28 May 2015

**BY ELECTRONIC LODGEMENT**

Market Announcements Office
ASX Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sirs

**Mungana Goldmines Limited - Off-market takeover offer by Auctus Chillagoe Pty Ltd – Target's Statement**

We refer to the off-market takeover offer by Auctus Chillagoe Pty Ltd (ACN 605 055 285) (**Auctus**) to acquire all of the ordinary shares in Mungana Goldmines Limited (ACN 136 606 338) (**Mungana**).

A copy of the target's statement prepared by Mungana (and accompanying reports) (**Target's Statement**) has been sent to Auctus today.

The reports included with the Target's Statement are:

- an independent expert's report, prepared by Grant Thornton Corporate Finance Pty Ltd;
- an executive summary of the independent technical specialist's report, prepared by SRK Consulting (Australasia) Pty Ltd; and
- a plant valuation report, prepared by GR Engineering Services Limited.

Pursuant to item 14 of section 633(1) of the *Corporations Act 2001* (Cth), we **enclose** a copy of the Target's Statement.

The full independent technical specialist's report can be obtained from Mungana's website at www.munganagoldmines.com.au or on the Australian Securities Exchange.

Yours faithfully

**Anthony James**
Managing Director

MUNGANA GOLDMINES

# Target's Statement

In response to the takeover offer made by

## Auctus Chillagoe Pty Ltd

ACN 605 055 285

For all the ordinary shares in

## Mungana Goldmines Limited

ACN 136 606 338

the Directors of Mungana Goldmines Limited unanimously recommend that you

# REJECT

the **INADEQUATE**, **OPPORTUNISTIC** and **HIGHLY CONDITIONAL** Offer.

TORRIDON PARTNERS

**Financial adviser**

ashurst

**Legal adviser**

This is an important document and requires your immediate attention. If you are in any doubt about how to deal with this document, you should consult your financial, legal or other professional adviser immediately.

**CONTENTS** **PAGE**

# Snapshot of reasons why you should **REJECT** the Offer

| | | |
|---|---|---|
| **1** | **The Offer does not attribute sufficient value to Mungana's existing portfolio of assets** | **Refer to page 9** |
| **2** | **The Independent Expert has concluded that the Offer is not fair and not reasonable** | **Refer to page 10** |
| **3** | **The Offer is highly conditional and uncertain** | **Refer to page 11** |
| **4** | **Accepting the Offer may deprive you of the ability to receive greater value for your Mungana Shares from any subsequent better offer from Auctus, a competing bidder or on market** | **Refer to page 12** |

To **REJECT** the Offer, you should **TAKE NO ACTION** in relation to all correspondence sent to you by Auctus.

# Important Information

| KEY DATES | |
|---|---|
| Announcement of Offer<br>Bidder's Statement lodged with ASIC | 29 April 2015 |
| Commencement of Offer Period | 13 May 2015 |
| Date of this Target's Statement | 28 May 2015 |
| Date for Auctus to provide Notice of Status of Conditions[1] | 8 June 2015 |
| Close of the Offer Period (unless extended or withdrawn) | 7:00 pm (Sydney time) on 15 June 2015 |

1. If the Offer Period is extended, this date will be taken to be postponed for the same period.

**Nature of this document**

This Target's Statement is dated 28 May 2015. This document is issued by Mungana Goldmines Limited ACN 136 606 338 under Part 6.5 of the Corporations Act in response to the offer by Auctus Chillagoe Pty Ltd ACN 605 055 285 to acquire all of your ordinary shares in Mungana made pursuant to its Bidder's Statement dated 29 April 2015.

**ASIC and ASX disclaimer**

A copy of this Target's Statement was lodged with ASIC and provided to ASX on 28 May 2015. Neither ASIC, nor ASX, nor any of their respective officers, take any responsibility for the contents of this Target's Statement.

**Defined terms**

A number of defined terms are used in this Target's Statement. These terms are defined in Section 11, which also sets out certain rules of interpretation which apply to this Target's Statement.

**No account of personal circumstances**

This Target's Statement, including the Independent Expert's Report, the Independent Technical Specialist's Report and the Plant Valuation Report, does not take into account the individual investment objectives, financial or tax situation or particular needs of any person. It does not contain personal financial advice. You should seek independent financial and taxation advice before making a decision as to whether or not to accept the Offer.

