme of arrangement for the reconstruction of the Company or its amalgamation with any other company or companies,

then, to the extent the Performance Rights have not vested due to satisfaction of the Vesting Condition, the Performance Rights automatically vest to that number of Shares which when issued together with all Shares issued under any other class of Performance Rights then on issue, is equal to the lesser of one Share per Performance Right and 10% of the total Shares on issue in the Company at that time. Performance Rights that are not vested and converted into Shares will continue to be held by the holder on the same terms and conditions.

- (d) The Performance Rights shall expire and lapse in the event that the Company determines and gives written notice to the holder of the Performance Rights (in the absence of manifest error) that the Vesting Condition has not been satisfied.
- (e) The Performance Rights will be issued for nil cash consideration and no consideration will be payable upon the vesting of the Performance Rights into Shares on the satisfaction of the Vesting Condition.
- (f) Immediately following the satisfaction of the Vesting Condition the Company shall give written notice of that event to the holder of the Performance Rights that have vested and shall, unless otherwise directed by the holder allot and issue the associated number of Shares within 10 Business Days (meaning Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day) of the date of that notice.
- (g) The Company will not apply for quotation of the Performance Rights on ASX. However, the Company will apply for quotation of all Shares allotted and issued pursuant to the vesting of Performance Rights on ASX within 10 Business Days after the date of allotment and issue of those Shares and in any event, in compliance with the ASX Listing Rules.
- (h) All Shares allotted and issued upon the vesting of Performance Rights will upon allotment and issue rank pari passu in all respects with other Shares.
- (i) The Performance Rights are not transferable.

- (j) In the event of any reorganisation (including consolidation, subdivision, reduction or return) of the issued capital of the Company, the terms of the Performance Rights will be adjusted in the manner determined by the Board to ensure that no advantage or disadvantage accrues to the holder as a result of such corporate actions and in any event in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reorganisation.
- (k) Subject to paragraph (j), there are no participating rights or entitlements inherent in the Performance Rights and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Performance Rights unless the Vesting Condition has been satisfied or the Performance Rights have vested pursuant to paragraph (c) and the relevant Shares have been issued prior to the record date for determining entitlements. However, the Company will give notice to the holders of any new issues of capital prior to the record date for determining entitlements.
- (I) A Performance Right does not confer the right to vote or receive dividends.

#### **Vesting Conditions**

#### Class A

On 1 July 2016 if the Company has successfully completed the Bulk Sampling program and generated gross proceeds of \$5,000,000 from the direct mining of licence 4969L in the period from 1 January 2015 to 30 June 2016 (inclusive of both dates).

#### Class B

Upon a \$10,000,000 facility being provided to SRD on or before 30 June 2018.

#### Class C

On 1 July 2016 if the Company has successfully completed the Bulk Sampling program and generated gross proceeds of \$2,500,000 from the direct mining of licence 4525 in the period from 1 January 2015 to 30 June 2016 (inclusive of both dates).

#### Class D

Upon a \$2,500,000 facility being provided for the mining of licences L4525 and L4969 on or before 30 June 2018.

#### Class E

Upon proving a JORC Compliant Inferred Graphite Resource of a minimum of 50 Million tonnes @ >5% TGC, on any of the Balama licences on or before 31 December 2019.

#### Class F

Upon proving a JORC Compliant Inferred & Indicated Graphite Resource of a minimum of 100 Million tonnes @ >5% Total Graphitic Content, on any of the Balama licences on or before 31 December 2019.

#### Class G

Upon proving a JORC Compliant Inferred & Indicated Graphite Resource greater than 500 Million tonnes @ >5% TGC, on any of the Balama licences on or before 31 December 2019.

## SCHEDULE 5 - TERMS AND CONDITIONS OF NEW OPTIONS

The terms and conditions of the New Options are set out below.

#### (a) Entitlement

Each New Option entitles the holder to subscribe for one Share upon exercise of the New Option.

# (b) Exercise Price

Subject to paragraph (k), the amount payable upon exercise of each New Option will be:

- (i) \$0.21 for New Options issued pursuant to Resolution 3; and
- (ii) \$0.20 for New Options issued pursuant to Resolutions 9, 10 and 11,

(Exercise Price).

# (c) Expiry Date

Each New Option will expire at 5:00 pm (WST) on:

- (i) that date which is two years after the date of issue of the New Options for New Options issued pursuant to Resolution 3;
- (ii) 1 December 2016 for New Options issued pursuant to Resolution 9; and
- (iii) 31 October 2016 for New Options issued pursuant to Resolutions 10 and 11 (Expiry Date).

A New Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

## (d) Exercise Period

The New Options are exercisable at any time on or prior to the Expiry Date (Exercise Period).

#### (e) Notice of Exercise

The New Options may be exercised during the Exercise Period by notice in writing to the Company in the manner specified on the New Option certificate (**Notice of Exercise**) and payment of the Exercise Price for each New Option being exercised in Australian currency by electronic funds transfer or other means of payment acceptable to the Company.

# (f) Exercise Date

A Notice of Exercise is only effective on and from the later of the date of receipt of the Notice of Exercise and the date of receipt of the payment or the Exercise Price for each New Option being exercised in cleared funds (**Exercise Date**).

# (g) Timing of issue of Shares on exercise

Within 15 Business Days after the later of the following:

- (i) the Exercise Date; and
- (ii) when excluded information in respect of the Company (as defined in section 708A(7) of the Corporations Act) (if any) ceases to be excluded information:

but in any case no later than 20 Business Days after the Exercise Date, the Company will;

- (iii) allot and issue the number of Shares required under these terms and conditions in respect of the number of New Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (iv) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and
- (v) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.

If a notice delivered under (g)(v) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must no later than 20 Business Days after becoming aware of such notice being ineffective, lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

## (h) Shares issued on exercise

Shares issued on exercise of the New Options rank equally with the then issued fully paid ordinary shares of the Company.

## (i) Quotation of Shares issued on exercise

If admitted to the official list of ASX at the time, application will be made by the Company to ASX for quotation of the Shares issued upon the exercise of the New Options.

# (j) Unquoted

The Company will not apply for quotation of the New Options on ASX.

#### (k) Reconstruction of capital

If at any time the issued capital of the Company is reconstructed, all rights of an Option holder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

# (I) Participation in new issues

There are no participation rights or entitlements inherent in the New Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the New Options without exercising the New Options.

# (m) Change In exercise price

Subject to paragraph (k) a New Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the New Option can be exercised.

# (n) Transferability

The New Options are transferable subject to any restriction or escrow arrangements imposed by ASX or under applicable Australian securities laws.

## SCHEDULE 6 - CALCULATION OF VOTING POWER

	Shares on vesting of Performance Rights												
Vendors <sup>1</sup> and their associates	Shares held at the date of this Notice (adjusted to post Consolidation)	Shares acquired through participation in Capital Raising	Consideration Shares (including debt conversion)	Class A	Class B	Class C	Class D	Class E	Class F	Class G	Shares on exercise of New Options	Total Maximum Shares	Maximum Voting Power <sup>2</sup>
Alimold	164,179	1,375,000	9,499,322	895,522	447,761	772,388	386,1947	1,680,000	1,6,80,000	1,680,000	833,955	19,414,322	14.8%
Elba	608,794	500,000	14,997,812	1,101,493	550,746	1,309,701	654,851	4,200,000	4,200,000	4,200,000	1,205,597	33,528,944	25.6%
Keras	0	0	2,882,925	241,791	120,896	156,716	78,358	1,260,000	1,260,000	1,260,000	199,254	7,459,940	5.7%
Regius	0	0	4,900,000	0	0	0	0	6,860,000	6,860,000	6,860,000	0	25,480,000	19.4%
TOTAL VOTING POWER OF VENDORS <sup>1</sup> AND THEIR ASSOCIATES	772,973	1,875,000	32,280,060	2,238,806	1,119,403	2,238,806	1,119,403	14,000,000	14,000,000	14,000,000	2,238,806	85,883,257	65.58%

#### Notes:

<sup>&</sup>lt;sup>1</sup> The Relevant Interest Parties will have a relevant interest in the securities to be issued to the Vendors.

<sup>&</sup>lt;sup>2</sup> Maximum voting power assumes there is no change to the Vendor's relevant interest in Shares or the capital structure of the Company as at the date of this Notice (other than the issue of the Consideration Securities and subsequent conversion of the Performance Rights and exercise of the Options as well as the minimum Capital Raising of \$1,050,000 and the issue of Shares contemplated by Resolutions 7, 8 and 9). The Vendor's voting power will be a lesser amount where the maximum Capital Raising is completed and prior to the conversion of the Performance Rights and exercise of the Options.







#### Financial Services Guide

#### 12 December 2014

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by OGI Group Ltd ('OGI') to provide an independent expert's report on the proposal to acquire Save River Diamonds Pty Ltd, Sese Diamonds Pty Ltd and Balama Resources Pty Ltd. You will be provided with a copy of our report as a retail client because you are a shareholder of OGI.

#### Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ('FSG'). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

#### This FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158:
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- Any relevant associations or relationships we have; and
- Our internal and external complaints handling procedures and how you may access them.

#### Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Ltd ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

#### Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

# General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.



# Financial Services Guide

Page 2

Fees, commissions and other benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$22,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

#### Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from OGI for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

#### Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

#### Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

#### Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ('FOS'). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website <a href="www.fos.org.au">www.fos.org.au</a> or by contacting them directly via the details set out below.

Financial Ombudsman Service GPO Box 3 Melbourne VIC 3001

Toll free: 1300 78 08 08 Facsimile: (03) 9613 6399

Email: info@fos.org.au

#### Contact details

You may contact us using the details set out on page 1 of the accompanying report.



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Appendix 1 - Glossary

Appendix 2 - Valuation Methodologies

Appendix 3 - Independent Valuation Report prepared by Agricola Mining Consultants Pty Ltd



38 Station Street Subiaco, WA 6008 PO Box 700 West Perth WA 6872 Australia

12 December 2014

The Directors
OGI Group Ltd
566 Elizabeth Street
MELBOURNE VIC 3000

**Dear Directors** 

# INDEPENDENT EXPERT'S REPORT

#### 1. Introduction

OGI Group Ltd ("OGI" or "the Company") has made the following announcements:

- On 4 August 2014, the Company announced it had entered into a conditional agreement with shareholders of Save River Diamonds Pty Ltd ("SRD") to acquire 78% of the issued capital of SRD.
- On 8 September 2014, the Company announced it had entered into a conditional agreement with shareholders of Sese Diamonds Pty Ltd ("Sese") to acquire 74% of the issued capital of Sese.
- On 20 October 2014, the Company announced it had entered into a conditional agreement with shareholders of Balama Resources Pty Ltd (Balama) to acquire 100% of the issued capital of Balama.

Collectively referred to as the Transaction.

OGI will be issuing greater than 20% of the issued capital to the Vendors of the entities to be acquired and hence the approval of Company shareholders is required.

# 2. Summary and Opinion

## 2.1 Purpose of the report

The directors of OGI have requested that BDO Corporate Finance (WA) Pty Ltd ('BDO') prepare an independent expert's report ('our Report') to express an opinion as to whether or not the Transaction is fair and reasonable to the non associated shareholders of OGI ('Shareholders').

Our Report is prepared pursuant to section 611 of the Corporations Act and is to be included in the Explanatory Memorandum for OGI in order to assist the Shareholders in their decision whether to approve the Transaction.



# 2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('ASIC'), Regulatory Guide 74 'Acquisitions Approved by Members' ('RG 74'), Regulatory Guide 111 'Content of Expert's Reports' ('RG 111') and Regulatory Guide 112 'Independence of Experts' ('RG 112').

In arriving at our opinion, we have assessed the terms of the Transaction as outlined in the body of this report. We have considered:

- How the value of an OGI share prior to the Transaction on a controlling basis compares to the value of an OGI share following the Transaction on a minority interest basis;
- The likelihood of a superior alternative offer being available to OGI;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Transaction; and
- The position of Shareholders should the Transaction not proceed.

# 2.3 Opinion

We have considered the terms of the Transaction as outlined in the body of this report and have concluded that, in the absence of a superior offer, the Transaction is not fair but reasonable to Shareholders.

In our opinion, the Transaction is not fair because the value of an OGI share prior to the Transaction on a controlling interest basis is greater than the value of an OGI share on a minority basis following the Transaction. However, we consider the Transaction to be reasonable because the advantages of the Transaction to Shareholders are greater than the disadvantages. In particular, the Transaction will enable the raising of funds to occur to enable the Company to continue as a going concern and has led to a number of convertible note holders to convert to equity which has increased the pre Transaction value of a Company share.

#### 2.4 Fairness

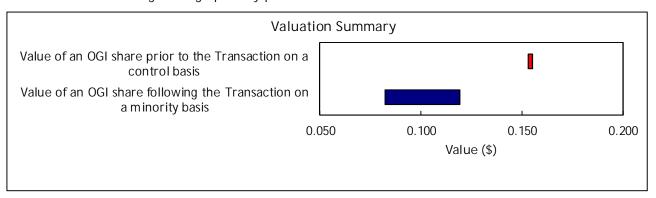
In section 11 we determined that the value of an OGI share prior to the Transaction on a controlling basis compares to the value of OGI on a minority interest basis, as detailed below.

	Ref	Low \$	Preferred \$	High \$
Value of an OGI share Pre Transaction controlling interest	9.3	0.154	0.154	0.154
Value of an OGI share Post Transaction minority interest	10.1	0.082	0.086	0.100

Source: BDO analysis



The above valuation ranges are graphically presented below:



The above pricing indicates that, in the absence of any other relevant information, and a superior offer, the Transaction is not fair for Shareholders.

#### 2.5 Reasonableness

We have considered the analysis in section 12 of this report, in terms of both

- advantages and disadvantages of the Transaction; and
- other considerations, including the position of Shareholders if the Transaction does not proceed and the consequences of not approving the Transaction.

In our opinion, the position of Shareholders if the Transaction is approved is more advantageous than the position if the Transaction is not approved. Accordingly, in the absence of any other relevant information and/or a superior proposal we believe that the Transaction is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES				
Section	Advantages	Section	Disadvantages	
12.4	Exposure to graphite and diamond projects	12.3	The Transaction is not fair	
12.4	Capital raising	12.3	Dilution of existing shareholders	
12.4	Conversion of debt to equity			

Other key matters we have considered include:

Section	Description
12.1	Alternative offers
12.2	Impact on Control



# 3. Scope of the Report

# 3.1 Purpose of the Report

Section 606 of the Corporations Act Regulations ('the Act') expressly prohibits the acquisition of shares by a party if that acquisition will result in that person (or someone else) holding an interest in 20% or more of the issued shares of a public company, unless a full takeover offer is made to all shareholders. As the vendors are considered associates and are acquiring more than 20% of OGI s611 applies to the Transaction.

Section 611 permits such an acquisition if the shareholders of that entity have agreed to the issue of such shares. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares. Section 611 states that shareholders of the company must be given all information that is material to the decision on how to vote at the meeting.

RG 74 states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of OGI, by either:

- undertaking a detailed examination of the Transaction themselves, if they consider that they have sufficient expertise; or
- by commissioning an Independent Expert's Report.

The directors of OGI have commissioned this Independent Expert's Report to satisfy this obligation.

## 3.2 Regulatory guidance

Neither the Listing Rules nor the Corporations Act defines the meaning of 'fair and reasonable'. In determining whether the Transaction is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Transaction is a control transaction as defined by RG 111 and we have therefore assessed the Transaction as a control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders.

## 3.3 Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that a



transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between value of an OGI share prior to the Transaction on a control basis and the value
  of an OGI share on a minority interest following the Transaction (fairness see Section 11 'Is the
  Transaction Fair?'); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness see Section 12 'Is the Transaction Reasonable?').

#### 3.4 Outline of the Transaction

Under the Transaction the following is to be issued to the Vendors on completion of the Acquisition:

32,388,060 Shares;

2,238,806 Class A Performance Rights;

1,119,403 Class B Performance Rights;

2,238,806 Class C Performance Rights;

1,119,403 Class D Performance Rights;

14,000,000 Class E Performance Rights, these vest upon a minimum of a 50 million ton Inferred Resouce being declared with >5% Total Contained Graphite

14,000,000 Class F Performance Rights; , these vest upon a minimum of a 100 million ton Inferred Resouce being declared with >5% Total Contained Graphite

14,000,000 Class G Performance Rights, these vest upon a minimum of a 500 million ton Inferred Resouce being declared with >5% Total Contained Graphite

2,238,806 New Options;

This results in the issued capital being up to 144,100,166 Shares upon the vesting of the Performance Rights and exercise of the New Options contemplated by this Resolution,

and approval for the Vendors and their respective associates thereby acquiring a combined voting power in the Company of up to 65% by virtue of the issue of those Securities and the potential conversion of the Performance Rights and exercise of the New Options (Voting Acquisition), on the terms and conditions set out in the Explanatory Statement."

A material termsof the SRD Agreement, Sese Agreement and Balama Agreements is as follows:

(Conditions precedent): Completion of the SRD Agreement, Sese Agreement and Balama Agreement is each conditional upon the satisfaction or waiver of the following conditions precedent:

(i) the Company paying amounts owing to Regius \$US100,000, Elba & Alimold \$A320,000 and up to \$US200,000 (based on cost recovery).



# Profile of OGI

# 4.1 History

Formerly known as Golden Gate Petroleum Ltd until 3 June 2014, OGI engages in the exploration and production of oil and gas in the Gulf Coast region of the United States. The Company has elected to withdraw from the oil and gas industry, but will continue to hold its current working interest portfolio of wells in the Napoleonville and Bowtie West projects. A summary of each of the current projects is as follows:

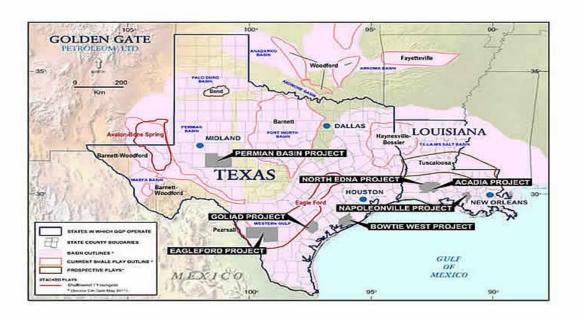
## Napoleonville:

Consists of a 15.3% interest in Dugas & Leblanc #3 well and 3.99% interest in Hensarling #1 well. The Dugas & Leblanc #3 well has been producing oil and gas for at least two years. The Hensarling #1 well was drilled and completed in June 2013 with commercial production commencing July 2013. On 2 December 2014 it was announced that these assets has been sold for US\$ 575,000 and relieving the Company of their plug and abandon liability for Fausse Point and a US\$100,000 farm in exposure to GGE. This sale is subject to the Transaction proceeding.

#### Bowtie West:

Consists of The Sugar Valley #1 well was completed in July 2012 and put into production in December 2012. OGI has 12% interest in The Sugar Valley #1 well.

A map showing where the Napoleonville and Bowtie West projects sit is shown below.



Source: OGI Audited financial statements for the year ended 30 June 2014



# 4.2 Historical Balance Sheet

Statement of Financial Position	Audited as at 30-Jun-14 \$'000	Audited as at 30-Jun-13 \$'000
CURRENT ASSETS		
Cash assets	1,478	672
Receivables	1,232	1,538
Prepayments	26	161
TOTAL CURRENT ASSETS	2,736	2,371
NON-CURRENT ASSETS		
Property, plant and equipment	6	26
Exploration and revaluation assets	-	22,000
Oil and gas properties	777	5,102
Other	250	253
TOTAL NON-CURRENT ASSETS	1,033	27,381
TOTAL ASSETS	3,769	29,752
CURRENT LIABILITIES		
Payables	1,765	5,050
Financial Liabilities	2,086	506
Cash call	37	38
Provisions	111	267
TOTAL CURRENT LIABILITIES	3,999	5,861
NON-CURRENT LIABILITIES		
Financial liabilities	-	1,007
Derivative liabilities	-	445
Provisions	183	15
TOTAL NON-CURRENT LIABILITIES	183	1,467
TOTAL LIABILITIES	4,182	7,328
NET ASSETS	(413)	22,424
FOLITY		
EQUITY  Issued capital	112,249	111,810
Reserves	642	475
Accumulated losses	(113,304)	(89,860)
TOTAL EQUITY	(413)	22,424

Source: Audited financial statements for the year ended 30 June 2014

The audited financial statements for the year ended 30 June 2014 present an unqualified audit opinion. However, the auditor raised an issue regarding a material uncertainty of the going concern assumption.



The auditors draw attention to Note 1(c) in the consolidated 2014 financial statements. This indicates that the consolidated entity incurred a net loss of \$23,444,116 during the year ended 30 June 2014, and as at that date the consolidated entity had a working capital deficiency of \$1,263,263 and its total liabilities exceeded total assets by \$413,304. Note 1(c) also indicates that to continue as a going concern, the consolidated entity is dependent on raising further capital through equity issues and via negotiating the conversion of existing convertible notes into equity of the Company. The auditor concludes that these conditions, along with other matters set forth in Note 1(c), indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Subsequent to 30 June 2014 the company has converted the majority of the convertible notes and repaid \$550,000. Debt of approximately \$6.2 million has also been arranged.

#### Commentary on Historical Balance Sheet

- The majority of the prepayments balance at 30 June 2014 relates to prepaid insurance and the majority of the prepayments balance in 2013 relates to prepaid legal expenses.
- The significant decrease in value in 2014 of Exploration and revaluation assets and Oil and gas properties is a result of the impairment and subsequent sale of the Company's development and exploration assets principally associated with the Permian project. The sale price of the Permian leases was US\$5,350,000. After adjustments and amounts held in escrow, funds received from the sale of the Permian leases were around US\$4 million.
- Other non-current assets is made up of security deposits. The security deposits are interest
  bearing and provide security towards performance bonds provided by the Consolidated Entity's
  banks to state governmental agencies against environmental obligations.
- The significant reduction in current payables is a consequence of the sale of the Permian leases as the funds received from the sale (US\$4 million) were used to pay outstanding creditors.
- Current financial liabilities increased by \$1,580,000 between 30 June 2013 and 30 June 2014. This is due to the reclassification of the convertible notes from non-current to current, accounting for the \$1,000,000 evident in the 2013 non-current financial liabilities. A convertible security was issued on 19 March 2013 with a face value of \$550,000 and is convertible at any time through to 19 March 2015- this is the other amount making up current financial liabilities as at 30 June 2014. As at 30 June 2013 this convertible security was classified as Non-current Derivative liabilities with a value of \$444,837. The embedded derivative arose due to the variability of the conversion price in the Share Purchase and Convertible Security Agreement with The Australian Special Opportunities Fund, LLC. Under accounting standards the liability will be required to be re-valued at each reporting date. No material derivative liability exists as at 30 June 2014. The Company obtained an independent valuation regarding the value of the liability as at 30 June 2014. Subsequent to 30 June 2014 the current balance has been reduced to \$711,000 via conversion and repayments.
- Current provisions consist of employee benefits and restoration costs. Non-current provisions
  consists solely of restoration costs. A provision for employee benefits is recognised in relation to
  accrued annual leave and long-service leave. A provision for restoration costs is recognised in
  relation to the exploration and production activities for costs associated with the restoration of
  the various sites. Most of the change in provision balances from 2013 to 2014 is a change in
  classification of some of the restoration costs from current (in 2013) to non-current (in 2014).
   Subsequent to year end this will reduce further with the sale of US properties occurring.



- Issued capital increased principally due to the conversion of convertible notes into ordinary shares and the Company's draw down of funds from the Working Capital Funding facility.
- The reserves balance consists of an option premium reserve, foreign exchange translation reserves and convertible note reserve. The movement in the balance from 2013 to 2014 is due soley to a movement in the foreign exchange translation reserve.

-

# 4.3 Historical Statement of Comprehensive Income

Statement of Comprehensive Income	Audited for the year ended 30-Jun-14	Audited for the year ended 30-Jun-13
	\$'000	\$'000
Revenue		
Revenue from sales	1,313	1,508
Cost of sales	(894)	(1,190)
Gross profit	419	318
Interest revenue	1	3
Expenses		
Depreciation	(11)	(10)
Impairment of debtors	(250)	(50)
Impairment of exploration & evaluation assets	(1,003)	(200)
Impairment of oil & gas properties	(401)	(577)
Administration expenses	(1,649)	(2,710)
Loss on sale of assets	-	(783)
Future value loss on derivatives	(20)	(157)
Finance costs	(266)	(311)
Loss from continuing operations before income tax	(3,180)	(4,477)
Income tax expense	-	-
Loss from continuing operations after income tax	(3,180)	(4,477)
Loss from discontinued operations	(20,264)	(1,052)
Net loss for the period	(23,444)	(5,529)
Foreign currency translation differences	167	2,181
Total comprehensive loss for the year	(23,277)	(3,348)

Source: Audited financial statements for the year ended 30 June 2014

# Commentary on Historical Statement of Comprehensive Income

- Revenue and cost of sales decreased in 2014 due to the scaling back of operations throughout the year which included the sale of the Company's main operating asset, the Permian leases.
- Impairment of exploration & evaluation assets and Impairment of oil & gas properties relates to amounts impaired at the Company's continuing operations, Bowtie West and Napoleonville projects. The recoverable amount of these continuing operations was based on their value in use. The Napoleonville projects are subject to a sale agreement that is conditional on the Transaction.



- Administration expenses decreased by 40% in 2014 to \$1.65 million, which is in line with
  expectation given the Company's consolidation of operations, mainly from the sale of less
  economic projects, has meant that it has been able to reduce its overheads. Effective 1 April
  2013, the Company implemented a 25% reduction in total overheads which included a similar
  reduction in the Executive Chairman and other executive's compensation. Further reductions in
  executive staff and compensations have also been implemented beginning in July 2014.
- Loss from discontinued operations relates mainly to the impairment of the Permian leases that were sold during the year

# 4.4 Capital Structure

The share structure of OGI as at 25 November 2014 is outlined below:

	Number
Total ordinary shares on issue	483,856,094
Top 20 shareholders	271,689,939
Top 20 shareholders - % of shares on issue	56.15%

Source: Share Registry

The range of shares held in OGI as at 25 November 2014 is as follows:

	Number of Ordinary	Number of Ordinary	Percentage of Issued
Range of Shares Held	Shareholders	Shares	Shares (%)
1 - 1,000	1,316	458,349	0.09%
1,001 - 5,000	1,545	4,232,227	0.87%
5,001 - 10,000	732	5,488,030	1.13%
10,001 - 100,000	1,423	47,839,510	9.89%
100,001 - and over	383	425,837,978	88.01%
TOTAL	5,399	483,856,094	100.00%

Source: Share Registry

The ordinary shares held by the most significant shareholders as at 25 November 2014 are detailed below:

	Number of Ordinary	Percentage of Issued
Holder	Shares Held	Shares (%)
BBY Nominees Limited	83,333,333	17.22%
LPS Holdings LLC	38,407,718	7.94%
Elba Investments Pty Ltd	21,600,000	4.46%
F & A Petruzzelli	18,544,505	3.83%
Subtotal	161,885,556	33.46%
Others	321,970,538	66.54%
Total ordinary shares on Issue	483,856,094	100.00%

Source: Share Registry



The table below details the options in OGI on issue as at 10 November 2014

Current Options on Issue	Number
\$1.25 quoted options expiring 31 December 2014	6,923,082
\$0.50 quoted options expiring 31 December 2014	25,849,847
\$0.50 unquoted options expiring 19 March 2016	1,800,000
\$0.06 unquoted options expiring 19 April 2016	400,000
\$0.03 unquoted options expiring 22 May 2016	1,000,000
\$0.0375 unquoted options expiring 7 June 2016	440,000
\$0.03 unquoted options expiring 31 July 2016	536,000
\$0.0275 unquoted options expiring 6 September 2016	524,445
\$0.0036 unquoted options expiring 10 November 2017	10,000,000
TOTAL	47,473,374

Source: 3B dated 10 November 2014



# Profile of Companies to be acquired

# 5.1 History

# Balama Resources Pty Ltd

Balama has direct interests in the following licences located in southern Mozambique near the border of Zimbabwe.

The company was incorporated on 22 August 2014 and has no historical financial statements and the only assets in the company are the interest in the exploration licence.

#### Save River Diamonds Pty Ltd

SRD has a 65% interest in licence 4969L located in southern Mozambique near the border of Zimbabwe.

The company was incorporated on 21 May 2014 and has no historical financial statements and the only assets in the company are the interest in the exploration licence.

#### Sese Diamonds Pty Ltd

Sese has a 70% interest in licence 4525L located in southern Mozambique near the border of Zimbabwe.

The company was incorporated on 21 May 2014 and has no historical financial statements and the only assets in the company are the interest in the exploration licence.

# 5.2 Balama Graphite Projects

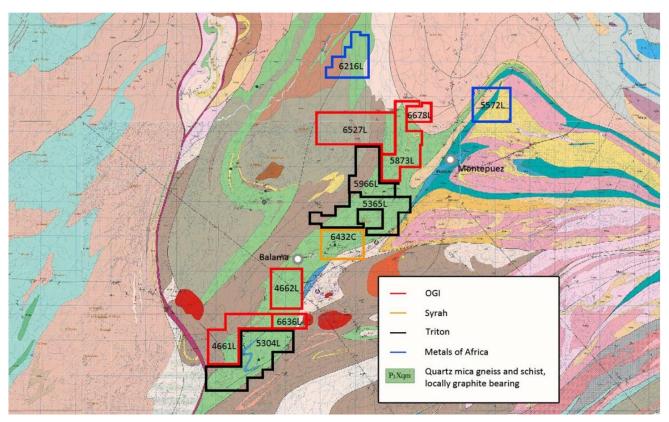
OGI through the acquisition of Balama has acquired a portfolio of 6 highly prospective tenements in Balama graphite province, Cabo Delgado, Moxambique. The Balama licences collectively make up more than 80,000ha (800sqkm) and are all underlain by the locally graphite bearing schists (green unit in the below map).

The tenements are all close to geological boundaries of two recent major discoveries by Syrah Resources (ASX:SYR) and Triton Minerals Ltd (ASX:TON).

- Syrah has identified and proven up the world's largest graphite deposit at Balama, containing high-grade zones combined with an exceptional quality product. Syrah has proven a 1.15 billion ton graphite resource at 10.2% TGC and 0.23%  $V_2O_5$ .
- In February 2014, Triton delivered what looks to be the fourth largest graphite deposit by tonnage in the world at Cobra Plains, with an initial Inferred Resource of 103 million tonnes at 5.52% TGC.

A recent exploration program conducted by Balama has discovered numerous graphite outcrops as well as electromagnetic anomalies consistent with graphite mineralisation.





Source: OGI company announcement, ASX website

# 5.3 Save River Diamonds Project

The Save River Diamonds Project was first announced on 4 August 2014 when OGI announced the acquisition of an effective 50.7% interest in a highly prospective diamond licence (L4969). Further to this, on 8 September 2014, the company announced it had secured the acquisition of 51.8% of the higly prospective diamond licence 4525L which sits adjacent to 4969L downstream from the world-class Murowa and Marange diamond fields in Zimbabwe.

The Save River Diamond Project is located in Southern Mozambique, next to the border with Zimbabwe. The area of interest is along the Save River, after the confluence with the Rundle River.

The geological model for this project is based on the Save and Rundle Rivers having drained areas some 200 kilometres upstream with rich diamondiferous conglomerates and kimberlites (Murowa and Marange diamond fields in Zimbabwe).

An exploration programme has been designed to validate the traverse and test for diamonds in all gravel settings, the programme will include the collection of a minimum 50,000 tonnes and a maximum of 100,000 tonnes of material to test for diamonds. A premilinary budget of \$1.7 million is proposed for this work with the programme reporting initial results announced on 11 November 2014.

For further information in relation to the Projects, refer to the Independent Valuation Report prepared by Agricola Mining Consultants and included as Appendix Three to the Independent Expert's Report.



# 6. Economic analysis

Growth in the global economy is continuing at a moderate pace. China's growth has generally been in line with policymakers' objectives, though some data suggest a slowing in recent months. Weakening property markets there present a challenge in the near term. Commodity prices in historical terms remain high, but some of those important to Australia have declined further in recent months.

Volatility in some financial markets has picked up in recent weeks. Overall, however, financial conditions remain very accommodative. Long-term interest rates and risk spreads remain very low. Markets still appear to be attaching a low probability to any rise in global interest rates or other adverse event over the period ahead.

In Australia, most data are consistent with moderate growth in the economy. Resources sector investment spending is starting to decline significantly, while some other areas of private demand are seeing expansion, at varying rates. Public spending is scheduled to be subdued. Overall, the Bank still expects growth to be a little below trend for the next several quarters.

Labour market data have been unusually volatile of late. The Bank's assessment remains that although some forward indicators of employment have been firming this year, the labour market has a degree of spare capacity and it will probably be some time yet before unemployment declines consistently. Growth in wages has declined noticeably and is expected to remain relatively modest over the period ahead, which should keep inflation consistent with the target even with lower levels of the exchange rate.

Monetary policy remains accommodative. Interest rates are very low and have continued to edge lower over recent months as competition to lend has increased. Investors continue to look for higher returns in response to low rates on safe instruments. Credit growth is moderate overall, but with a further pick-up in recent months in lending to investors in housing assets. Dwelling prices have continued to rise over recent months.

The exchange rate has declined recently, in large part reflecting the strengthening US dollar, but remains high by historical standards, particularly given the further declines in key commodity prices in recent months. It is offering less assistance than would normally be expected in achieving balanced growth in the economy.

Looking ahead, continued accommodative monetary policy should provide support to demand and help growth to strengthen over time. Inflation is expected to be consistent with the 2-3 per cent target over the next two years.

In the Reserve Bank Board's judgement, monetary policy is appropriately configured to foster sustainable growth in demand and inflation outcomes consistent with the target. On present indications, the most prudent course is likely to be a period of stability in interest rates.

Source: www.rba.gov.au Statement by Glenn Stevens, Governor: Monetary Policy Decision 7 October 2014



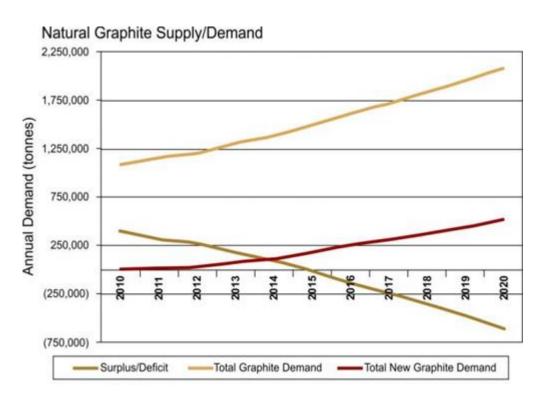
# 7. Industry analysis

# 7.1 Graphite

There are three types of graphite found naturally; these are flake, lump, and amorphous. Flake graphite commands the highest demand, due to the versatility of use, yet has the lowest supply. This creates a premium price for flake graphite with larger flake sizes having higher prices than the smaller flake size of equal purity.

A posted price for graphite provides a guideline with respect to longer term trends but transactions are commonly based on direct negotiations between the buyer and seller. Graphite prices exceeded US\$1,300/t in the late 1980's. In the 1990's, Chinese producers flooded the global market causing the price of graphite to crash to US\$600-750/t. During this period of low prices there was little exploration and as a result there are few projects at the development stage.

Graphite prices did not start to recover until 2005. Flake graphite demand grew by an average of 7.5% per annum, whereas amorphous graphite demand declined 5.2% per annum, up until 2012. The increase in flake demand was almost entirely driven by traditional steel and automotive industries and the emergence of developing economies. This caused prices to rise from US\$700/t to almost US\$3,000/t in early 2012. The subsequent slowdown in the Chinese economy combined with a lack of growth in the US, Japan and Europe has caused prices to fall back around 50%. Prices are still double their previous lows and prices for large flake have held up better. Many uneconomic mines have closed or suspended operations which indicate that we are at the marginal cost of production which should limit further declines.



Source: Byron Capital Markets

There is optimism in the graphite market as a number of new technologies have arrived and are now starting to have a meaningful impact on the market, namely lithium ion batteries and fuel cells. Graphite



demand from lithium ion batteries has grown from almost nothing five years ago to approximately 100,000tpa and represents 20% of the flake market. The fuel cell market is now a billion dollar a year industry.

Graphite prices are a function of flake size and purity with jumbo flake (>300 microns), 94% carbon commanding premium pricing. In January 2014, US\$ per tonne (94% - 97% carbon) were:

Jumbo flake: \$1,800 (>300 microns)

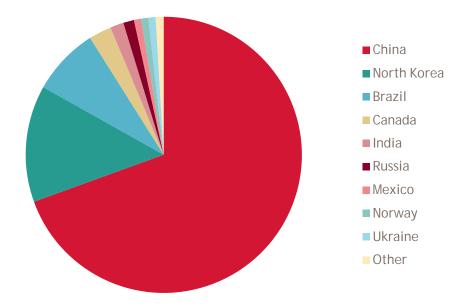
Large flake: \$1,350 (180-300 microns)

Medium flake: \$1,200 (150-180 microns)

Fine flake: \$1,050 (75-150 microns)

World production of graphite in 2011 was 925,000t, with China being the largest producer (660,000t), followed by North Korea (130,000t), then Brazil (75,000t).

# 2011 Graphite production ('000t)



Source: BDO analysis

Natural graphite production is now approximately 1.2 million tonnes per annum worldwide compared to world production of 480,000 tonnes in 2000. Of the 1.2 million tonnes natural graphite produced per annum, approximately 583,000 tonnes is estimated to be flake graphite. While the supply of graphite has proven adequate over the past decade, demand is likely to increase in the years ahead, as stated above. Typical time frames of 2-5 years are needed to bring a graphite deposit into production. As a result, there is a growing and increasingly urgent need for investment in several new mine developments.

Existing and anticipated restrictions in the availability of Chinese graphite in the world market have encouraged some foreign producers and processors to look outside of China. African graphite deposits are interesting from a quality perspective, but issues such as political instability and infrastructure-logistical problems are of major concern to prospective investors.



## 7.2 Diamonds

There are a number of different uses for diamonds based on the category they fall into. Gem diamonds are diamonds of a high quality. Low quality and small gems are used for the low end of the jewellery market. 80% of mined diamonds are unsuitable for use as gemstones and are known as industrial diamonds. They are valued for their heat conductivity and hardness and are used for cutting, drilling, grinding and polishing.

Global demand for diamond jewellery reached a record high of US\$79 billion in 2013, and this demand is expected to continue to grow over the long-term, driven by the ongoing economic recovery in the US (the world's largest diamond jewellery market) and the growth of the middle classes in developing markets of China and India. Sales of polished diamonds in the US increased seven per cent in carat terms over 2012 levels to a total of around 145 million carats. This remains well below the 2005 peak of around 175 million carats.

The rough diamond market is expected to remain balanced from 2013 through 2017. From 2018 onward, as existing mines get depleted and no major new deposits come online, supply is expected to decline, falling behind expected demand growth that will be driven by China, India and the US. Over the next 10-year period, supply and demand are expected to grow at a compound annual rate of 2.0% and 5.1% respectively. The figure below represents the actual rough diamond prices from 2009 to 2012, and the forecast rough diamond supply and demand trends to 2023.

# 30 25 Supply Supply 15 200 Demand 5 2008 2010 2012 2014F 2016F 2018F 2020F 2022F

# Rough Diamond Demand versus Supply

Source: BDO analysis

Several factors continue to threaten to disrupt the supply-demand balance. A deepening debt crisis in Europe, increased political instability in Asian countries or a slowdown in economic growth in China and India are the most likely developments that could negatively affect demand for diamonds

The price of diamonds is largely determined by supply and demand. The average price of rough diamonds increased by almost 60% from November 2009 to the peak evident in July 2011. Based on the Rapaport Diamond trade index, formulated from the average price for the top 25 best quality 1 carat diamonds, colour between D and H and clarity between internally flawless and very small inclusion, the prices for diamond have consistently fallen since the peak in July 2011 onwards.