**Disclaimer as to forward looking statements**

This Target's Statement contains forward looking statements, including statements of current intention, statements of opinion and predictions as to possible future events. These forward looking statements are based on, among other things, Mungana's assumptions, expectations, estimates, objectives, plans and intentions as at the date of this Target's Statement.

Forward looking statements are subject to inherent risks and uncertainties. Although Mungana believes that the expectations reflected in any forward looking statement included in this Target's Statement are reasonable, no assurance can be given that such expectations will prove to be correct. Actual events, results or outcomes may differ materially from the events, results or outcomes expressed or implied in any forward looking statement.

Except as required by applicable law or the ASX Listing Rules, Mungana does not undertake to update or revise these forward looking statements, nor any other statements whether written or oral, that may be made from time to time by or on behalf of

Mungana, whether as a result of new information, future events or otherwise.

Neither Mungana (nor any of its officers and employees), or any other person named in this Target's Statement with their consent, or any person involved in the preparation of this Target's Statement makes any representation or warranty (express or implied) as to the accuracy or likelihood or fulfilment of any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward looking statement.

The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

**Disclaimer as to information**

The information regarding Auctus contained in this Target's Statement has been prepared by Mungana from publicly available information. None of the information in this Target's Statement concerning Auctus has been commented on, or verified, by Auctus or Mungana (save for obtaining the information from the Bidder's Statement). Accordingly, Mungana does not, subject to the Corporations Act, make any representation or warranty, express or implied, as to the accuracy or completeness of such information.

The Independent Expert's Report has been prepared by the Independent Expert for the purposes of this Target's Statement and the Independent Expert takes full responsibility for that report.

The Executive Summary of the Independent Technical Specialist's Report has been prepared by the Independent Technical Specialist for the purposes of the Independent Expert's Report and the Independent Technical Specialist takes full responsibility for both the executive summary of that report and the full Independent Technical Specialist's Report. The full Independent Technical Specialist's Report may be accessed from Mungana's website at www.munganagoldmines.com.au.

The Plant Valuation Report has been prepared by the Plant Valuation Specialist for the purposes of the Independent Expert's Report and the Plant Valuation Specialist takes full responsibility for that report.

**Risk factors**

Mungana Shareholders should note that there are a number of risk factors attached to their investment in Mungana. Section 8 of this Target's Statement sets out further information on those risks.

**Maps and diagrams**

Any diagrams, charts, maps, graphs and tables appearing in this Target's Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available at the date of this Target's Statement.

**Foreign jurisdiction**

The release, publication or distribution of this Target's Statement in jurisdictions outside Australia may be restricted by law or regulation. Accordingly, any person who comes into possession of it should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Target's Statement has been prepared in accordance with Australian law and the information contained in this Target's Statement may not be the same as that which would have been disclosed if this Target's Statement had been prepared in accordance with the laws and regulations outside Australia.

**Privacy**

Mungana has collected your information from the register of Mungana Shareholders for the purposes of providing you with this Target's Statement. The type of information Mungana has collected about you includes your name, contact details and information on your shareholding(s) in Mungana. Without this information, Mungana would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the names and addresses of Mungana Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to Mungana and its related bodies corporate, holders of Mungana Shares and external service providers, and may be required to be disclosed to regulators, such as ASIC. If you would like details of information about you held by Mungana, please contact us on the number set out below.

**Enquiries**

If you have any questions in relation to the Offer or this Target's Statement, please contact the Shareholder Information Line on 1300 180 103 (within Australia) or +61 1300 180 103 (from outside Australia).

# Chairman's Letter

28 May 2015

Dear fellow Mungana Shareholders

**Take NO ACTION and REJECT Auctus' offer for your Mungana shares**

On 29 April 2015, Auctus Chillagoe Pty Ltd announced a conditional, unsolicited offer to acquire all of the shares in Mungana Goldmines Limited for 13.5 cents per Mungana share.