The constant decline in diamond price over the past three years has been driven by diamond manufacturers. This was supplemented by a decline in credit availability and manufacturing margins. Buyers were also assessing the impact of various banks reducing their finance for the purchase of rough diamonds from 100 per cent to around 70 per cent.

Over the short to medium term, prices are expected to remain relatively stable, with the potential for price increases due to a firming US market and continued growth in China. Over the long term, growth is expected to be increasingly dominated by China and India. A number of large mines are expected to come to their economic end over the next decade. With an increasing demand-supply gap, a lack of significant diamond discoveries and expected demand growth in India, China and the US, the diamond prices are expected to increase over the long term.

# 8. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('FME')
- Discounted cash flow ('DCF')
- Quoted market price basis ('QMP')
- Net asset value ('NAV')
- Market based assessment A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information. In our assessment of the value of OGI shares we have chosen to employ the following methodologies:

- Net Asset Value
- Market based assessment
- QMP

We have chosen these methodologies for the following reasons:

- OGI is a minority holder in the producing assets which have subsequently been sold, the Company's most significant asset was disposed of prior to 30 June 2014
- We have considered QMP as a secondary method as a cross check
- We have used a market based assessment by Agricola Mining Consultants to value the mineral asset interests being acquired.



# 9. Valuation of OGI prior to the Transaction

# 9.1 Net Asset Valuation of OGI

The value of OGI assets on a going concern basis is reflected in our valuation below:

		Audited as at	
Statement of Financial Position	Note	30-Jun-14 \$'000	Valuation
CURRENT ASSETS	Note	\$ 000	\$'00
Cash assets	a	1,478	7,678
Receivables	_	1,232	1,23
Other		26	20
TOTAL CURRENT ASSETS	_	2,736	8,936
NON-CURRENT ASSETS			
Property, plant and equipment		6	(
Exploration and evaluation assets		-	
Oil and gas properties	С	777	928
Other		250	250
TOTAL NON-CURRENT ASSETS	_	1,033	1,184
TOTAL ASSETS	_	3,769	10,120
CURRENT LIABILITIES			
Payables		1,765	1,765
Financial Liabilities	b	2,086	6,91
Cash call		37	37
Provisions		111	111
TOTAL CURRENT LIABILITIES	-	3,999	8,824
NON-CURRENT LIABILITIES			
Financial liabilities		-	
Derivative liabilities		-	
Provisions		183	183
TOTAL NON-CURRENT LIABILITIES	_	183	183
TOTAL LIABILITIES	_	4,182	9,007
NET ASSETS	_	(413)	1,113
Shares on issue (number pre consolidation)		191,938,698	483,866,094
Post consolidation			7,221,882
Value per share (\$)			\$0.15411
Value per share (\$) Source: BDO analysis	_		\$0.1

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We have been advised that there has not been a significant change in the net assets of OGI since 30 June 2014 other than detailed below. The table above indicates the net asset value of an OGI share is \$0.15411 on a post 67 for one consolidation.

The following adjustments were made to the net assets of OGI as at 30 June in arriving at our valuation.

### (a) Cash

Subsequent to year end loans with a face value of approximately \$6.2 million were entered into, should the Transaction proceed these convertible notes will be converted to shares at 20c per share. We have not made an adjustment for the cash spent in the period to 30 September 2014 as disclosed in the Company's quarterly announcement as this expenditure related to liabilities that existed at 30 June and accordingly does not impact on net assets.

### (b) Financial liabilities and share capital

Subsequent to year end convertible notes with a value of \$1,375,000 in were repaid or converted into ordinary shares along with accrued interest payments. This resulted in a further 291,917,396 shares being issued. 10,000 shares were issued under a cleansing prospectus dated 21 November 2014.

As detailed above, loans with a face value of approximately \$6.2 million were entered into subsequent to 30 June 2014.

# (c) Valuation of Oil and Gas Properties

Subsequent to 30 June OGI announced the sale of their interest in Hensarling #1 well and their working interest in the Dugas and Leblanc wells, the 14-42 leases and facilities and the leases and facilities within the 14-149 AMI at the Napoleonville project for US\$575,000 subject to conditions precedent including the transaction proceeding. In addition the Company will be relieved of their plug and abandon liability for the Fausse Point Prjoect and a US\$100,000 farm in exposure to Grand Gulf Energy Ltd. Accordingly we have adjusted the value of these assets to reflect their sale value in our valuation. This has increased the carrying value by \$151,000. An exchange rate of 0.84 has been applied.

We note that OGI undertook an impairment exercise at 30 June 2014 on the minority interest they hold in wells which resulted in a write down which we have adopted in our valuation for properties still held.

### 9.2 Quoted Market Prices for OGI Securities

To provide a comparison to the valuation of OGI in Section 9.1, we have also assessed the quoted market price for an OGI share.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.11 suggests that when considering the value of a company's shares for the purposes of approval under Item 7 of s611 the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

• control over decision making and strategic direction;



- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

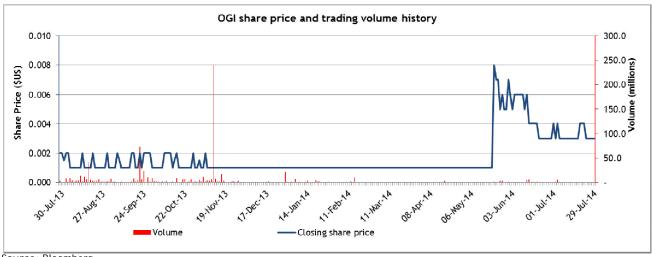
Whilst the will not be obtaining 100% of OGI, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. RG 111.13 states that the expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in Section 11.

Therefore, our calculation of the quoted market price of an OGI share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

### Minority interest value

Our analysis of the quoted market price of an OGI share is based on the pricing prior to the first announcement of the Transaction. This is because the value of an OGI share after the announcement may include the affects of any change in value as a result of the Transaction. However, we have considered the value of an OGI share following the announcements when we have considered reasonableness in Section 11.

Information on the Transaction was announced to the market on 5 August 2014. Therefore, the following chart provides a summary of the share price movement over the 12 months to 29 July 2014 which was the last trading day prior to the announcement.



Source: Bloomberg

The daily price of OGI shares from 30 July 2013 to 29 July 2014 has ranged from a low of \$0.001 for a majority of the period up to 20 May 2014, to a high of \$0.008 on 21 May 2014.

The share price was mostly stagnant for the period up to 21 May 2014, around the time when OGI shareholders approved the conversion of every 25 existing shares into one new share. At the time of the share consolidation the share price increased to an intra-day high of \$0.011. Since the share consolidation, the share price steadily declined in the remaining period of analysis ending 29 July 2014.

Over the 12 month period OGI shares have been thinly traded. On 11 November 2013, an abnormally high number of shares traded, as evident on the graph above, which can be explained by the substantial



shareholder, The Australian Special Opportunity Fund ("ASOF"), making an on market sale of 100,000,000 shares.

During this period a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement \$ (movement)		Closing Share Price Three Days After Announcement \$ (movement)			
21/07/2014	Production Report - F/E 15 July 2014	0.004		0.0%	0.003		25.0%
21/07/2014	Production Report - F/E 30 June 2014	0.004	0	0.0%	0.003	0	25.0%
30/06/2014	Production Report - F/E 15 June 2014	0.003	_	0.0%	0.004	_	33.3%
30/06/2014	Production Report - F/E 31 May 2014	0.003	_	0.0%	0.004	0	33.3%
13/06/2014	Napoleonville Update	0.004	_	33.3%	0.004	_	0.0%
12/06/2014	Permian Asset Sale Completed	0.006	0	20.0%	0.004	_	33.3%
28/05/2014	Sale of Permian Assets - Update	0.005	_	16.7%	0.006	_	20.0%
22/05/2014	Production Report - F/E 15 May 2014	0.007	0	12.5%	0.006	0	14.3%
16/05/2014	Production Reports for the 2 weeks ending 15/4 & 30/4	0.001	_	0.0%	0.008	_	700.0%
30/04/2014	Quarterly Activities Cash Flow Report	0.001	_	0.0%	0.001	_	0.0%
22/04/2014	Amendment to Consolidation Timetable	0.001	_	0.0%	0.001		0.0%
17/04/2014	Production Report - F/E 31 March 2014	0.001	_	0.0%	0.001	_	0.0%
16/04/2014	Notice of General Meeting/Proxy Form	0.001		0.0%	0.001	_	0.0%
31/03/2014	Reinstatement to Official Quotation - 1 April 2014	0.001	_	0.0%	0.001	0	0.0%
31/03/2014	Sale of Permian Assets	0.001	0	0.0%	0.001	0	0.0%
24/03/2014	Production Report - F/E 15 March 2014	0.001	0	0.0%	0.001	0	0.0%
21/03/2014	Further Delay in Releasing Half Year Accounts	0.001	_	0.0%	0.001	_	0.0%
18/03/2014	Production report for the F/E 28 February 2014	0.001	_	0.0%	0.001	0	0.0%
18/03/2014	Production Report for the F/E 15 February 2014	0.001		0.0%	0.001		0%
17/03/2014	Company Update	0.001	_	0.0%	0.001	0	0%
17/03/2014	Suspension from Official Quotation	0.001	_	0.0%	0.001	_	0%
14/02/2014	Production Report - F/E 31 Jan 2014	0.001	0	0.0%	0.001	0	0%
31/01/2014	Quarterly Activities & Cash Flow Report	0.001	0	0.0%	0.001	0	0%
28/01/2014	Company Update	0.001	0	0.0%	0.001	0	0%
20/01/2014	Production & Drilling Report - F/E 15 Jan 2014	0.001	0	0.0%	0.001	0	0%
13/01/2014	Production & Drilling Report - F/E 31 Dec 2013	0.001	0	0.0%	0.001	0	0%
30/12/2013	Production & Drilling Report - F/E 15 Dec 2013	0.001		0.0%	0.001	_	0%
09/12/2013	Appendix 3B - Convertible Notes	0.001	_	0.0%	0.001	0	0%
06/12/2013	Operations Update - Permian Project	0.001		0.0%	0.001	0	0%



Date	Announcement	Closing Share Price Following Announcement \$ (movement)		Closing Share Price Three Days After Announcement \$ (movement)		s After ement	
01/11/2013	Quarterly Activities & Cash Flow Report	0.001	_	33.3%	0.001	_	0%
29/10/2013	Operational Update	0.001		50.0%	0.001	_	0%
24/10/2013	Resolution of an Over-riding Royalty Dispute	0.001	0	0.0%	0.001	0	0%
23/10/2013	Trading Halt	0.001		0.0%	0.002		100%
01/10/2013	Production and Drilling Report	0.001	_	0.0%	0.001	0	0%
26/09/2013	Hensarling No 1 Well Update	0.002		0.0%	0.001	_	50%
26/09/2013	GGE: Desiree Producing on Jet Pump at 390 bopd	0.002	_	0.0%	0.001	0	50%
13/09/2013	Production & Drilling Report	0.001		0.0%	0.001		0%
30/08/2013	Permian Project Update	0.001	0	50.0%	0.001	_	0%

Source: Bloomberg

In the period prior to the 25:1 share consolidation, which took place on 21 May 2014, the share price was either \$0.001 or \$0.002. Given that \$0.001 is the minimum allowable share price to be traded on the ASX, it is possible that the Company was worth less than \$0.001 at times over the period before the 25:1 share consolidation.

After the share consolidation took place there was more trading activity of the Company shares. Some of the OGI announcements and corresponding trading and share price consequences are detailed as follows:

- On 16 May 2014, OGI released production reports for the four weeks ending 30 April 2014. This
  information did not present any unexpected results regarding amounts produced, but the share
  price increased 700% in the three days post announcement. The subsequent increase in share price
  was on the back of the 25:1 share consolidation that took place on 21 May 2014, rather than this
  announcement.
- On 12 June 2014, an announcement was released stating that the Permian asset sale was completed. The announcement detailed that OGI received approximately US\$3.5 million in proceeds from the sale. Following the announcement the market initially reacted positively, closing 20% higher at \$0.006 on the day of the announcement. However, three days post announcement the market had adjusted to close at \$0.004 indicating that the market had varying views on what the Permian asset was worth to OGI.
- On 13 June 2014, OGI released an update on the Napoleonville Project operations, advising that the operator of the Templet #1 well (OGI had 3.28% working interest) had secured drilling permits and a drilling rig and anticipates spudding the well prior to the end of June 2014. It was noted that the project is targeting an estimated resource of between 600,000 and 800,000 bbls of oil. The market reacted negatively to this news as the share price closed 33% lower on the day of the announcement.



To provide further analysis of the market prices for an OGI share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 29 July 2014.

Share Price per unit (\$US)	29-Jul-14	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.003				
Volume weighted average price (VWAP) Source: Bloomberg, BDO analysis		\$0.004	\$0.003	\$0.005	\$0.004

The above weighted average prices are prior to the date of the announcement of the Transaction, to avoid the influence of any increase in price of OGI shares that has occurred since the Transaction was announced.

An analysis of the volume of trading in OGI shares for the twelve months to 29 July 2014 is set out below:

Trading days	Share Price Iow (\$US)	Share price high (\$US)	Cumulative volume traded	As a % of Weighted avg No. Of shares for trading period
1 Day	\$0.003	\$0.003	-	0.00%
10 Days	\$0.003	\$0.004	1,736,833	0.90%
30 Days	\$0.003	\$0.005	17,357,522	9.04%
60 Days	\$0.001	\$0.011	45,051,366	4.71%
90 Days	\$0.001	\$0.011	49,237,416	2.37%
180 Days	\$0.001	\$0.011	134,161,733	4.04%
1 Year	\$0.001	\$0.011	799,269,784	21.47%

Source: Bloomberg, BDO analysis

This table indicates that OGI's shares display a low level of liquidity, with 21.47% of the Company's current issued capital being traded in a twelve month period. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'deep', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In the case of OGI, we do not consider there to be a deep market for the Company's shares as a result of only 21.47% of the Company's weighted average issued capital being traded over the twelve months prior to the announcement of the Transaction. A deep market for a Company's shares would trade approximately 50% of a Company's issued capital over a comparable period of twelve months.

Our assessment is that a range of values for OGI shares based on market pricing, after disregarding post announcement pricing, is between \$0.002 and \$0.004.



### **Control Premium**

We have reviewed the control premiums paid by acquirers of companies listed on the ASX. We have summarised our findings below:

Year	Number of Transactions	Average Deal Value (AU\$m)	Average Control Premium (%)
2014	6	113.29	14.51
2013	16	49.12	57.80
2012	19	135.78	42.67
2011	20	634.68	31.40
2010	24	748.05	40.76
2009	29	86.80	39.23
2008	8	553.76	38.87
	Median	135.78	39.23
	Mean	331.64	37.89

Source:

In arriving at an appropriate control premium to apply we note that observed control premiums can vary due to the:

- Nature and magnitude of non-operating assets;
- Nature and magnitude of discretionary expenses;
- Perceived quality of existing management;
- Nature and magnitude of business opportunities not currently being exploited;
- Ability to integrate the acquiree into the acquirer's business;
- Level of pre-announcement speculation of the Transaction;
- Level of liquidity in the trade of the acquiree's securities.

The table above indicates that there has been an increasing trend of control premia paid by acquirers of mining companies since 2008, in particular in 2013 which there were four control transactions with announced premiums in excess of 85%. The long term average of announced control premium paid by acquirers of mining targets in Australia is in excess of 39%. Based on the analysis above we believe that an appropriate control premium is between 20% and 30%.



### Quoted market price including control premium

Applying a control premium to OGI's quoted market share price results in the following quoted market price value including a premium for control:

	Low \$	Midpoint \$	High \$
Quoted market price value	0.002	0.003	0.004
Control premium	20%	25%	30%
Quoted market price valuation including a premium for control	0.0024	0.0038	0.0052
Post Consolidation	0.01608	0.02546	0.03484

Source: BDO analysis

Therefore, our valuation of an OGI share based on the quoted market price method and including a premium for control is between \$0.0024 and \$0.0052, with a midpoint value of \$0.0038.

### 9.3 Assessment of OGI Value

The results of the valuations performed are summarised in the table below:

	Low \$	Preferred \$	High \$
Net assets value (Section 9.1)	0.15411	0.15411	0.15411
ASX market prices (Section 9.2)	0.01608	0.02546	0.03484

Source: BDO analysis

We believe that the Net Asset value is the most appropriate valuation method to use in valuing OGI as the QMP is based on low liquidity. Further the QMP does not take into account the effect of the conversion of convertible notes post announcement and the sale of oil and gas properties.

Based on the results above we consider the value of an OGI share to be \$0.15411 post consolidation on a controlling basis.



# 10. Valuation of OGI following the Transaction

### Assessing non-cash consideration in control transactions

When assessing non-cash consideration in control transactions, RG 111.31 suggests that a comparison should be made between the value of the securities being offered (allowing for a minority discount) and the value of the target entity's securities, assuming 100% of the securities are available for sale. This comparison reflects the fact that:

- (a) the acquirer is obtaining or increasing control of the target; and
- (b) the security holders in the target will be receiving scrip constituting minority interests in the combined entity.

RG 111.32 suggests that if we use the quoted market price of securities to value the offered consideration, then we must consider and comment on:

- (a) the depth of the market for those securities;
- (b) the volatility of the market price; and
- (c) whether or not the market value is likely to represent the value if the takeover bid is successful.



### 10.1 Valuation of OGI Post Transaction

	Pre value			
Statement of Financial Position	30-Jun-14	Low value	Preferred value	High value
	\$'000	\$	\$	\$
CURRENT ASSETS				
Cash assets	7,678	7,566	7,566	9,869
Receivables	1,232	1,917	1,917	1,917
Other	26	26	26	26
TOTAL CURRENT ASSETS	8,936	9,509	9,509	11,812
NON-CURRENT ASSETS				
Property, plant and equipment	6	6	6	6
Exploration and evaluation assets	-	630	730	830
Oil and gas properties	928	243	243	243
Other	250	250	250	250
TOTAL NON-CURRENT ASSETS	1,184	1,129	1,229	1,329
TOTAL ASSETS	10,120	10,638	10,738	13,141
CURRENT LIABILITIES				
Payables	1,765	1,765	1,765	1,765
Financial Liabilities	6,911	250	250	250
Cash call	37	37	37	37
Provisions	111	26	26	26
TOTAL CURRENT LIABILITIES	8,824	2,078	2,078	2,078
NON-CURRENT LIABILITIES				
Financial liabilities	-	-	-	-
Derivative liabilities	-	-	-	-
Provisions	183	147	147	147
TOTAL NON-CURRENT LIABILITIES	183	147	147	147
TOTAL LIABILITIES	9,007	2,225	2,225	2,225
NET ASSETS	1,113	8,413	8,513	10,916
Shares on issue (number)	7,221,882	79,145,442	79,145,442	91,395,442
Value per share (\$)	\$0.154	\$0.106	\$0.108	\$0.119
Minority discount		23%	20%	17%
Value per share on a minority basis		\$0.082	\$0.086	\$0.100

The following adjustments have been made to the valuation of OGI pre Transaction to form our valuation range on a post Transaction basis.



### Shares on Issue

Shares on issue has been adjusted to reflect

	Low	Preferred	High
Opening balance	7,221,882	7,221,882	7,221,882
Issued under the Transaction	32,388,060	32,388,060	32,388,060
Issued under the capital raising of up to \$3.5m	5,250,000	5,250,000	17,500,000
Issued for the conversion of loans with a value of approximately \$6.2m	31,000,000	31,000,000	31,000,000
Issued for the conversion of convertible notes	2,535,500	2,535,500	2,535,500
Issued to Novus for capital raising	750,000	750,000	750,000
Total	79,145,442	79,145,442	91,395,442

Our preferred valuation incorporates the underwritten amount of \$1.05 million which is the underwritten component of the capital raising..

#### Cash

Cash has been adjusted to reflect the Transactions below

	Low \$	Preferred \$	High \$
Amounts payable to Regius, Elba & Alimond	(677,000)	(677,000)	(677,000)
Proceeds of the capital raising	1,050,000	1,050,000	3,500,000
Cash costs of the capital raising	(494,000)	(494,000)	(632,000)

### **Exploration assets**

	Low	Preferred	High
	\$	\$	\$
Value of assets acquired	630,000	730,000	830,000

We instructed Agricola Mining Consultants to provide a valuation of the exploration assets to be acquired as part of the Transaction. These have been valued per the table above, a copy of the independent specialists report is included at Appendix 3.

### Oil and gas properties

We have reduced the value of the oil and gas properties to reflect the sale for US\$575,000

### Receivables

We have increased the receivables to reflect the funds to be received for the sale of the oil and gas properties



### **Provisions**

We have decreased the current and non current provisions to recognise that the plug and abandon liabilities relating to the oil and gas properties sold are no longer a liability of the Company.

### Performance shares and options

We have considered the options to be issued under the Transaction and as these are out of the money we have not incorporated this into our valuation. We have not undertaken an analysis of the performance rights as these are contingent on future events for which no reasonable basis as to the likelihood of them vesting is present. We note that should they vest that there is likely to be an increase in the value of the Company.



### 11. Is the Transaction fair?

The value of OGI pre and post Transaction is compared below:

	Ref	Low \$	Preferred \$	High \$
Value of OGI Pre Transaction controlling interest	9.3	0.154	0.154	0.154
Value of OGI Post Transaction minority interest	10.1	0.082	0.086	0.100

We note from the table above that the value of an OGI share prior to the Transaction on a controlling interest basis is greater than the value of an OGI share on a minority basis following the Transaction. Therefore, we consider that the Transaction is not fair.

### 12. Is the Transaction reasonable?

### 12.1 Alternative Proposal

We are unaware of any alternative proposal that might offer the Shareholders of OGI a premium over the value ascribed to, resulting from the Transaction.

### 12.2 Practical Level of Control

If the Transaction is approved then the Vendors will hold an interest of approximately 87.3% in OGI.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution required 75% of shares on issue to be voted in favour to approve a matter. If the Transaction is approved then the vendors will be able to pass general and special resolutions.

### 12.3 Consequences of not Approving the Transaction

### Consequences

If the Transaction is not approved OGI will need to consider alternate options, we note that the accounts at 30 June 2014 included a going concern emphasis of matter. The proposed capital raising is based on the acquisition and as such may be difficult to undertake should the acquisition not be approved.

### Potential decline in share price

We have analysed movements in OGI's share price since the Transaction was announced. We note there was an increase in the share price following the announcement of the Balama acquisition and it is possible that if the Transaction is not approved then OGI's share price may decline.



## 12.4 Advantages of Approving the Transaction

We have considered the following advantages when assessing whether the Transaction is reasonable.

Advantage	Description
Exposure to the potential upside of the Mozambique assets	The Transaction provides shareholders with an interest in Diamond and Graphite projects, these projects are at an early stage of exploration and further exploration may result in an increase in value in the future. We note that Graphite projects such as Syrah have attracted significant market interest and the progression of the projects to be acquired may result in future upside to OGI.
Capital raising potential	The Transaction provides a basis on which a capital raising may be undertaken at a price of 20 cents which is in excess of the current market price.
Raising of debt funding that converts to equity	OGI has raised approximately \$6.2 million in loan funding, this funding will convert at 20c per share if the Transaction completes, this raising has been successful based on the Company having the opportunity to complete the Transaction.

## 12.5 Disadvantages of Approving the Transaction

If the Transaction is approved, in our opinion, the potential disadvantages to Shareholders include those listed in the table below:

Disadvantage	Description
The Transaction is not fair	As set out in Section 11 the Transaction is not fair.
Dilution of existing shareholders	Following the Transaction existing shareholders will hold approximately 5.01% of the Company on a fully diluted basis.

### 13. Conclusion

We have considered the terms of the Transaction as outlined in the body of this report and have concluded that the Transaction is not fair but reasonable to the Shareholders of OGI.

### 14. Sources of information

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Audited financial statements of OGI for the year ended 30 June 2014.



- Independent Valuation Report of OGI mineral assets dated 24 October 2014 performed by Agricola Mining Consultants Pty Ltd;
- Share registry information;
- Information in the public domain; and
- Discussions with Directors and Management of OGI.

# 15. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$22,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by OGI in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the OGI, including the non provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to OGI and the Vendors and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of OGI and the Vendors and their respective associates.

Neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with OGI, or their associates, other than in connection with the preparation of this report.

A draft of this report was provided to OGI and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

BDO is the brand name for the BDO International network and for each of the BDO Member firms.

BDO (Australia) Ltd, an Australian company Ltd by guarantee, is a member of BDO International Ltd, a UK company Ltd by guarantee, and forms part of the international BDO network of Independent Member Firms. BDO in Australia, is a national association of separate entities (each of which has appointed BDO (Australia) Ltd ACN 050 110 275 to represent it in BDO International).

### 16. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of



independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty five years experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 200 public company independent expert's reports under the Corporations Act or ASX Listing Rules. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Natural Resources Leader for BDO in Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 16 years in the Audit and Assurance and Corporate Finance areas. Adam has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

### 17. Disclaimers and consents

This report has been prepared at the request of OGI for inclusion in the Explanatory Memorandum which will be sent to all OGI Shareholders. OGI engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider if the Transaction to acquire Save River Diamonds Pty Ltd, Sese Diamonds Pty Ltd and Balama Resources Pty Ltd is fair and reasonable to Shareholders.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Explanatory Memorandum. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Explanatory Memorandum other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to OGI. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Transaction, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of OGI, or any other party.

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent valuations for mineral assets held by OGI.



The valuer engaged for the mineral asset valuation, Agricola Mining Consultants Pty Ltd, possess the appropriate qualifications and experience in the industry to make such assessments. The approaches adopted and assumptions made in arriving at their valuation is appropriate for this report. We have received consent from the valuer for the use of their valuation report in the preparation of this report and to append a copy of their report to this report.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully

Addu flyan

BDO CORPORATE FINANCE (WA) PTY LTD

Adam Myers

Director

**Sherif Andrawes** 

MA

Director



# Appendix 1 - Glossary of Terms

Reference	Definition
The Act	The Corporations Act
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
The Company	OGI Group Ltd
DCF	Discounted Future Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FME	Future Maintainable Earnings
JORC Code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
NAV	Net Asset Value
Our Report	This Independent Expert's Report prepared by BDO
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)
Shareholders	Shareholders of OGI not associated with the Vendors of Save River Diamonds Pty Ltd, Sese Diamonds Pty Ltd and Balama Resources Pty Ltd
The Transaction	The proposal to issue shares, performance rights and options in OGI to the vendors of Save River Diamonds Pty Ltd, Sese Diamonds Pty Ltd and Balama Resources Pty Ltd
Valmin Code	The Code of Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports



Valuation Engagement An Engagement or Assignment to perform a Valuation and provide a Valuation Report

where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or

Assignment available to the Valuer at that time.

VWAP Volume Weighted Average Price



# Appendix 2 - Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

### 1 Net asset value ('NAV')

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a Ltd life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

### 2 Quoted Market Price Basis ('QMP')

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a 'deep' market in that security.

### 3 Capitalisation of future maintainable earnings ('FME')

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.



The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('EBIT') or earnings before interest, tax, depreciation and amortisation ('EBITDA'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

### 4 Discounted future cash flows ('DCF')

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with Ltd lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

### 5 Market Based Assessment

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.



Agricola Mining Consultants Pty Ltd P.O. Box 473, South Perth, WA 6951 Mobile: 61 (4) 1234 7511

Email: mcastle@castleconsulting.com.au

ABN: 84 274 218 871

Malcolm Castle

24 October 2014

BDO Corporate Finance (WA) Pty Ltd 38 Station Street Subiaco, WA, 6008

Dear Sirs,

Re: INDEPENDENT VALUATION OF THE MINERAL ASSETS IN MOZAMBIQUE

### held by REGIUS EXPLORATION PTY LTD

We have been requested by the Directors, BDO Corporate Finance (WA) Pty Ltd ("BDO") to provide a Mineral Asset Valuation Report ("Report") of the mineral assets held by Regius Exploration Pty Ltd (the "Company") in Mozambique. This report serves to comment on the geological setting and exploration results on the properties and presents a technical and market valuation for the exploration assets based on the information in this Report.

The present status of the tenements in Mozambique is based on information made available by the Company and verified by reference to the independent due diligence report noted in the references. This Report has been prepared on the assumption that the tenements are lawfully accessible for evaluation.

### Scope of the Valuation Report

This Report was prepared by Agricola Mining Consultants Pty Ltd ("Agricola"). In the preparation of the Report, Agricola utilised information relating to operational methods and expectations provided to them by various sources. Where possible, Agricola has verified this information from independent sources. Agricola and its directors accept no liability for any losses arising from reliance upon the information presented in this Report.

This mineral asset valuation endeavours to ascertain the unencumbered price which a willing but not anxious vendor could reasonably expect to obtain and a hypothetical willing but not too anxious purchaser could reasonably expect to have to pay for the property if the vendor and the purchaser had got together and agreed on a price in friendly negotiation.

This is commonly known as the *Spencer test* after the High Court decision upon which these principles are based and to which the Courts have used in their determinations of market value of a

property. In attributing the price that would be paid to the hypothetical vendor by the hypothetical purchaser it is assumed that the property will be put to its "highest and best use".

The findings of the valuation report include an assessment of the technical value (i.e. the value implied by a consideration of the technical attributes of the asset) and a market value (which considers the influences of external market forces and risk).

Applying the *Spencer test* may not be confined to a technical valuation exercise but may involve a consideration of market factors. In a highly speculative market during 'boom' conditions or a depressed market during 'bust' conditions the hypothetical purchaser may expect to pay a premium or receive a discount commensurate with the current market for mineral properties.

The main requirements of the *Valuation Report* are:

- Prepared in accordance with the VALMIN code.
- Experience and qualifications of key personnel to be set out
- Details of valuation methodologies
- Reasoning for the selection of the valuation approach adopted
- Details of the valuation calculations
- Conclusion on value

### **Projects**

The Save River Diamonds Project is an early stage exploration project situated on alluvial river material, which are believed to have drained diamond-bearing terrane. Gravels, conglomerates and grits have been mapped on surface and radiometric surveys have indicated the potential for the gravels to be diamondiferous though no specific occurrences have been noted. The river gravels outcrop and extend for a significant distance along the riverbed.

The Balama Graphite Project is located along strike from Syrah Resources and Triton Mineral's graphite resources, and host similar geology to the graphite bearing units of these previously discovered deposits. Exploration is at an early stage and no specific targets have been identified.

Under the definition provided by the VALMIN Code, the properties are classified as 'exploration areas' without identified mineral resources, which are inherently speculative in nature. The properties are considered to be sufficiently prospective, subject to varying degrees of risk, to warrant further exploration and development of its economic potential.

### **DECLARATIONS**

### Relevant codes and guidelines

This report has been prepared as a technical assessment and valuation in accordance with the *Code* for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (the "VALMIN Code", 2005), which is binding upon Members of the Australasian Institute of Mining and Metallurgy ("AusIMM") and the Australian Institute of Geoscientists ("AIG"), as well as the rules and guidelines issued by the Australian Securities and

Investments Commission ("ASIC") and the ASX Limited ("ASX") which pertain to Independent Expert Reports (*Regulatory Guides RG111 and RG112, March 2011*).

Where mineral resources have been referred to in this report, the information was prepared and first disclosed under the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"), prepared by the Joint Ore Reserves Committee of the AusIMM, the AIG and the Minerals Council of Australia, effective 2004 and 2012 as appropriate. Some of the information has not been updated since the estimation date to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported.

### Sources of Information

The statements and opinion contained in this report are given in good faith and this review is based on information provided by the title holders, along with technical reports by consultants, previous tenements holders and other relevant published and unpublished data for the area. Agricola has endeavoured, by making all reasonable enquiries, to confirm the authenticity, accuracy and completeness of the technical data upon which this report is based. A final draft of this report was provided to the Company, along with a written request to identify any material errors or omissions prior to lodgment.

In compiling this report, Agricola did not carry out a site visit to any of the Company's Project areas. Based on its professional knowledge, experience, previous visits to the general area and the availability of extensive databases and technical reports made available by various Government Agencies, It considers that sufficient current information was available to allow an informed appraisal to be made without such a visit.

The independent valuation report has been compiled based on information available up to and including the date of this report. Consent has been given for the distribution of this report in the form and context in which it appears. Agricola has no reason to doubt the authenticity or substance of the information provided.

### Qualifications and Experience

The person responsible for the preparation of this report is:

Malcolm Castle, B.Sc. (Hons), GCertAppFin (Sec Inst), MAusIMM

Malcolm Castle has over 45 years' experience in exploration geology and property evaluation, working for major companies for 20 years as an exploration geologist. He established a consulting company over 25 years ago and specialises in exploration management, technical Audit, due diligence and property valuation at all stages of development. He has wide experience in a number of commodities including uranium, gold, base metals, iron ore and mineral sands. He has been responsible for project discovery through to feasibility study in Australia, Fiji, Southern Africa and Indonesia and technical Audits in many countries. He has completed numerous Independent Geologist's Reports and mineral asset valuations over the last decade as part of his consulting business.

Mr Castle is a qualified and competent witness in a court or tribunal capable of supporting his valuation reports or to give evidence of his opinion of market value issues.

Mr Castle completed studies in Applied Geology with the University of New South Wales in 1965 and has been awarded a B.Sc.(Hons) degree. He has completed postgraduate studies with the Securities Institute of Australia in 2001 and has been awarded a Graduate Certificate in Applied Finance and Investment in 2004.

### Competent Person's Statement

The information in this report that relates to Exploration Results and Mineral Resources of the Company has been reviewed by Malcolm Castle who is a member of the Australasian Institute of Mining and Metallurgy. Mr Castle has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as an Expert and Competent Person as defined under the VALMIN Code and in the 2004 and 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Castle consents to the inclusion in this report of the matters based on the information in the form and context in which they appear.

### Independence

Agricola or its employees and associates do not, nor intend to be a director, officer or other direct employee of the Company and have no material interest in the Projects or the Company. The relationship with the Company is solely one of professional association between client and independent consultant. The review work and this report are prepared in return for professional fees based upon agreed commercial rates and the payment of these fees is in no way contingent on the results of this Report.

### Valuation Opinion

Based on an assessment of the factors involved the estimate of market value of the Company's Projects is in the range of A\$630,000 to A\$830,000 with a preferred value of A\$730,000.

Yours faithfully

Malcolm Castle

B.Sc.(Hons) MAusIMM, GCertAppFin (Sec Inst) Agricola Mining Consultants Pty Ltd

### TENEMENT SCHEDULE

The Save River Diamonds Project area is covered by concession licenses 4525L and 4969L Concession 4525L is owned 100% by Regius Exploration Pty Ltd ("Regius") through Mozvest Mining Ltd. Concession 4969L is owned by Manuel Renato Matusse ("MRM").

4525L covers an area of 500 hectares and was granted on 22 November 2011 for a period of 5 years. 4969L covers an area of 21,660 hectares and was granted on 26 April 2012 for a period of 5 years.

	Balama	Graphite Pro	ject	
Tenement	Ownership	Area	Status	Term
4661L	60% interest in license through JV with license holder. Agreement between Regius Exploration Limitada (wholly owned subsidiary of Regius in Mozambique) and Duplo Dragao Industrial Limitada	148.9Km <sup>2</sup>	Granted	Issue Date: 11-09- 2012 Valid Until: 11-09-2018
4662L	60% interest in license through JV with license holder. Agreement between Regius Exploration Limitada (wholly owned subsidiary of Regius in Mozambique) and Duplo Dragao Industrial Limitada	95Km²	Granted	Issue Date: 01-10- 2012 Valid Until: 01-10-2017
5873L	75% interest in license through JV with license holder. Agreement between Regius and Cosec Limitada	138Km²	Granted	Issue Date: 22-07- 2014 Valid Until: 22-07-2019
6636L	75% interest in license through JV with license holder. Agreement between Regius and Mr. Jacinto Gabriel Sitoe	46Km <sup>2</sup>	Granted	Issue Date: 16-07- 2014 Valid Until: 16-07-2019

6678L	80% interest in license through JV with license holder. Agreement between Regius and Mr. Tomas Frederico Mandlate	32Km <sup>2</sup>	Granted	Issue Date: 18-03- 2014 Valid Until: 18-03-2019
6527L	75% interest in license through JV with license holder. Agreement between Regius and Green Energy & Minerals Lda	210Km <sup>2</sup>	Granted	Issue Date: 07-03- 2014 Valid Until: 07-03-2019

The status of the Save River tenements has been independently verified by Business Development Corporation, Sociedade Unipessoal, Lda, pursuant to paragraph 67 of the Valmin Code. Details of the tenement status for the Balama project are included in the joint venture documentation. The tenements are believed to be in good standing at the date of this valuation as represented by the Company except as noted earlier. Some future events such as the grant (or otherwise) of expenditure exemptions and plaint action may impact of the valuation and may give grounds for a reassessment.

### **PROJECT REVIEW**

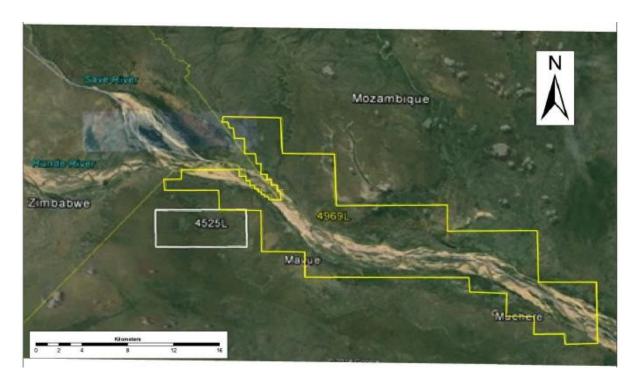
### SAVE RIVER DIAMONDS PROJECT

The Save River Diamonds Project is located in southern Mozambique, along the border with Zimbabwe. The area of interest is along the Save River, after the confluence with the Runde River. The project area is accessed through a tarred road from Maputo to Mapai (250km), Mapai to Massengeni (211km) and from Massengeni to the project area (76km).

The Save River Diamonds project consists of two concessions along the Save River in Mozambique. Concessions 4525L and 4969L have been presented to Keras Capital for possible investment. The concessions are located immediately after the confluence of the Save and Runde rivers, and have been presented as having potential for alluvial diamonds.

Concession 4525L belongs to Regius Mining Ltd. The company also has an option to acquire a controlling stake in concession 4969L, which is owned by a Mozambican entity.

The geological basis for the possible alluvial diamond occurrences is that diamonds released by weathering from the Marange diamond fields in Zimbabwe have been washed down the Save River over millions of years. A review of the age of the diamond-bearing conglomerates at Marange, and the age of the Save River system itself, shows that this is a clear possibility. A review of diamond occurrences in Zimbabwe shows that Runde River also drains areas with known diamondiferous kimberlites (Murowa and Sese), and could have also transported diamonds towards the ocean.



Location of Concessions 4525L and 4969L along Save River Banks

Huge gravel terraces occur on the southern side of Save River after the confluence with Runde river. The gravels typically have clasts that are of cobble size, with clasts being well rounded, implying significant travel distances. Gravels have been deposited on sandstone and gritty sandstone bedrock. Airborne Magnetic images indicate presence of a NE trending structure cutting across concessions 4525L and 4969L. The structure is associated with outcropping sandstone topographic highs which could have acted as a barrier in the flow of water of the Save River resulting in significant accumulation of gravels to the West and East of the cross cutting feature. Sites located West and East of the cross cutting structure are potential trap sites for gravels.