Your Board has carefully considered the Offer and, for the reasons set out below, your Directors:

- consider that Auctus' Offer is **INADEQUATE**, **OPPORTUNISTIC** and **HIGHLY CONDITIONAL**; and
- unanimously recommend that you **REJECT** that Offer.

I intend to **REJECT** the Offer in respect of the Mungana Shares that I own or control.

**Offer Price does not attribute sufficient value to Mungana**

Your Board believes strongly that the King Vol zinc project is an outstanding opportunity to create value for Mungana Shareholders. We think that Auctus has recognised the value potential as well, and is trying to secure that potential for itself, but without paying you what the Board thinks is a fair price.

The Board has now assembled a skilled and experienced team, led by highly regarded mining executive Tony James as Managing Director, to unlock the value of King Vol and the exploration potential elsewhere on Mungana's Chillagoe tenements.

Accordingly, your Board is unanimously of the view that Auctus' offer of just 13.5 cents a share undervalues your company.

This belief is consistent with the conclusion of the Independent Expert, Grant Thornton Corporate Finance Pty Ltd, that the Offer is not fair and not reasonable in the Independent Expert's Report. The Independent Expert has assessed the fair market value of a Mungana Share on a control basis to be in the range of 24.19 cents to 31.69 cents.

Since the Offer was announced, Mungana has received an indicative non-binding proposal from another party. That proposal did not specify a price and was subject to due diligence, which your Board is not yet satisfied it should grant, and accordingly there can be no assurance that any proposal capable of acceptance will eventuate.

The Offer is highly conditional. Since the Announcement Date, Mungana has announced that it has entered into the Newcrest Agreement and has proposed a Placement, which would be subject to the approval of Mungana Shareholders. It would be open for Auctus to take the view that the Newcrest Agreement or the proposed Placement (should that issue proceed) breach an Offer Condition. This further reduces the certainty of the Offer.

Your Board's reasons for recommending that you **<u>REJECT</u>** the Offer are discussed in more detail in Section 1 of this Target's Statement.

**Further important information**

This Target's Statement contains Mungana's formal response to the Offer. The Independent Expert's Report is set out in Annexure A. We strongly encourage you to read all the information contained in this Target's Statement carefully (including the Independent Expert's Report) and to seek independent advice before deciding whether or not to accept the Offer.

If you accept the Offer and the Offer becomes unconditional, your Mungana Shares will be transferred to Auctus in exchange for the Offer Price and you will lose your exposure to any potential upside associated with the development of Mungana's assets. You should note that, on and from the trading day after the Announcement Date, Mungana Shares have traded at or above the Offer Price.[1] However, Mungana Shareholders should also note that there are risks associated with an investment in Mungana. Some of the key risks are set out in Section 8 of this Target's Statement.

To **<u>REJECT</u>** the Offer, you should simply take **<u>NO ACTION</u>** in relation to all documents sent to you by Auctus.

If you have any questions about the Offer, please contact the Shareholder Information Line on 1300 180 103 (within Australia) or +61 1300 180 103 (from outside Australia).

Yours sincerely

**John Fitzgerald**
Chairman
Mungana Goldmines Limited

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[1] Determined on the basis of ASX trading information sourced from Commonwealth Securities Limited (without the consent of Commonwealth Securities Limited to the use of the data, as permitted by ASIC Class Order 07/429).

# 1. Why you should <u>REJECT</u> the Offer

## 1.1 The Offer does not attribute sufficient value to Mungana's existing portfolio of assets

The Offer Price of 13.5 cents per Mungana Share does not reflect an adequate premium for control of Mungana's assets. This view is supported by the conclusion of the Independent Expert in the Independent Expert's Report.

Mungana is in the early stages of implementing a work plan that aims to bring the King Vol Zinc Project into production and deliver value to Mungana Shareholders. The development of the King Vol Zinc Project and the exploration associated with the Chillagoe Project is the key focus of Mungana's new management team, which was put in place in February 2015 and is led by experienced mining executive, Mr Anthony James.