Radiometric data highlights the migration of the Save River towards the North. Thorium highlights presence of elongate channel like features, parallel to Save River. These features have been mapped in concessions 4525L and 4969L. Trenching and pitting will confirm if channel like features are associated with gravel concentration and diamonds.

The Save River diamond concessions are located in an area where gravels, conglomerates and grits have been mapped on surface. The tertiary to quaternary aged sediments are potentially associated with alluvial diamonds.

The Save and Runde River drain areas with rich diamondiferous conglomerates and kimbelites (Murowa and Marange diamond fields). The profile of the Save/Runde River from Marange/Murowa to Save River project is reasonably steep. The topography suddenly changes to gentle and almost flat at the confluence of Runde and Save River resulting in massive deposition of gravels. The gravels cover an area of 40km x 10km.

Radiometrics images of the areas show channel like features cutting across the two concessions. These features which are subparallel to the Save River indicates that the river has migrated towards

the north. The Thorium alteration image shows the most distinct and convincing channel like features parallel to Save River. The image also highlights an area without channel like features. Pitting and trenching will confirm the composition of material associated with these channel like features. Airborne magnetic data confirms the occurrence of a structure cutting across both concessions.

The structure trends NE and is associated with structural displacements resulting in upfaulted sandstone units across concession 4969L. The crosscutting structure hence forms a barrier and must have promoted deposition of sediments or gravels on the west and eastern portion of the feature.

TerravisionTM traverses confirm the presence of a deep (14m) and wide (1-1.5km) palaeochannel in the western and central portion of 4969L. The northern and NW portion of concession 4525L is dominated by conglomerates (approximately 8m thick) as inferred from a traverse done in a similar setting. Two GPR lines done just north of 4525L One profile went through the lower gravel terraces which have been affected by faulting and define a sandstone plateau and troughs with visible gravels on surface. Depth continuity of troughs/grabens will be confirmed during pitting and trenching.

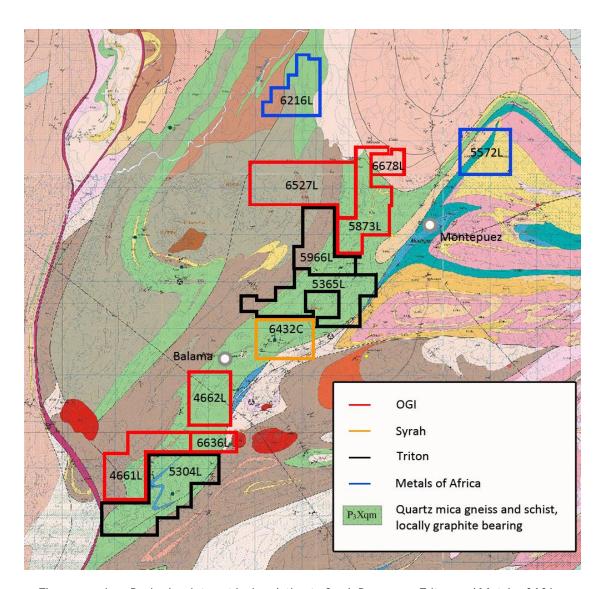
### BALAMA GRAPHITE PROJECT

In Mozambique, a number of graphite deposits have been identified, many of which are already been explored and are currently being developed. There are a number of reports on the graphite deposits being associated with an economic vanadium potential, adding value and interest to all graphite projects in Cabo Delgado. A number of Greenfield exploration programmes have led to identification of more graphite deposits within the country.

### 6526L and 6527L

Regius has a 75% interest in the Licenses 6526L and 6527L through a Joint Venture with their local Mozambican partner. These Licenses border the Triton and Metals of Africa concessions, which are currently very active in their graphite exploration.

Northeastern Mozambique is predominantly underlain by Proterzoic rocks that form a number of gneiss complexes that range from Palaeo to Neoproterozoic in age. The Regius project site is underlain by metamorphic rocks of the Neoproterozoic Lurio Group that are included within the Xixano Complex. The graphite layer is comprised of a sequence of metamorphosed carbonaceous pelitic and psammitic (sandstone) sediments within the Proterozoic Mozambique Belt. The sediments have been metamorphosed to graphitic schists (pelites) and graphitic sandstones (psammites). In addition to the graphite, the Regius project site has granite outcrops in the northeast. It appears that these are intrusive into the graphite bearing schists.



The concessions Regius has interest in, in relation to Syrah Resources, Triton and Metals of Africa

The Balama Project is located along strike from Syrah Resources and Triton Mineral's graphite resources, and host similar geology to the graphite bearing units of these previously discovered deposits. The potential of finding graphite on both Regius concessions is very likely and not only is the presence of the graphite almost guaranteed but the grade of the material will likely be exceptional similar to those reported by Syrah Resources due to the presence of a granite intrusion.

The area of interest for the graphitic mineralisation occupies an area of approximately 47km² in the more northern License 6526L. The southern License 6527L, hosts an area of approximately 35km² of the green unit. a granite intrusion, similar to the one believed to have caused the graphite "upgrade" in the Syrah project, has been noted in the eastern area of the Regius Licenses 6526L and 6527L which bodes very well for a similar grade and amount of the total graphite content within the graphitic schists.

License 6636L is set in the same north-east trending geological unit as that of the Syrah Resources and Triton Mineral's graphite resources discussed above. The potential to find graphitic mineralisation is the graphitic schist that occupies an area of approximately 34km² in License 6366L.

Just to the west of License 6636L, there is a granitic intrusion in close proximity to the concession, which has the potential to upgrade the graphite thereby increasing the concessions economic potential.

Regius hold an interest in six tenements in the Balama Project as shown in the tenement schedule.

### **REFERENCES**

Essak, A, 2014, "Report on Legal Due Diligence to Mining Tenements for OGI Group Ltd", Business Developmeny Corporation Sociedade Unipessoal, Lda, August 2014

Turnbull, S, 2014, Overview of the Balama Graphite Project, Mozambique" Regis Exploration Pty Ltd, August 2014

Venter, B., 2014, "Due Diligence Report on Save River Diamonds, Mozambique, Minxcon (Pty) Ltd, July 2014

### **VALUATION ASSESSMENT**

The Mozambique Projects are exploration areas. Several methods of valuation are available for such projects where a Mineral Resource has not yet been estimated in accordance with the JORC code. These include the use of valuations based on past exploration expenditure and valuations based on perceived prospectivity.

Exploration projects can be extremely variable and the use of comparable transactions is unlikely to produce a statistical spread of values for "similar" projects. This method can be used with any certainty where a Mineral Resource has been estimated. The *Prospectivity Exploration Multiplier (PEM)* is based on past expenditure while the *Geoscience Rating (Geo-factor Rating)* is based on opinions of the prospectivity hence tenements can have marked variation in value between the methods.

Agricola Mining Consultants prefers the Geoscientific Rating method (potential for further discoveries), which is appropriate for exploration ground that is not advanced enough to estimate mineral resources. This method may be supported by reference to Yardstick (Rule of Thumb) methods as a reality check. The 'Geo-factor Rating' method of valuation for exploration tenements is used for the Company's current tenements as it focuses on the future prospectivity of the area.

The Geo-factor Rating method systematically assesses four key technical attributes of a tenement to arrive at a series of factors that are multiplied together to produce a prospectivity rating. The Basic Acquisition Cost (BAC) is the important input to the method and it is calculated by summing the application fees, annual rent, work required to facilitate granting (e.g. native title, environment etc) and statutory expenditure for a period of 12 months. This is usually expressed as average expenditure per square kilometre. Equity and grant status are also taken into account. Each factor is then multiplied serially to the BAC. The 'Base Value' is multiplied by the prospectivity rating to establish the overall technical value of each mineral property.

### GFO-FACTOR RATING METHOD - EXPLORATION POTENTIAL

### **BASE VALUE**

This represents the exploration cost for the current period of the tenements. The current Base Acquisition Cost (BAC) for exploration projects or tenements at a similar stage is considered to be the average expenditure for the first year of the licence tenure. This is considered to be a BAC of \$400 to \$450 per square kilometre.

The assessment of value is based on the equity and status in the various tenements as shown in the following table.

Base Value = [Area]\*[Grant Factor]\*[Equity]\*[Base Acquisition Cost]

Regis Exploration Pty Ltd						BAC	)
Project	Tenement	Km2	Status	Grant	Equity	Low	High
Save River	4525L	5.00	Granted	100%	100%	400	450
Save River	4969L	216.60	Granted	100%	100%	400	450
Balama	6527L	210.00	Granted	100%	75%	400	450
Balama	6636L	46.00	Granted	100%	75%	400	450
Balama	5873L	138.00	Granted	100%	75%	400	450
Balama	6678L	32.00	Granted	100%	80%	400	450
Balama	4666L	148.90	Granted	100%	60%	400	450
Balama	4662L	95.00	Granted	100%	60%	400	450

### Prospectivity Assessment Factors

An assessment of the prospectivity of tenements was carried out. This includes a consideration of

- Regional mineralisation, old and current workings and the validity of conceptual models.
- Local mineralisation within the tenements and the application of conceptual models within the tenements.
- Identified anomalies warranting follow up within the tenements.
- The proportion of structural and lithological settings within the tenements and difficulty encountered by cover rocks and other factors.

	Rating	Address - Off Property	Mineralisation - On Property	Anomalies	Geology
Low	0.5	Very little chance of mineralisation, Concept unsuitable to environment	Very little chance of mineralisation, Concept unsuitable to environment	Extensive previous exploration with poor results - no encouragement	Unfavourable lithology over >75% of the tenement
Average	1	Indications of Prospectivity, Concept validated	Indications of Prospectivity, Concept validated	Extensive previous exploration with encouraging results - regional targets	Deep alluvium Covered favourable geology (40-50%)
	2	Significant RC drilling leading to advance project status	RAB &/or RC Drilling with encouraging intercepts reported	Several well defined surface targets with some RAB drilling	Exposed favourable lithology (60-70%)
High	3	Resource areas identified	Advanced Resource definition drilling - early stage	Several significant subeconomic targets - no indication of volume	Highly prospective geology (80 - 100%)

Assessments in each category are based on a set scale (see above and Appendix 1) and are multiplied together to arrive at a "prospectivity index.

The Save River Diamonds Project is an early stage exploration project situated on alluvial river material, which are believed to have drained diamond-bearing terrane. Gravels, conglomerates and grits have been mapped on surface and radiometric surveys have indicated the potential for the

gravels to be diamondiferous though no specific occurrences have been noted. The river gravels outcrop and extend for a significant distance along the riverbed.

The Balama Graphite Project is located along strike from Syrah Resources and Triton Mineral's graphite resources, and host similar geology to the graphite bearing units of these previously discovered deposits. Exploration is at an early stage and no specific targets have been identified.

Prospectivity Index = [Off Site Factor]\*[On Site Factor]\*[Anomaly Factor]\*[Geology Factor]

Regis Explorat	Regis Exploration Pty Ltd								
		Off		On					
Project		Site		Site		Anomaly		Geology	
		Low	High	Low	High	Low	High	Low	High
Save River	4525L	1.15	1.20	1.25	1.30	1.20	1.25	1.25	1.30
Save River	4969L	1.15	1.20	1.25	1.30	1.20	1.25	1.25	1.30
Balama	6527L	2.50	2.55	1.25	1.30	1.00	1.05	0.80	0.85
Balama	6636L	2.50	2.55	1.25	1.30	1.00	1.05	1.50	1.55
Balama	5873L	2.50	2.55	1.25	1.30	1.00	1.05	1.00	1.05
Balama	6678L	2.50	2.55	1.25	1.30	1.00	1.05	1.50	1.55
Balama	4666L	2.50	2.55	1.25	1.30	1.00	1.05	1.00	1.05
Balama	4662L	2.50	2.55	1.25	1.30	1.00	1.05	1.20	1.25

### **TECHNICAL VALUE**

An estimate of technical value has been compiled for the tenements based on the base acquisition cost, area, grant status, equity and ratings for prospectivity.

Technical Value = [Base Value]\*[Prospectivity Index]

Regis Exploration Pty Ltd					
Project	Tenement	Technical Value A\$			
		Low	High	Preferred	
Save River	4525L	4,310	5,700	5,005	
Save River	4969L	186,820	247,090	216,955	
Sub Total		191,130	252,790	216,955	
Balama	6527L	157,500	209,690	183,595	
Balama	6636L	64,690	83,760	74,225	
Balama	5873L	129,380	170,220	149,800	
Balama	6678L	48,000	62,150	55,075	
Balama	4666L	111,680	146,930	129,305	
Balama	4662L	85,500	111,600	98,550	
Sub Total		596,750	784,350	690,550	

Comparison with Yardstick (Rule of Thumb) Method

A review of technical value (which is not influenced by market conditions) of exploration areas carried out by Agricola over the last few years suggests that ground without resources can be categorized as a matter of convenience into two groups:

- Exploration area in known mineral fields relatively close to published mineral resources. Such areas attract values in the range of \$700 to \$1300 per square kilometer.
- Exploration areas in green fields or early exploration domains remote from mineral resources. Such areas attract values in the range of \$400 to \$800 per square kilometer

Based on the values estimated in this report, the Save River Diamonds Project fall in the range \$850 to \$1150 per square kilometer. The Balama Graphite Project, based on 100% equity, falls in the range \$900 to \$1000 per square kilometres. In view of the prospectivity of the graphite zone where previous explorers have made significant discoveries this is considered to be reasonable.

Technical Value Summary, A\$M Project Exploration Potential	Low	High	Preferred
Save River Diamonds	0.19	0.25	0.22
Balama Graphite	0.60	0.78	0.69
Total	0.79	1.04	0.91

### MARKET VALUE

Assessment of country risk and an assessment of the Business Climate has been provided by a specialist firm (source: www.coface.com). Mozambique has a favourable geographic situation with a long coastline and proximity to the South African market. There is considerable mining (coal), agricultural and hydroelectric resources and huge gas resources discovered off-shore (2010). There is support from foreign donors and investors (FDI) for the funding of mining and gas infrastructures. The rating for Mozambique is 'C' for country risk and 'C' for business climate, which are considered to be high risk. This rating will affect the market factor in assessing market value.

In arriving at a fair market value for a particular exploration tenement, the current market for exploration properties in Australia and overseas and market perception on prospectivity has been considered.

The current market value for mineral projects in Australia is considered to be depressed and it is considered appropriate to apply a significant discount to the technical value of the exploration potential of the tenements. A market discount factor of 20% has been applied to the technical value for the exploration projects at in Mozambique. The equity position has been addressed in the Base Value estimate earlier in the Report.

# Market Value = [Technical Value]\*[Adjusted Market Factor]

Market Value Summary, A\$M						
	Market					
Project	Factor	Low	High	Preferred		
Exploration Potential		-	-	-		
Save River Diamonds	80%	0.15	0.20	0.17		
Balama Graphite	80%	0.48	0.63	0.55		
Total		0.63	0.83	0.73		

### **VALUATION OPINION**

Based on an assessment of the factors involved the estimate of market value of the Company's Projects is in the range of <u>A\$630,000 to A830,000 with a preferred value of A\$730,000</u>.

This valuation is effective on 24 October 2014.



## MINERAL ASSETS VALUATION FOR EXPLORATION TENEMENTS

M. Castle – Updated 5 October 2014

Agricola Mining Consultants Pty Ltd ("Agricola") has prepared these notes as background to the Independent Valuation Report. The appendix is general in nature and references to Western Australia are an example of exploration expenditures. They are appropriate for other states and other countries based on Agricola's experience in many areas of Australia and elsewhere.

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## The Meaning of Value – Scope of the Report

A Mineral asset valuation should endeavour to ascertain the price that a willing but not anxious vendor could reasonably expect to obtain and a hypothetical willing but not too anxious purchaser could reasonably expect to have to pay for the property if the vendor and the purchaser had got together and agreed on a price in friendly negotiation.

The test for determining the market value is based on the consideration of a hypothetical negotiation, namely, what is the price that a willing but not anxious purchaser would have to offer to induce a willing but not anxious vendor to sell the property rather than the price which an anxious vendor would obtain upon a forced sale. This is the price that a hypothetical prudent purchaser would entertain, if he desired to purchase it for the most advantageous purpose for which the property was adapted.

This test contemplates a prudent purchaser who has informed himself or herself of all of the relevant attributes and advantages that the property enjoyed which means not just being conversant with the property in its existing state but also any profitable uses to which it might be put. This embodies the concept of the highest and best use of the property.

#### Judicial interpretation

The High Court cast light on the ordinary meaning of 'market value' in 1907 in <u>Spencer v. The Commonwealth of Australia</u>. In this case, the Commonwealth had compulsorily acquired land for a fort at North Fremantle in Western Australia.

In discussing the concept of market value, Griffith CJ commented (page 432) that:

... the test of value of land is to be determined, not by inquiring what price a man desiring to sell could have obtained for it on a given day, i.e. whether there was, in fact, on that day a willing buyer, but by inquiring: What would a man desiring to buy the land have had to pay for it on that day to a vendor willing to sell it for a fair price but not desirous to sell?

Isaacs J subsequently expanded on the concept (page 441):

... to arrive at the value of the land at that date, we have ... to suppose it sold then, not by means of a forced sale, but by voluntary bargaining between the plaintiff and a purchaser willing to trade, but neither of them so anxious to do so that he would overlook any ordinary business consideration. We must further suppose both to be perfectly acquainted with the land and cognisant of all circumstances which might affect its value, either advantageously or prejudicially, including its situation, character, quality, proximity to conveniences or inconveniences, its surrounding features, the then present demand for land, and the likelihood as then appearing to persons best capable of forming an opinion, of a rise or fall for what reasons so ever in the amount which one would otherwise be willing to fix as to the value of the property.

In this case, the High Court recognised the principles of:

- the willing but not anxious vendor and purchaser
- a hypothetical market
- the parties being fully informed of the advantages and disadvantages associated with the asset being valued (in the specific case, land)
- both parties being aware of current market conditions.

This is commonly known as the *Spencer test* after the High Court decision upon which these principles are based and to which the Courts have used in their determinations of market value or property. (*Spencer v Commonwealth* (1907) 5 CLR 418 at 432 per Griffiths CJ and 441 per Isaacs J.).

Although the *Spencer test* is based on both a hypothetical vendor and a hypothetical purchaser and therefore the market value from either hypothetical party's point of view should be the same, in some cases emphasis has been placed on what would be the best price which the vendor could hope to obtain.

The question as of "special value" of particular property has often been raised in cases. However in reality this is only part of the *Spencer* test that in attributing the price that would be paid to the hypothetical vendor by the hypothetical purchaser it is to be assumed that the property will be put to its "highest and best use".

Applying the *Spencer test* may not be confined to a technical valuation exercise but may involve a consideration of market factors. In a highly speculative market during 'boom' conditions or a

depressed market during 'bust' conditions the hypothetical purchaser may expect to pay a premium or receive a discount commensurate with market conditions.

The *Spencer test* has been applied in stamp duty cases in determining the value of the dutiable property.

These principles apply equally to mineral assets

## **Regulatory Authorities**

Mineral asset valuations are prepared in accordance with the *Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (the "VALMIN Code", 2005)*, which is binding upon Members of the Australasian Institute of Mining and Metallurgy ("AusIMM") and the Australian Institute of Geoscientists ("AIG"), as well as the rules and guidelines issued by the Australian Securities and Investments Commission ("ASIC") and the ASX Limited ("ASX") which pertain to Independent Expert Reports (*Regulatory Guides RG111, 2011 and RG112, 2011*).

Where mineral resources have been referred to in this report, the classifications are consistent with the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"), prepared by the Joint Ore Reserves Committee of the AusIMM, the AIG and the Minerals Council of Australia, effective 2012.

The VALMIN Code, 2005

The main requirements of the Valuation Report are

- Prepared in accordance with the VALMIN code.
- Details of valuation methodologies
- Reasoning for the selection of the valuation approach adopted
- Details of the valuation calculations
- Conclusion on value
- Experience and qualifications of key personnel to be set out

*Transparency* - The report needs to explain how the valuation was done and the assumptions used in calculating the value. The objective is to provide sufficient information that other people can come up with the same answer. Transparency and Transparent means that the Material data and information used in (or excluded from) the Valuation of a Mineral Property, the assumptions, the Valuation approaches and methods, and the Valuation itself must be set out clearly in the Valuation Report, along with the rationale for the choices and conclusions of the Qualified Valuer.

Materiality - This means the valuer has to ensure that all important data that could have a significant impact on the valuation is included in the report. Materiality and Material refer to data or information which contribute to the determination of the Mineral Property value, such that the inclusion or omission of such data or information might result in the reader of a Valuation Report coming to a substantially different conclusion as to the value of the Mineral Property. Material data and information are those, which would reasonably be required to make an informed assessment of the value of the subject Mineral Property.

Competence - The valuer must be competent at doing valuations. The person needs to be an expert in the particular exploration target being evaluated. Typically the person needs at least 5 years' experience in that commodity. For Example:

### Competent Persons Statement

The information in this report that relates to Exploration Results and Mineral Resources of the Company has been reviewed by Malcolm Castle who is a member of the Australasian Institute of Mining and Metallurgy. Mr Castle has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as an Expert and Competent Person as defined under the VALMIN Code and in the 2004 and 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Castle consents to the inclusion in this report of the matters based on the information in the form and context in which they appear.

In other words the price must be set at a "fair market value". To achieve independence, the valuer must not receive any special benefit from doing the study. This subject is addressed fully in RG112 (112.42). Independence or Independent means that, other than professional fees and disbursements received or to be received in connection with the Valuation concerned, the Qualified Valuer or Qualified Person (as the case requires) has no pecuniary or beneficial (present or contingent) interest in any of the Mineral Properties being valued, nor has any association with the Commissioning Entity or any holder(s) of any rights in Mineral Properties which are the subject of the Valuation, which is likely to create an apprehension of bias. The concepts of "Independence" and "Independent" are questions of fact. For example, where a Qualified Valuer's fees depend in whole or in part on an understanding or arrangement that an incentive will be paid based on a certain value being obtained, such Qualified Valuer is not Independent.

Reasonableness - in reference to the Valuation of a Mineral Property, while not specifically mentioned in VALMIN, 2005, is a requirement in other jurisdictions. It means that other appropriately qualified and experienced valuers with access to the same information would value the property at approximately the same range. A Reasonableness test serves to identify Valuations, which may be out of step with industry standards and industry norms. It is not sufficient for a Qualified Valuer to determine that he or she personally believes the value determined is appropriate without satisfying an objective standard of proof

Methodology - The decisions as to the valuation methodology or methodologies to be used and the content of the Report are solely the responsibility of the Expert or Specialist whose decisions must not be influenced by the Commissioning Entity. The Expert or Specialist must state the reasons for selecting each methodology used in the Report. Methods chosen must be rational and logical and be based upon reasonable grounds.

The Expert or Specialist should make use of valuation methods suitable to the Mineral or Petroleum Assets under consideration. Selection of the appropriate valuation method will depend on, inter alia:

- (a) the purpose of the Valuation;
- (b) the development status of the Mineral or Petroleum Assets;
- (c) the amount and reliability of relevant information;
- (d) the risks involved in the venture; and
- (e) the relevant market conditions for commodities.

The Expert or Specialist should choose, discuss and disclose the selected valuation method(s) appropriate to the Mineral Assets under consideration in the Report, stating the reasons why the particular valuation methods have been selected in relation to those factors and to the adequacy of available data. It may also be desirable to discuss why a particular valuation method has not been used. The disclosure should give a sufficient account of the valuation methods used so that another Expert could understand the procedure used and assess the Valuation. Should more than one valuation method be used and different valuations result, the Expert or Specialist should comment on the reasons for selecting the Value adopted.

#### Regulatory Guides RG111 and RG112, March 2011

It is not the Australian Securities and Investment Commission – ASIC's role or intention to limit the expert's exercise of skill and judgment in selecting the most appropriate method or methods of valuation. However, it is appropriate for the expert to consider:

- (a) the discounted cash flow method;
- (b) the amount which an alternative acquirer might be willing to offer if all the securities in the target company were available for purchase;

ASIC does not suggest that this list is exhaustive or that the expert should use all of the methods of valuation listed above. The expert should justify the choices of valuation method and give a sufficient account of the method used to enable another expert to replicate the procedure and assess the valuation. It may be appropriate for the expert to compare the values derived by more than one method and to comment on any differences.

The complex valuations in an expert's report necessarily contain significant uncertainties. Because of this an expert who gives a single point value will usually be implying spurious accuracy to his or her valuation. An expert should, however, give as narrow a range of values as possible. An expert report

becomes meaningless if the range of values is too wide. An expert should indicate the most probable point within the range of values if it is feasible to do so.

The expert should carry out sufficient enquiries or examinations to establish reasonable grounds for believing that any profit forecasts, cash flow forecasts and unaudited profit figures that are used in the expert's report, and have been prepared on a reasonable basis. If there are material variations in method or presentation the expert should adjust for or comment on them in the report.

The expert should discuss the implications to his or her valuation if:

- (a) the current market value of the subject of the report is likely to change because of market volatility (for example, boom or depression); or
- (b) the current market value differs materially from that derived by the chosen method.

#### The JORC Code, 2012

The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ('the JORC Code') is a professional code of practice that sets minimum standards for Public Reporting of minerals Exploration Results, Mineral Resources and Ore Reserves.

The JORC Code provides a mandatory system for the classification of minerals Exploration Results, Mineral Resources and Ore Reserves according to the levels of confidence in geological knowledge and technical and economic considerations in Public Reports.

The JORC Code was first published in 1989, with the most recent revision being published late in 2012. Since 1989 and 1992 respectively, it has been incorporated in the Listing Rules of the Australian and New Zealand Stock Exchanges, making compliance mandatory for listing public companies in Australia and New Zealand.

The current edition of the JORC Code was published in 2012 and after a transition period the 2012 Edition came into mandatory operation from 1 December 2013.

Changes to the JORC Code 2012

- Table 1 reporting on an 'if not, why not?' basis Clauses 2, 5, 19, 27, 35 and the introduction of Table 1.
- Competent Person Attributions Clause 9
- Exploration Targets Clause 17
- Pre-Feasibility required for Ore Reserves Clause 29
- Technical Studies definitions Clause 37-40
- Annual Reporting Clause 15
- Metal Equivalents Clause 50
- In situ values Clause 51
- Additional guidance on reporting in Table 1

## VALUATION METHODOLOGY FOR EXPLORATION TENEMENTS

## Fair Market Value of Mineral Assets

Mineral assets include, but are not limited to, mining and exploration tenements held or acquired in connection with the exploration, 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.

	Mineral assets classification
Evaloration areas	
Exploration areas	Mineralisation may or may not have been identified, but where a mineral resource has not been defined. Available information includes exploration results such as outcrop sampling, assays of drill hole intersections, geochemical results and geophysical survey results.
	Valuation Methods: Geoscience Factor, Prospectivity Enhancement Multiplier, Yardstick (Rule of Thumb).
Advanced exploration areas	Mineral resources have been identified and their extent estimated (possibly incompletely). This includes properties at the early stage of assessment. Available information includes estimates of Exploration Targets, Inferred Resources, Indicated Resources, Measured Resources in accordance with the JORC Code 2012 and the exploration results from the surrounding area or prospect used to compile the estimates. Additional value for exploration potential in the immediate area is not considered to be warranted.  Valuation Methods: Comparable Transactions. Yardstick (Rule of Thumb)
Pre-development projects	A positive development decision has not yet been made. This includes properties where a development decision has been negative, properties on care and maintenance and properties held on retention titles. Available information includes Mineral Resource estimates in accordance with the JORC Code and a scoping study. If a recent and valid Pre Feasibility Study has been prepared an Ore Reserve may have been estimated with due regard to modifying factors.  Valuation Methods: Comparable Transactions, Discounted Cash Flow (if Ore Reserves have been estimated)
Development projects	Committed to production, but which, are not yet commissioned or not initially operating at design levels. Available information includes a Feasibility Study with supporting technical studies. <i>Valuation Methods: Discounted Cash Flow.</i>
Operating Mines	Mineral properties, particularly mines and processing plants, which have been fully commissioned and are in production. Valuation Methods: Discounted Cash Flow.

Agricola's preferred valuation method is shown in bold type.

The value of a mineral asset usually consists of two components,

- The underlying or Technical Value (or stand alone value) which is an assessment of a mineral asset's future net economic benefit under a set of appropriate assumptions, excluding any premium or discount for market, strategic or other considerations.
- The Market Component, which is a premium relating to market, strategic or other considerations which, depending on circumstances at the time, can be either positive, negative or zero.

When the technical and market components of value are combined the resulting value is referred to as the market value. A consideration of country risk should also be taken into account for overseas projects.

The value of mineral assets is time and circumstance specific. The asset value and the market premium (or discount) changes, sometimes significantly, as overall market conditions, commodity prices, exchange rates, political and country risk change.

Valuation is based on a calculation in which the geological prospectivity, commodity markets, financial markets, stock markets and mineral property markets are assessed independently.

Valuation of exploration properties is exceptionally subjective. If an economic resource is subsequently identified then a new valuation will be dramatically higher, or possibly lower. Alternatively if expenditure of further exploration dollars is unsuccessful then it is likely to decrease the value of the tenements. There are a number of generally accepted procedures for establishing the value of exploration properties and, where relevant, the use of more than one such method to enable a balanced analysis and a check on the result has been undertaken. The value will always be presented as a range with the preferred value identified. The preferred value need not be the median value, and will be determined by the Independent Valuer based on his experience.

The Independent Valuer, when determining a value for a mineral asset, must assess a range of technical issues prior to selection of a valuation methodology. Often this will require seeking advice from a specialist in specific areas. The key issues are:

- geological setting and style of mineralisation
- level of knowledge of the geometry of mineralisation in the district
- results of exploration including geological mapping, costeaning and drilling of interpretation of geochemical anomalies
- parameters used to identify geophysical and remote sensing data anomalies
- location and style of mineralisation identified on adjacent properties
- appropriate geological models
- mining history, including mining methods
- location and accessibility of infrastructure
- milling and metallurgical characteristics of the mineralisation

In addition to these technical issues the Independent Expert needs to make a judgement about the market demand for the type of property, commodity markets, financial markets and stock markets. The technical value of a property should not be adjusted by a "market factor" unless there is a

marked discrepancy between the technical value and the market value. When this is done the factor should be clearly identified.

Where there are identified Ore Reserves it is appropriate to use financial analysis methods to estimate the net present value ("NPV") of the properties. This technique (the DCF Method) has deficiencies, which include assessment of only a very narrow area of risk, namely the time value of money given the real discount rate, and the underlying assumption that a static approach is applicable to investment decision making, which is clearly not the case.

When assessing value of exploration properties with no identified Ore Reserves it is inappropriate to prepare any form of financial analysis to determine the net present value. The valuation of exploration tenements or licences, particularly those without identified resources, is highly subjective and a number of methods are appropriate to give a guide as discussed below.

All of these valuation methods are relatively independent of the location of the mineral property. Consequently the valuer will make allowance for access to infrastructure etc when choosing a preferred value. It is observed that the Prospectivity Exploration Multiplier ("PEM") is heavily based on the expenditure; while the Geoscience Factor is more heavily based on opinions of the prospectivity hence tenements can have marked variation in value between the methods. If the Geoscience Factor assessment is high and the PEM is low it indicates effective well focused exploration, if the Geoscience Factor is low and the PEM high it suggests that the tenement is considered to have lower prospectivity.

Truly Comparable Transactions are rare for early stage properties without defined drill targets. This is natural in a recession, as companies focus on brownfields exploration. Inflated prices paid for property in fashionable areas should not be discounted because they reflect the true market value of a property at the transaction date. If however, the market sentiment is not so buoyant then adjustments must be made.

Methodologies commonly used for the valuation of early stage or exploration assets in order of the evidentiary value provided by each include:

#### Contemporaneous transactions in the asset

Where a transaction has taken place around the valuation date in the mineral asset in question, this provides the best evidence of value. This may occur when a body of mineralisation or confined geological domain is split by a tenement boundary and one part is sold.

If a property in the recent past was the subject of an arms-length transaction, for either cash or shares (i.e. from a company whose principal asset was the mineral property) then this forms the most realistic starting point, provided that the deal is still relevant in today's market. Complicating matters is the knowledge that properties rarely change hands for cash, except for liquidation purposes, estate sales, or as raw exploration property when sold by an individual prospector, or entrepreneur.

Any underlying royalty or net profits interests or rights held by the original vendor of the claims should be deducted from the resultant property value before determination of the company's

interest. Also, reductions in value should be made where environmental, legal or political sensitivities could seriously retard the development of exploration properties.

It should be noted again that exploration is cyclical, and in periods of low metal prices there is often no market, or a market at very low prices, for ordinary exploration acreage (inventory property) unless it is combined with a significant mineral deposit, or with other incentives.

#### DCF value

Where a financial model has been prepared which considers the exploration results to date, the costs involved in taking the project to production and the probability-weighted returns expected from the project, in the absence of a contemporaneous transaction in the actual exploration interest, this provides the best evidence as to the value of the exploration interest. This method requires that a reasonable estimate can be made of expected cash flows. In accordance with the JORC Code 2012, the estimation of an Ore Reserve must be based on a Pre Feasibility Study or a Feasibility Study. The DCF Method, therefore, is only possible then these studies are available and an Ore Reserve has been estimated. (DCF Method – see below)

#### Contemporaneous transactions in comparable assets

Where a transaction has taken place recently in an Asset of similar prospectivity in a similar or comparable mineral market, this provides evidence of value in the absence of an actual transaction or a financial model for the exploration interest. The comparison is typically made on the basis of a value per unit of contained resource. (Comparable Transactions Method – see below)

#### Potential for Further Discoveries

The Geoscience Factor method provides the most appropriate approach to utilise in the technical valuation of the *exploration potential* of mineral properties on which there are no defined resources. Kilburn, a Canadian mining engineer was concerned about the haphazard way in which exploration tenements were valued. He proposed an approach that essentially requires the valuer to justify the key aspects of the valuation process in a systematic and defendable manner. The valuer must specify the key aspects of the valuation process and must specify and rank aspects that enhance or downgrade the intrinsic value of each property. The intrinsic value is the base acquisition cost ("BAC"), which is the average cost incurred to acquire a base unit area of mineral tenement and to meet all statutory expenditure commitments for a period of 12 months. Different practitioners use slightly differing approaches to calculate the BAC and its use with respect to different tenement types.

The Geoscience Factor method systematically assesses and grades four key technical attributes of a tenement to arrive at a series of multiplier factors. The multipliers are then applied serially to the BAC of each tenement with the values being multiplied together to establish the overall technical value of each mineral property. A fifth factor, the market factor, is then multiplied by the technical value to arrive at the fair market value.

The successful application of this method depends on the selection of appropriate multipliers that reflect the tenement prospectivity. Furthermore, there is the expectation that the outcome reflects the market's perception of value, hence the application of the market factor. (Geoscientific Factor Method – see below)

## Past Expenditure

Where the other methods cannot be used, a valuer could also consider *previous exploration expenditure*, and apply a multiple to this based on its effectiveness and the valuer's judgment as to the prospectivity of the project based on the results as at the valuation date. The application of this method is very subjective, and is best used for very early stage exploration interests without resources or significant drilling results. (*Prospectivity Enhancement Method – see below*)

### Yardstick (Rule of Thumb) Method

A Rule-of-Thumb method sometimes used for valuing Mineral Assets without identified Resources is based upon conversion of comparable sales data to a unit area (per km<sup>2</sup> or per ha). It is probably the most difficult comparative tool to justify.

## Share market trading in companies holding comparable exploration interests

Where information on the exploration tenements is not directly observable, valuers sometimes consider the recent share market trading in companies holding comparable exploration interests. This method may require the valuer to apportion the value of the company between its various assets, to determine the proportion of the enterprise value of the company that should be attributed to the comparable exploration interest. Once the valuer has estimated the proportion of the market capitalization or enterprise value of the company that should be attributed to the comparable exploration interest, the value per unit of contained resource or the value per km² of tenement approaches can be applied. This typically provides weak evidence of the value of specific exploration interests due to the difficulty in apportioning the enterprise value of a listed company to specific exploration interests, and the likelihood that the share price may include other 'noise' unrelated to the exploration interest.

Market Capitalisation (MCap) and Enterprise Value (EV: Mcap + Debt - Cash) are often used in comparable transaction valuations, often quoted as EV per unit of Resource or reserve. These measures say <u>nothing</u> about the technical value of individual mineral assets and are usually influenced by many commercial and emotional factors both within and external to the Company.

It is fair to assume that a company's share price is a reflection of the market value of the company and this is strongly influenced by the market value of mineral assets in the light of current market conditions. If a 'willing but not anxious buyer' were to make an offer for the company based on share price, appropriate due diligence has been completed and the offer may also include a premium for control.

MCap per unit and EV per unit for peer group companies may be a satisfactory measure of 'reasonableness' of the market value of the bundle of assets and should be viewed in that light and not as a direct measure of technical value.

### Valuation of Development Projects by Discounted Cash Flow Methods

Agricola believes that the Discounted Cash Flow/Net Present Value method should never be applied to the valuation of a Mineral Property that is only at an exploration stage, based on the hypothetical cash flows from a postulated exploitation scenario. Valuers tend to consider before or after tax

values only in the context of the DCF/NPV Method, with a general preference for determinations of after-tax value.

Of course, some owners can use tax losses and structure their affairs to minimise the impact of corporate taxes, but others cannot do so. Hence, it should be clearly stated on what taxation basis the fair market value is determined. This is another reason why care must be taken when using project sales data as a comparable basis for assessing value. The 'comparable' projects may be in different places subject to different taxation regimes, in any event.

Discounted cash flow analysis

A discounted cash flow ("DCF") analysis determines the Technical Value of a project by approximating the value if it were developed under the prevailing economic conditions.

Once a Mineral Resource has been assessed for mining by considering revenues and operating costs, the economically viable component of the resource becomes the Ore Reserve. When this is scheduled for mining, and the capital costs and tax regime are considered, the net present value ("NPV") of the project is established by discounting future annual cash flows using an appropriate discount rate.

The resulting 'classical' NPV has several recognised deficiencies linked to the fact that the approach assumes a static approach to investment decision making, however the NPV represents a fundamental approach to valuing a proposed or on-going mining operation and is widely used within the mining industry.

In terms of cash flow analysis, the DCF valuation technique is the most commonly used valuation tool. The technique has specific strengths over the methods considered in the market and cost approaches. These include its ability to consider the effects of royalties, leases, taxation and financial gearing on the resulting cash flow. In addition, the beneficial impact of unredeemed capital balances, assessed losses, depreciation and amortization on free cash flows can also be modelled.

Compiling cash flows on resources categorized as inferred, or those with even less geoscientific confidence (which in some cases are referred to as inventory), is prohibited by some international codes. It is only under exceptional circumstances that many securities exchanges will accept such cash flows and the effect of cash flow contributions from inferred resources on project performance should be demonstrated separately from those derived from other resource and reserve categories.

The DCF method is used to produce numerous quantitative results. On its own and as an investment tool, it is based on the principle that for any initial investment, the investor will look to the future cash flows of that entity to provide a minimum return. This return will be at least a predetermined return over the investor's hurdle rate for that investment. The hurdle rate represents the minimum return of a project, below which the decision to invest or develop a new project will be negative, and above which the project will be developed. The hurdle rate should always be greater than the cost of capital for the investor.