The Chillagoe Project offers the following benefits:

- **High grade Mineral Resource:** The project includes the high grade King Vol zinc deposit. The deposit has Mineral Resources of 2.99Mt at 11.9% Zn, 0.8% Cu, 0.6% Pb, 29.9g/t Ag. The Chillagoe Project also includes the Red Cap deposits, which have a combined Mineral Resource of 3.8Mt at 4.8% Zn, 0.7% Cu, 0.2% Pb, 0.1 g/t Au and 19g/t Ag.
- **Established key infrastructure in place:** The project already has key infrastructure in place at the Mungana plant site and in the nearby town of Chillagoe. The plant site infrastructure includes access roads, power to the plant site, buildings and offices, water dams and tailings storage facilities. The nearby town of Chillagoe has housing options, including a camp site, core farm and associated facilities which are owned by Mungana. There is also a partially built zinc, copper and lead concentrator processing facility at the Mungana site. Many of the key components for that facility have already been acquired and have either been installed or are in storage pending their installation. As a result, Mungana anticipates significant savings on the estimated capital expenditure required to bring the Chillagoe Project into production relative to a new build scenario.
- **Potential exploration upside:** Across Mungana's Principal Tenements there are numerous Mineral Resources and there is potential exploration upside associated with those tenements. A significant part of Mungana's current and proposed future work plan is aimed at unlocking the potential of the current Mineral Resources and extensions of those Mineral Resources.

A number of milestones need to be achieved before production can commence at the King Vol Zinc Project. The key milestones are set out in Section 7.2 of this Target's Statement. There are risks associated with achieving those milestones which are outlined in Section 8.

Since the date of the Bidder's Statement, and as announced on ASX on 25 May 2015, Mungana has entered into the Newcrest Agreement. The key focus of the agreement is to explore for large gold-copper porphyry deposits over the southern portion of Mungana's tenements (which are considered prospective for that style of mineralisation), including some portions of the Principal Tenements.

More specifically, the agreement provides for Newcrest to spend up to $20 million on exploration over a period of up to eight years by way of:

- an initial $3 million commitment to be spent within the first 18 months; and

- an option to sign a farm-in agreement and spend up to an additional $17 million over a further 78 months.

Newcrest will then earn a 70% interest in an unincorporated joint venture with Mungana (30%) if the above expenditure requirements are satisfied and a minimum of 1Moz of gold or gold equivalent Mineral Resource is discovered.

The arrangements with Newcrest exclude the King Vol deposit and associated northern tenements, existing Red Cap and Mungana/Red Dome Mineral Resources and the processing facility and its associated infrastructure.

The Newcrest Agreement allows Mungana to benefit from Newcrest's technical expertise and exploration commitment by retaining an exposure to any significant porphyry gold-copper discoveries, while at the same time enabling Mungana to remain focussed on the development of the King Vol Zinc Project.

## 1.2 The Independent Expert has concluded that the Offer is not fair and not reasonable

Mungana has engaged Grant Thornton Corporate Finance Pty Limited as the Independent Expert to prepare the Independent Expert's Report in relation to the Offer. A full copy of the Independent Expert's Report is set out in Annexure A.

The Independent Expert has concluded that Auctus' Offer of 13.5 cents per Mungana Share is not fair and not reasonable for Mungana Shareholders.

**The Offer is NOT FAIR**

The Independent Expert has assessed the fair market value of a Mungana Share on a control basis to be in the range of 24.19 cents to 31.69 cents.

On the basis that the Offer Price of 13.5 cents per Mungana Share is significantly below the range of the estimated fair market value of a Mungana Share, the Independent Expert has concluded that the Offer is **NOT FAIR**.

**The Offer is NOT REASONABLE**

Some of the factors underpinning the Independent Expert's conclusion that the Offer is **NOT REASONABLE** are as follows:

(a) **The Offer is at a discount to the Independent Expert’s assessed valuation range:** The Offer Price is at a discount of 44.2% and 57.4% to the low end and high end (respectively) of the Independent Expert's assessed value range.

(b) **Loss of exposure to Mungana's assets:** If the Offer becomes unconditional, accepting Mungana Shareholders will no longer have any exposure to the King Vol Zinc Project and Mungana's other mineral assets.

(c) **The Offer is highly conditional:** The Offer is highly conditional (in total there are 30 Offer Conditions).

(d) **Zinc market outlook:** The outlook for zinc remains quite positive compared with other base and bulk metals.