For a mining project, in a macroeconomic environment that is sufficiently favourable and stable for this method to be applied, the critical input data will generally be incorporated in a life of mine (LoM) plan. The LoM plan, such as that accompanying a pre-feasibility, feasibility or a bankable

feasibility study, will include:

- reserve and resource estimates in accordance with the JORC Code
- Forecast mining schedules of tonnage on a daily, monthly or annual basis
- Forecast grade profiles and associated recoveries from a processing facility. This, together with the tonnage profile, allows the valuer to calculate the volume of saleable product
- restimated working costs, preferably unitized to either an amount per tonne mined or milled or an amount per unit of metal or product sold
- ➤ forecast capital expenditure profiles over the life of the operation, including ongoing or sustainable capital expenditure amounts and
- rehabilitation liabilities or trust fund contributions, retrenchment costs, plant metal lock-up and any other specific factor that will impact on costs or revenue.

Changes in working capital balances are generally calculated based on historical balance ratios, applied to forecast revenues and working costs. They impact on short term cash flows and therefore must be modelled into the cash flows. Naturally, any working capital locked up during the life of the operation will be released at the end of this life.

Once the economic inputs have been assumed, the DCF can be determined. This is often stated as EBITDA (Earnings before Interest, Taxation, Depreciation and Amortisation) and is frequently taken as the technical value of the project, subject to a consideration of sensitivity to the assumptions.

The resultant cash flow is then used to derive the net present value (NPV) of the operation at a predetermined discount rate or a range of discount rates. The derived NPV, on which the return on investment can be calculated, is used as a proxy for the operation's implicit value. This is often compared with the value or returns the market attributes to the operation, if it is a listed entity, or compared with other investment opportunities in order to optimize investment or development schedules.

In any cash flow determination, the impact of inflation on the final result cannot be overstated. One only has to consider the effect of taxation as applied to real taxable income as opposed to being levied against nominal taxable income. Converting the final cash flows to real money terms, the values derived from two similar cash flows will be quite different. The unredeemed capital balance will last longer in the real terms case, incorrectly enhancing the value of the same project. The real cash flow lines in Table X must be compared to recognize the impact of taxation on real and nominal cash flows.

As a result of the difficulty in obtaining agreement on appropriate inflation forecasts to use in the specific valuation of a project, valuers often exclude a forecast on inflation rates. This in itself may be construed as an inflation assumption, in that inflation is taken to be zero per cent per year. However, this reflects an ideal world, which is unrealistic.

When only a resource or defined body of mineralisation has been outlined and its economic viability has still to be established (i.e. there is no ore reserve) then a Comparable Transactions approach is usually applied, often stated as a percentage of metal value. This can be applied to Mineral Resource estimates and Exploration Targets in accordance with the JORC code with appropriate discounts for risk in the different Mineral Resource categories and operational factors to differentiate between deposits.

Agricola Mining Consultants prefers the comparable transactions approach where mineral resources have been estimated. The DCF method is inappropriate because there is no Pre Feasiblity or Feasibility Study available and no Ore Reserves has been (or can be) estimated under the JORC Code. The Geoscientific Factor method (potential for further discoveries) and Past Expenditure methods are appropriate for exploration ground that is not advanced enough to estimate mineral resources. The contemporaneous transactions over adjacent ground may be appropriate but the absence of such information the only viable method (in Agricola's opinion) is to compare the sale of other deposits on a 'dollar per unit' basis for the mineral resource estimated in accordance with the JORC Code. Agricola is not aware of a method to cross check the valuation for the technical value (as apposed to the Market value) under these circumstances except by comparison with earlier valuations.

With metal projects the Comparable Transactions method requires allocating a dollar value to resource tonnes or ounces in the ground. The dollar value must take into account a number of aspects of the resources including:

- The confidence in the resource estimation (the JORC Category)
- The quality of the resource (grade and recovery characteristics)
- Possible extensions of the resource in adjacent areas
- Exploration potential for other mineralisation within the tenements
- Presence and condition of a treatment plant within the project
- Proximity of infrastructure, development and capital expenditure aspects

This approach can be taken with metals or bulk commodities sold on the spot market and where current price can be estimated with appropriate adjustments for impurities if required. Value is estimated as a percentage of contained value once appropriate discounts for uncertainty relating to resource categorisation are taken into account.

Resource Category Discounts	
Measured Resource	80%
Indicated Resource	70%
Inferred Resource	60%
Exploration Target	50%

An example of appropriate discounts for operational factors is included below but these must be considered on a case-by-case basis.

Operations Factors	Base Metals	Iron Ore	Coal	Gold	Rare Earths
Recovery	75%	75%	70%	95%	60%
Mining	75%	90%	75%	90%	100%
Processing	80%	70%	70%	95%	50%
Rail	80%	90%	70%	95%	75%
Port	80%	90%	50%	100%	90%
Capex	80%	70%	75%	90%	50%
Marketing	75%	80%	75%	100%	75%
Total Operating Discount	17%	21%	7%	69%	7%

## Mergers and Acquisitions Activity

A recent review of Mergers and Acquisitions over the last eight years covering the mining boom, the GFC and the recovery phase of the Mining Market indicates the price paid for gold assets.

		Merger	and Acquisi	itions Activ	ity (CAD)			
	2006	2007	2008	2009	2010	2011	2012	2013
Gold Price	\$709	\$778	\$920	\$1,154	\$1,277	\$1,590	\$1,665	\$1,488
Producing Assets*	\$74	\$94	\$115	\$89	\$207	\$202	\$200	\$121
Percent of Price	10.40%	12.10%	12.50%	7.70%	16.20%	12.70%	12.00%	8.10%
Exploration Assets*	\$54	\$28	\$31	\$29	\$71	\$90	\$47	\$23
Percent of Price	7.60%	3.60%	3.40%	2.50%	5.60%	5.70%	2.80%	1.50%
*Estimated price paid per ounce of gold in the ground, updated December 31, 2013								
Source: http://www	w.ibkcapita	I.com/capita	al-market-h	ighlights/n	nerger-acqu	uisition-acti	ivity/	

The information is based on Canadian experience and closely replicates values reported in Australia and similar metal markets elsewhere. The 'Apparent Acquisition Cost' ("AAC") for gold projects lies in the range of 1.5% to 7.6% of the gold price at the time. The data set does not differentiate between resource categories or variations in deposits type and individual assessment. It is implicit that this has been taken into account with risk related discounts. Information on sales internationally has shown a pattern for AAC. For the purpose of valuation the Average Acquisition Cost for the lower, preferred and higher value is selected at the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentiles of the spread of values.

	AAC Perce	ntiles 2006	- 2013		
Percentile	10%	25%	50%	75%	90%
AAC	2.2%	2.7%	3.5%	5.6%	6.2%

The AAC method percentiles are derived from Canadian Merger and Acquisitions activity in the gold industry. The original database provided \$/ounce values for producing and non-producing asset sales for a period of years and Agricola has recalculated this as a percentage of metal value so it can be related to current metal prices in other metals. The quoted prices are based on enterprise value (EV - Market Capitalisation plus debt minus cash) so they cannot be directly compared to technical value. A "top-down" approach is often taken to determine technical vale (for example for stamp duty assessment) where company specific elements such as cash, debt, goodwill, database value etc are deducted from the EV. Agricola prefers a "bottom-up" approach in this Report where discount factors for resource category and operating factors are assessed for each deposit.

This, of course, is a subjective decision and AAC percentiles are used in conjunction with the resource category discounts and operational factors to 'normalise' the rates for gold acquisitions to other metals. In the absence of a useful database of project sales for other metals this is considered to be a reasonable proxy for sales in most metal projects (the combination of AAC, discounts and Operational factors). Mineral asset sales are related to the current mineral price (or contained value) which is provided by the M & A database over the period 2006 - 2013 through a period of boom and bust and the valuation method is realistic when adjusted by factors that relate specifically to the metal involved and more specifically to the individual deposits.

### Sensitivity to Metal Price

Valuation of mineral resources is estimated at a specific date as stated in the report and metal prices are estimated from current information available at that time. Metal markets may be quite volatile from time to time and it is appropriate to consider the effect of variations in metal price (which may change on a daily basis).

## **Geoscience Factor Method**

The Geoscience Factor method attempts to convert a series of scientific opinions about a subject property into a numeric evaluation system. The success of this method relies on the selection of multiplying factors that reflect the tenement's prospectivity.

Agricola Mining Consultants prefers the Geoscientific Factor method (potential for further discoveries) for exploration ground that is not advanced enough to estimate mineral resources. The contemporaneous transactions over adjacent ground may be appropriate but the absence of such information the only viable method (in Agricola's opinion) is to compare the sale of other deposits on a 'dollar per unit' basis for the mineral resource estimated in accordance with the JORC Code. Agricola uses Past Expenditure and yardstick (Rule of Thumb) methods as an appropriate way of cross checking the reasonableness of the valuation.

The Geoscience Factor method is essentially a technique to define a value based on geological prospectivity. The method appraises a variety of mineral property characteristics:

- location with respect to any off-property mineral occurrence of value, or favourable geological, geochemical or geophysical anomalies;
- location and nature of any mineralisation, geochemical, geological or geophysical anomaly within the property and the tenor (grade) of any mineralisation known to exist on the property being valued;
- geophysical and/or geochemical targets and the number and relative position of anomalies on the property being valued;
- geological patterns and models appropriate to the property being valued.

It is recognised that application of this method can be highly subjective, and that it relies almost exclusively on the geoscience ratings adopted by the valuer. As such, it is good practice for valuers using this method to provide sufficient discussion supporting their selection of the various multiplying factors to allow another suitably qualified geoscientist to assess the appropriateness of the factors selected.

The successful application of this method depends on the selection of appropriate multipliers that reflect the tenement prospectivity. Furthermore, there is the expectation that the outcome reflects the market's perception of value, hence the application of the market factor. Agricola Mining Consultants prefers the Geoscience Factor approach because it endeavours to implement a system that is systematic and defendable. It also takes account of the key factors that can be reasonably considered to impact on the exploration potential. The keystone of the method is the BAC, which provides a standard base from which to commence a valuation. The acquisition and holding costs of a tenement for one year provides a reasonable, and importantly, consistent starting point. Presumably when a tenement is pegged for the first time by an explorer the tenement has been judged to be worth at least the acquisition and holding cost.

It may be argued that on occasions an EL may be converted to a ML expediently for strategic reasons rather than based on exploration success, and hence it is unreasonable to value such a ML starting at a relatively high BAC compared to that of an EL.

It has also been argued that the method is a valuation-by-numbers approach. In Agricola's opinion, the strength of the method is that it reveals to the public, in the most open way possible, just how a tenement's value was systematically determined. It is an approach that lays out the subjective judgements made by the valuer.

#### Area

The area of a tenement is usually stated in terms of square kilometres as a matter of convenience and cosistency. A graticular boundary (or block) system was introduced for exploration licences in mid 1991 in W.A. and a block is defined as one minute of latitude by one minute of longitude. The square kilometres contained within a block varies from place to place. For instance, at Kunnanurra (Latitude 15 deg. S) one block equals 3.31 square kilometres, at Mt Isa (Latitude 20 deg. S) one block equals 3.22 square kilometres. at Carnarvon or Bundaberg (Latitude 25 deg. S) one block equals 3.11 square kilometres and at Albany or Adelaide (Latitude 35 deg. S) one block equals 2.81 square kilometres.

Prospecting Licences and Mining Leases are granted in Hectares (100 hectares equals one square kilometre.

#### **Basic Acquisition Cost**

The Basic Acquisition Cost ("BAC") is the important input to the Geoscience Factor Method and it is estimated by summing the annual rent, statutory expenditure for a period of 12 months and administration fees for a first stage exploration tenement such as an Exploration Licence(the first year holding cost).

The notes are general in nature and references to Western Australia are an example of exploration expenditures. they are appropriate for other states and other countries based on Agricola's experience in many areas of Australia and elsewhere.

The current holding cost for exploration projects is considered to be the average expenditure for the first year of the licence tenure. Exploration Licences in Western Australia, for example, attract a minimum annual expenditure for the first three years of \$300 per square kilometre per year with a minimum of \$20,000 and annual rent of \$46.80. A 15% administration fee is taken into account to imply a holding cost of \$400 per square kilometre. A similar approach based on expenditure commitments could be taken for Prospecting Licences and Mining Leases (effective 1 July 2014). The Benchmark minimum expenditure for Exploration Licences in the Northern Territory is \$10,000 plus \$150 per block.

In Western Australia (from February 2006), an application for a Mining Lease required either a mining proposal or a statement describing when mining is likely to commence; the most likely method of mining; and the location, and the area, of land that is likely to be required for the operation of plant, machinery and equipment and for other activities associated with those mining operations. A mineralisation report is also required that has been prepared by a qualified person.

The mineralisation report must be completed by a qualified person and shall contain information of sufficient standard and detail to substantiate, to the satisfaction of the Director Geological Survey, that significant mineralisation exists within the ground applied for. A 'qualified person' means a person who is a member of the Australasian Institute of Mining and Metallurgy (AuslMM) or the Australian Institute of Geoscientists (AIG). Significant mineralisation means a deposit of minerals located during exploration activities and that there is a reasonable expectation that those minerals will be extracted by mining operations.

The implication of the mineralisation report suggests that Mining leases should be valued on the body of significant mineralisation (usually a Mineral Resource estimated in accordance with the JORC Code) and not on the basis of prospectivity. The preferred method for valuing resources is by comparable transactions (Market Based).

The Mineral Resources are assumed to encapsulate all the value for the tenements or prospects on which they occur and the exploration results considered for the estimate. A separate value for exploration potential for this tenement is not considered warranted.

It is recognised that further exploration potential may exist within the tenement boundaries but when a mineral resource has already been estimated in accordance with the JORC Code a

hypothetical willing but not too anxious purchaser would be unlikely to consider additional value for surrounding untested ground. The possibility of undrilled extensions to mineral resources may be considered in the market factor assessment.

Mining Leases granted prior to 2006 and Prospecting Licences may not have a mineralisation report available and may cover old workings or simply an expedient or strategic method of securing ground at the expiry of an Exploration Licence rather than based on exploration success. While these Licences carry all the obligations set out in the Mining Act, from a valuation point of view they are equivalent to Exploration Licences and it is unreasonable to value such these MLs (or PLs) starting at a relatively high holding cost compared to that of an EL where only exploration results are available. These tenements should be considered on the basis of a BAC of \$400 to \$450. To value these areas at the higher levels may not be considered to be reasonable under the VALMIN Code.

## **Tenement Status**

Uncertainty may exist where a tenement is in the application stage. Competing applications may be present where a ballot is required to determine the successful applicant or Native Title issues and negotiations may add to the risk of timely grant. Other issues may also be present such as state parks or forestry and wildlife reserves, competing land use and compensation agreements. There is an inherent risk that the tenement may not be granted and this needs to be recognised in the base value assessment. A 'grant factor' of zero may be applied where there is no realistic chance of approval (e.g. sacred sites) and where no significant impediments are known the factor may increase to about 60% to reflect delays and compliance with regulations.

#### Equity

The equity a Company may hold in a tenement through joint venture arrangements or royalty commitments may be addressed in assessing base Value but it is often considered at the end of a valuations report.

### **Geoscience Factors**

The multipliers or ratings and the criteria for rating selection across these four factors are summarised in the following table.

GEO-FACTO	OR RATING	CRITERIA - GUIDELINES			
	Rating	Address - Off Property	Mineralisation - On Property	Anomalies	Geology
Low	0.5	Very little chance of mineralisation, Concept unsuitable to environment	Very little chance of mineralisation, Concept unsuitable to environment	Extensive previous exploration with poor results - no encouragement	Unfavourable lithology over >75% of the tenement
	0.75				Unfavourable lithology over >50% of the tenement
Average	1	Indications of Prospectivity, Concept validated	Indications of Prospectivity, Concept validated	Extensive previous exploration with encouraging results - regional targets	Deep alluvium Covered favourable geology (40-50%)
	1.5	RAB Drilling with some scattered results	Exploratory sampling with encouragement, Concept validated	Several early stage targets outlined from geochemistry and	Shallow alluvium Covered favourable geology (50-60%)

				geophysics	
	2	Significant RC drilling leading to advance project status	RAB &/or RC Drilling with encouraging intercepts reported	Several well defined surface targets with some RAB drilling	Exposed favourable lithology (60-70%)
	2.5	Grid drilling with encouraging results on adjacent sections	Diamond Drilling after RC with encouragement	Several well defined surface targets with encouraging drilling results	Strongly favourable lithology (70-80%)
High	3	Resource areas identified	Advanced Resource definition drilling - early stage	Several significant subeconomic targets - no indication of volume	Highly prospective geology (80 - 100%)
	3.5	Along strike or adjacent to known mineralisation at Pre- Feasibility Stage	Resource areas identified	Subeconomic targets of possible significant volume - early stage drilling	
	4	Along strike or adjacent to Resources at Definitive Feasibility Stage	Along strike or adjacent to known mineralisation at Pre-Feasibility Stage	Marginal economic targets of significant volume - advanced drilling	
	4.5	Along strike or adjacent to Development Stage Project	Along strike or adjacent to Resources at Definitive Feasibility Stage	Marginal economic targets of significant volume - well drilled at Inferred Resource stage	
Very High	5	Along strike or adjacent to Operating Mine	Along strike or adjacent to Development Stage Project	Several significant ore grade correlatable intersections with estimated resources	

The selection of factors from the table must be tempered with an eye to the reasonableness of the outcome and an awareness of the inherent exploration risks in achieving progress to the next level. Some exploration licences are overly large and may cover several domains of prospective (or entirely unprospective) ground and this should be recognised in the Geology Factor. A conservative approach is considered mandatory.

Estimate of project value is carried out on a tenement-by-tenement basis and uses four calculations as shown below. The value estimate is shown as a range with a preferred value.

Base Value = [Area]\*[Grant Factor]\*[Equity]\*[Base Acquisition Cost]

Prospectivity Index = [Off Site Factor]\*[On Site Factor]\*[Anomaly Factor]\*[Geology Factor]

Technical Value = [Base Value]\*[Prospectivity Index]

Market Value = [Technical Value]\*[Market Premium/Discount Factor]

Prospectivity Enhancement Multiplier ("PEM")

Various valuation methods exist which make reference to historical exploration expenditure. One such method is based on a 'multiple of historical exploration expenditure'. Successful application of this method relies on the valuer assessing the extent to which past exploration expenditure is likely

to lead to a target resource being discovered, as well as working out the appropriate multiple to apply to such expenditure.

Another such method is the 'appraised value method'. When adopting this approach, the valuer should only account for meaningful past exploration expenditure plus warranted future expenditures. Warranted future expenditures reflect a reasonable and justifiable exploration budget to test the identified potential of the target.

#### PEM Factors Used in this valuation method

PEM Range	Criteria
0.2 – 0.5	Exploration (past and present) has downgraded the tenement prospectivity, no mineralisation identified
0.5 – 1.0	Exploration potential has been maintained (rather than enhanced) by past and present activity from regional mapping
1.0 – 1.3	Exploration has maintained, or slightly enhanced (but not downgraded) the prospectivity
1.3 – 1.5	Exploration has considerably increased the prospectivity (geological mapping, geochemical or geophysical)
1.5 – 2.0	Scout Drilling has identified interesting intersections of mineralisation
2.0 – 2.5	Detailed Drilling has defined targets with potential economic interest.
2.5 – 3.0	A resource has been defined at Inferred Resource Status, no feasibility study has been completed
3.0 – 4.0	Indicated Resources have been identified that are likely to form the basis of a prefeasibility study
4.0 – 5.0	Indicated and Measured Resources have been identified and economic parameters are available for assessment.

When historical expenditure approaches are adopted, it is good practice for valuers to provide full transparency in relation to all historical exploration expenditure on the subject property, details of those expenditures selected for use in the method (including details in relation to warranted future expenditures), and justification for any multiples applied.

Past expenditure on a tenement and/or future committed exploration expenditure can establish a base value from which the effectiveness of exploration can be assessed. Where exploration has produced documented results, a PEM can be derived which takes into account the valuer's judgment of the prospectivity of the tenement and the value of the database.

Future committed exploration expenditure is discounted to 60% by some valuers to reflect the uncertainty of results and the possible variations in exploration programmes caused by future undefined events. Expenditure estimates for tenements under application are often discounted to 60% of the estimated value by some valuers to reflect uncertainty in the future granting of the tenement. The PEM Factors are defined in the table.

## Yardstick (Rule of Thumb) Method

A Rule-of-Thumb method sometimes used for valuing Mineral Assets without identified Resources is based upon conversion of comparable sales data to a unit area (per km² or per ha). It is probably the most difficult comparative tool to justify. This Method has found greater acceptance in North

America, where tenement sizes appear to be smaller and where there are many more transactions forming a deep and liquid market than elsewhere. In addition, dealing in tenements is not discouraged by the mining legislation, especially in the US with its historic focus on property rights. It is used in Canada and Australia, though to a much lesser extent.

In Australia, many State jurisdictions grant large exploration tenements (say 300km2 maximum) on a graticular block system. This means a tenement is usually larger than geometrically necessary to cover the specific geologically prospective terrane. Also, most jurisdictions here require periodic significant reductions in the tenement's size, so it is common to apply for more area than is actually needed to provide for this obligatory reduction. The sale of exploration tenements to third parties is discouraged (although sales, particularly if interests, certainly occur) because the basis of grant is that the applicants will carry out the granted tenement's exploration obligations themselves. The State sees itself as the centralised, timely distributor of exploration rights, not the free market.

That said, some valuers still attempt to use this Rule-of-Thumb (based upon area) in Australia with an emphasis on market value. A review of technical value (which is not influenced by market conditions) of exploration areas carried out by Agricola over the last few years suggests that ground without resources can be categorized as a matter of convenience into two groups:

- Exploration area in known mineral fields relatively close to published mineral resources. Such areas attract values in the range of \$700 to \$1300 per square kilometre.
- Exploration areas in green fields or early exploration domains remote from mineral resources. Such areas attract values in the range of \$400 to \$800 per square kilometre

Adjustments to the Technical Value – Market Value

Mineral Assets are often bought and sold at a price that is different than their technical value or stand-alone value. To the extent that it exists, the amount of the transacted value differs from the technical value is often described as the 'acquisition premium or discount'.

The concept of market value implies the construction of a hypothetical transaction between willing, knowledgeable, but not anxious buyers and sellers. Therefore, when assessing the market value of resource projects, it is likely that valuers will consider whether it is appropriate to make an adjustment to the technical value of the project to reflect any observed 'acquisition premium or discount', or other adjustments. Such adjustments can either be implicit or explicit in the valuation method chosen. However, care should be taken not to treat as acquisition premium or discount something that is properly part of technical value, such as where assumed forward values for commodity prices are reflected in the technical value.

Particularly when valuing early stage exploration and development projects the technical value may be assessed for a project with reference to parameters that may be above or below those present in the financial markets as at the valuation date. Consequently, when applying these exploration valuation methods, it may be appropriate to reflect a series of high level adjustments to the technical value to account for differences in market conditions relative to those embedded within the method itself.

However, other valuation methods (particularly the DCF valuation method) are able to explicitly reflect a series of parameters that may apply to future financial market expectations. This is particularly the case if valuers adopt commodity price, exchange rate, inflation rate, and discount rate parameters which are forecast with reasonable confidence, and resource to reserve conversion, cost structure and capital expenditure parameters which are consistent with the expectations in the market. Doing so will limit the need to make further adjustments to the resulting stand alone value to account for such factors as 'market considerations'.

To the extent that valuers choose to apply further adjustments to their assessed stand alone value, it is good practice to clearly identify how they have applied the adjustments are applied, and the rationale for doing so.

### **GLOSSARY OF TERMS**

- 'Real Property' A non-physical, legal concept and it includes all the rights, interests and benefits related to the ownership of 'Real Estate' and normally recorded in a formal document (eg, deed or lease). The rights are to sell, lease, enter, bequeath, gift, etc. There may be absolute single or partial ownership (subject to limitations imposed by Government, like taxation, planning powers, appropriation, etc). These rights may be affected by restrictive covenants or easements affecting title; or by security or financial interests, say conveyed by mortgages.
- 'Real Estate' A physical concept, including land and all things that are a natural part of the land (eg, trees and Minerals). In addition it includes all things effectively permanently attached by people (eg, buildings, site improvements, and permanent physical attachments, like cooling systems and lifts) on, above or below the ground.
- Personal Property Covers all items other than 'Real Estate' and may be tangible (like a chattel or goods) or intangible (like a patent or debt). It has a moveable character.
- 'Mineral(s)' Any naturally occurring material found in or on the Earth's crust, that is useful to and/or has a value placed on it by mankind. The term specifically includes coal, shale and materials used in building and construction, but excludes crude oil and natural gas (VALMIN Code).
- 'Minerals Industry' (also Extractive Industry) Defined as encompassing those engaged in exploring for, extracting, processing and marketing 'Minerals'.
- 'Mineral Asset(s)' (Resource Assets or Mineral Properties) All property including, but not limited to 'Real Property', intellectual property, mining and exploration tenements held or acquired in connection with the exploration, 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. Most can be classified as 'Exploration Areas', 'Advanced Exploration Areas', 'Pre-Development Projects', 'Development Projects' or 'Operating Mines' (VALMIN Code).
- 'Operating Mines' Mineral Properties, particularly mines and processing plants, which have been fully commissioned and are in production (VALMIN Code).
- 'Development Projects' Mineral Properties which have been committed to production, but which are not yet commissioned or not operating at design levels (VALMIN Code).
- 'Advanced Exploration Areas' and 'Pre-development Projects' Mineral Properties where Mineral Resources have been identified and their extent estimated (possibly incompletely) but where a positive development decision has not been made. Mineral Properties at the early assessment stage, those for which a development decision has been negative, those on care and maintenance and those held on retention titles are all included in this category if Mineral Resources have been identified. This is even if no further valuation or technical assessment work, delineation or advanced exploration is being undertaken (VALMIN Code).
- 'Exploration Areas' Mineral Properties where mineralisation may or may not have been identified, but where a Mineral Resource has not been identified (VALMIN Code).
- 'Price' The amount paid for a good or service and it is a historical fact. It has no real relationship with 'Value', because of the financial motives, capabilities or special interests of the purchaser; and the state of the market at the time.
- 'Value' (also Valuation which is the result of determining 'Value') The estimated likely future 'Price' of a good or service at a specific time, but it depends upon the particular qualified type of value (eg 'Market Value', 'Salvage Value', 'Scrap Value', 'Special Value', etc). There is also a particular value for tax and rating, or insurance purposes.
- 'Fair Market Value' (Market Value or Value) The object and result of the Valuation. It is the estimated amount of money

- (or the cash equivalent of some other consideration) for which the 'Mineral Asset' should change hands on the 'Valuation Date'. It must be between a willing buyer and a willing seller in an 'arm's length' transaction in which each party has acted knowledgeably, prudently and without compulsion. It is usually comprised of two components, the underlying or 'Technical Value' and a premium or discount, relating to market, strategic or other considerations (VALMIN Code,).
- 'Market Value' (IVS Definition) The result of an objective Valuation of specific identified ownership rights to a specific asset as at a given date. It is the value in exchange not 'Value-in-Use' set by the market place. It is the "estimated amount for which a property should exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had acted knowledgeably, prudently, and without compulsion".
- 'Fair Value' (IVS definition) An accountancy term used for values envisaged to be derived under <u>any and all conditions</u>, not just those prevailing in an open market for the normal orderly disposal of assets. Being a transaction price it reflects both existing and alternative uses, too. It is also a legal term for values involved in dispute settlements which may not also meet the strict 'Market Value' definition. Commonly, it reflects the service potential of an asset ie, value derived by DCF/NPV analysis, not merely the result of comparable sales analysis. It is still the "amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction".
- 'Technical Value' An assessment of a 'Mineral Asset's' future net economic benefit at the 'Valuation Date' under a set of assumptions deemed most appropriate by the 'Valuer', excluding any premium or discount to account for market, strategic or other considerations (*VALMIN Code*<sub>i</sub>).
- 'Highest-and-Best-Use' for physical property, it is the reasonably probable and legal use of property, which is physically possible, appropriately supported and financially feasible, that results in the <u>highest value</u>. In the case of personal property, it is the same with the additional qualification that the highest value must be in the appropriate market place, consistent with the purpose of the appraisal. It may be, in volatile markets, the holding for a future use.
- 'Value-in-Use' in contrast to 'Highest-and-Best-Use', it is the specific value of a specific tangible asset that has a specific use to a specific user. It is not market-related. The focus is on the value that a specific property contributes to the enterprise of which it is a part (being part of a 'Going Concern Valuation'). It measures the contributory value of a specified asset(s) used within that specific enterprise, although it is not the 'Market Value' for that individual asset. It is the Value-to-the-Owner/Entity/Business in accountancy terms and may be the lower of net current replacement cost and its recoverable amount. It is also the net present value of the expected future net cash flows from the continued use of that asset, plus its disposal value at the end of its useful life ('Scrap Value'). At the 'Valuation Date', there must be recognition of its existing use by a particular user. This is in contrast to the alternative reasonable use to which an asset might be put by unspecified owner(s).
- 'Going Concern Value' A business valuation concept rather than one relating to individual property valuation. It is the value of an operating business/enterprise (ie one that is expected to continue operating) <u>as a whole</u> and it includes goodwill, special rights, unique patents or licences, special reserves, etc. Apportionment of this total value may be made to constituent parts, but none of these components constitute a basis for 'Market Value'.
- 'Market Capitalisation' The total dollar market value of all of a company's outstanding shares. Market capitalisation is calculated by multiplying a company's shares outstanding by the current market price of one share. The investment community uses this figure to determine a company's size, as opposed to sales or total asset figures. Frequently referred to as "market Cap" or MCap
- 'Enterprise Value EV' A measure of a company's value, often used as an alternative to straightforward market capitalization. Enterprise value is calculated as market cap plus debt, minority interest and preferred shares, minus total cash and cash equivalents. In the event of a buyout, an acquirer would have to take on the company's debt, but would pocket its cash. EV differs significantly from simple market capitalisation in several ways, and many consider it to be a more accurate representation of a firm's value.
- 'Market Premium' A control premium is an amount that a buyer is usually willing to pay over the current market price of a publicly traded company in order to acquire a controlling share in that company. The reason the buyer of a controlling interest is willing to offer a premium over the price currently established by other market participants is the additional prerogatives of control, including electing the company directors, firing and hiring key employees, declaring and distributing dividends, divesting or acquiring additional business assets, and entering into merger and acquisition transactions. The opposite of control premium is the minority discount.
- 'Investment Value' (Worth) this is the value of a specific asset to a specific investor(s) for identified investment objectives or criteria. It may be higher or lower than 'Market Value' and is associated with 'Special Value'.
- 'Property-with-Trading-Potential' refers to the valuation of specialised property (eg, hotel, petrol station, restaurant, etc) that is sold on an operating or going concern basis. It recognises that assets other than land and buildings are to be included in the 'Market Value' and it is often difficult to separate the component values for land and property.
- 'Special Value' An extraordinary premium over and above the 'Market Value', related to the specific circumstances that a particular prospective owner or user of the property attributes to the asset. It may be a physical, functional or economic

- aspect or interest that attracts this premium. It is associated with elements of 'Going Concern Value' or 'Investment Value' since it also represents synergistic benefits. In a strict sense it could apply to very specialised or special purpose assets which are rarely sold on the open market, except as part of a business, because their utility is restricted to particular users. In some circumstances, it may be the lower value given by 'Value –in–Use'.
- 'Salvage Value' The expected value of an asset at the end of its economic life (ie, being valued for salvage disposal purposes rather than for its originally intended purpose). Hence, it is the value of property, excluding land, as if disposed of for the materials it contains, rather than for its continued use, without special repairs or adaptation.
- 'Scrap Value' (Residual Value) The remaining value (usually a net value after disposal costs) of a wasting asset at the end of a prescribed or predictable period of time (usually the end of its effective life) that was ascertained upon acquisition.
- 'Forced Sale Value' (Liquidated Value) The amount reasonably expected to be received from the sale of an asset within a short time frame for completion that is too short to meet the 'Market Value' definition. This definition requires a reasonable marketing time, having taken into account the asset's nature, location and the state of the market). Usually it also involves an unwilling seller and buyers who have knowledge to the disadvantage of the seller.
- 'Valuation Date' Means the reference date to which a Valuation applies. Depending on the circumstances, it could be different to the date of completion or signing of the Valuation Report or the cut-off date of the available data (VALMIN Code.).
- 'Valuer' (also Valuer [Canada] or Appraiser [USA]) Either the 'Expert' or 'Specialist' (Qualified Person in Canada) who is the natural person responsible for the Valuation to determine the 'Fair Market Value' after consideration of the technical assessment of the 'Mineral Asset' and other relevant issues. They must have demonstrable 'Competence' (and 'Independence', when required).
- 'Expert' Means a 'Competent' (and 'Independent', where relevant) natural person who prepares and has overall responsibility for the Valuation Report. He/she must have at least 10 years of relevant 'Minerals Industry' experience, using a relevant 'Specialist' for specific tasks in which he/she is not 'Competent'. An 'Expert' must be a corporate member of an appropriate, recognised professional association having an enforceable Code of Ethics, or explain why not (VALMIN Code).
- 'Specialist' Means a 'Competent' (and 'Independent', where relevant) natural person who is retained by the 'Expert' to provide subsidiary reports (or sections of the Valuation Report) on matters on which the 'Expert' is not personally expert. He/she must have at least 5 years of suitable and preferably recent 'Minerals Industry' experience relevant to the subject matter on which he/she contributes. A 'Specialist' must be corporate member of appropriate, recognised professional association having an enforceable Code of Ethics, or explain why not (VALMIN Code).
- 'Material/Materiality' with respect to the contents and conclusions of a relevant Report, it means data and information of such importance that the inclusion or omission of the data or information concerned might result in a reader of the Report reaching a different conclusion than might otherwise be the case. 'Material' data (or information) is that which would reasonably be required in order to make an informed assessment of the subject of the Report. The Australian Society of Accountants' Standard AAS5 indicates that 'Material' data (or information) is such that the omission or inclusion of it could lead to changes in total value of greater than 10% (between 5% and 10% it is discretionary). Also the Supreme Court of New South Wales has stated that something is 'Material' if it is significant in formulating a decision about whether or not to make an investment or accept an offer (VALMIN Code).
- 'Transparent/Transparency' as applied to a valuation it means, as in the Concise Oxford Dictionary, "easily seen through, of motive, quality, etc". It applies to the factual information used, the assumptions made and the methodologies applied, all of which must be made plain in the Report (VALMIN Code).
- 'Competence' it means having relevant expertise, qualifications and experience (technical or commercial), as well as, by implication, the professional reputation so as to give authority to statements made in relation to particular matters. (VALMIN Code).
- 'Competent Person A 'Competent Person' is a minerals industry professional who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy, or of the Australian Institute of Geoscientists, or of a 'Recognised Professional Organisation' (RPO), as included in a list available on the JORC and ASX websites. These organisations have enforceable disciplinary processes including the powers to suspend or expel a member. A Competent Person must have a minimum of five years relevant experience in the style of mineralisation or type of deposit under consideration and in the activity which that person is undertaking. If the Competent Person is preparing documentation on Exploration Results, the relevant experience must be in exploration. If the Competent Person is estimating, or supervising the estimation of Mineral Resources, the relevant experience must be in the estimation of Ore Reserves, the relevant experience must be in the estimation, assessment, evaluation and economic extraction of Ore Reserves. (JORC 2012)
- 'Independent/Independence' Means that the person(s) making the Valuation have no 'Material' pecuniary or beneficial (present or contingent) interest in any of the 'Mineral Assets' being assessed or valued, other than professional fees

- and reimbursement of disbursements paid in connection with the assessment or Valuation concerned; or any association with the commissioning entity, or with the owners or promoters (or parties associated with them) likely to create an apprehension of bias. Hence, they must have no beneficial interest in the outcome of the transaction or purpose of the technical assessment/Valuation of the 'Mineral Asset' (VALMIN Code). ASIC RG112, which deals with the Independence of Expert Reports, provides more detail on this concept. (*JORC 2012*)
- 'Exploration results' Exploration Results include data and information generated by mineral exploration programmes that might be of use to investors but which do not form part of a declaration of Mineral Resources or Ore Reserves. The reporting of such information is common in the early stages of exploration when the quantity of data available is generally not sufficient to allow any reasonable estimates of Mineral Resources. Examples of Exploration Results include results of outcrop sampling, assays of drill hole intersections, geochemical results and geophysical survey results.
- 'Exploration Target' An Exploration Target is a statement or estimate of the exploration potential of a mineral deposit in a defined geological setting where the statement or estimate, quoted as a range of tonnes and a range of grade (or quality), relates to mineralisation for which there has been insufficient exploration to estimate a Mineral Resource. Any such information relating to an Exploration Target must be expressed so that it cannot be misrepresented or misconstrued as an estimate of a Mineral Resource or Ore Reserve. The terms Resource or Reserve must not be used in this context. (JORC 2012)
- 'Inferred Mineral Resource' An 'Inferred Mineral Resource' is that part of a Mineral Resource for which quantity and grade (or quality) are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. An Inferred Mineral Resource has a lower level of confidence than that applying to an Indicated Mineral Resource and must not be converted to an Ore Reserve. It is reasonably expected that the majority of Inferred Mineral Resources could be upgraded to Indicated Mineral Resources with continued exploration. (JORC 2012)
- 'Indicated Mineral Resource' An 'Indicated Mineral Resource' is that part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of Modifying Factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to assume geological and grade (or quality) continuity between points of observation where data and samples are gathered. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource and may only be converted to a Probable Ore Reserve. (JORC 2012)
- 'Measured Mineral Resource' A 'Measured Mineral Resource' is that part of a Mineral Resource for which quantity, grade (or quality), densities, shape, and physical characteristics are estimated with confidence sufficient to allow the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit. Geological evidence is derived from detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to confirm geological and grade (or quality) continuity between points of observation where data and samples are gathered. A Measured Mineral Resource has a higher level of confidence than that applying to either an Indicated Mineral Resource or an Inferred Mineral Resource. It may be converted to a Proved Ore Reserve or under certain circumstances to a Probable Ore Reserve. (JORC 2012)
- 'Modifying Factors' are considerations used to convert Mineral Resources to Ore Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors. (JORC 2012)
- 'Scoping Study' A Scoping Study is an order of magnitude technical and economic study of the potential viability of Mineral Resources. It includes appropriate assessments of realistically assumed Modifying Factors together with any other relevant operational factors that are necessary to demonstrate at the time of reporting that progress to a Pre-Feasibility Study can be reasonably justified. A Scoping Study must not be used as the basis for estimation of Ore Reserves. (JORC 2012)
- 'Pre Feasibility Study' A Preliminary Feasibility Study (Pre-Feasibility Study) is a comprehensive study of a range of options for the technical and economic viability of a mineral project that has advanced to a stage where a preferred mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, is established and an effective method of mineral processing is determined. It includes a financial analysis based on reasonable assumptions on the Modifying Factors and the evaluation of any other relevant factors which are sufficient for a Competent Person, acting reasonably, to determine if all or part of the Mineral Resources may be converted to an Ore Reserve at the time of reporting. A Pre- Feasibility Study is at a lower confidence level than a Feasibility Study. (*JORC 2012*)
- 'Feasibility Study' A Feasibility Study is a comprehensive technical and economic study of the selected development option for a mineral project that includes appropriately detailed assessments of applicable Modifying Factors together with any other relevant operational factors and detailed financial analysis that are necessary to demonstrate at the time

of reporting that extraction is reasonably justified (economically mineable). The results of the study may reasonably serve as the basis for a final decision by a proponent or financial institution to proceed with, or finance, the development of the project. The confidence level of the study will be higher than that of a Pre- Feasibility Study. (*JORC 2012*)

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