(e) **Mungana's share price after the announcement of the Offer:** Mungana's share price has consistently traded above the Offer Price and in the range of 14.0 cents to 16.0 cents per share after the Announcement Date.

Your Directors encourage you to read the Independent Expert's Report set out in Annexure A in full before deciding whether or not to accept the Offer.

## 1.3 The Offer is highly conditional and uncertain

The Offer is highly conditional. In total, there are 30 Offer Conditions. Those conditions are set out in full in Section 8.9 of the Bidder's Statement.

The Offer will only proceed if all of the Offer Conditions are satisfied or waived before the end of the Offer Period. Accordingly, the nature and extent of the Offer Conditions reduces the level of certainty as to whether the Offer will ever proceed.

The level of certainty in relation to the Offer is further impacted by the following:

- **Newcrest Agreement:** Since the Announcement Date, Mungana has entered into the Newcrest Agreement. As disclosed at the time the Newcrest Agreement was announced:

  - it would be open for Auctus to take the view that Offer Condition (f) has been breached, although Mungana does not believe that the Newcrest Agreement is inconsistent with the commercial objectives of Auctus in making the Offer; and

  - each of Kagara and MPL, together holding 72% of the Mungana Shares on issue, have confirmed in writing on 22 May 2015 that, having regard to the circumstances, the information provided to them by Mungana and the recommendations of the Board at that time, if a shareholders' meeting were to be convened to consider a resolution to permit the Newcrest Agreement, their present intention would be to vote any Mungana Shares held by them at the relevant time in favour of that resolution. Kagara and MPL reserve the right to revisit their intentions in circumstances where a competing proposal that is superior to the Offer, and reasonably capable of being implemented, is announced.

  Further details in relation to the Newcrest Agreement are set out in Section 7.4 of this Target's Statement.

- **Proposed Placement:** On 26 May 2015, Mungana entered into a trading halt pending a proposed Placement. If it proceeds, the Placement would be subject to the approval of Mungana Shareholders at a General Meeting scheduled to be convened and held as soon as practicable after the date of this Target's Statement and it would result in a breach of Offer Condition (cc)(iv).

Accordingly, as a result of the Newcrest Agreement or the proposed Placement (should that raising proceed), Auctus may elect to allow the Offer to lapse or seek approval from ASIC to withdraw its offer. As at the date of this Target's Statement, Mungana has not received any indication from Auctus as to how it would exercise its discretion in these circumstances.

The Board's decision to enter into the Newcrest Agreement and propose the Placement (should that raising proceed), were made after careful consideration of all relevant circumstances (including the fact that the Offer may potentially lapse or be withdrawn).

Together, the Offer Conditions significantly restrict Mungana's ability to undertake certain corporate activities in the ordinary course of its business which are considered in the best interests of Mungana Shareholders.

Certain other Offer Conditions are market driven and, therefore completely outside of Mungana's control. For example, there are Offer Conditions that are tied to the price of copper and zinc, and the performance of the S&P/ASX 200 Index.

The Offer is subject to a 90% minimum acceptance condition. In light of their respective shareholdings, if any of Kagara, MPL or GHG Mungana Co. Ltd reject the Offer, it will not proceed unless that Offer Condition is waived.

The Offer is also subject to certain conditions which require Mungana to:

- provide Auctus with certain due diligence materials; or
- make certain public disclosures or grant site access to independent experts appointed by Auctus for specified purposes (see Offer Conditions (k), (l), (m), (n), (o), (p) and (s)).

By letter dated 8 May 2015, Auctus requested that the relevant due diligence materials be provided, and the relevant public disclosures be made or the site access be granted, by no later than the date of this Target's Statement.

As at the date of this Target's Statement, Mungana has not provided the requested due diligence materials, made the requested public disclosures or provided the requested site access in light of:

- the highly conditional nature of the Offer; and
- the inadequacy of the Offer having regard to the Independent Expert's valuation of the fair value of a Mungana Share on a control basis.

Mungana's failure to comply with Auctus' requests in its letter will not of itself cause Offer Conditions (k), (l), (m), (n), (o), (p) or (s) to be breached.

Should the above circumstances change, Mungana will reconsider its position in relation to making available appropriate due diligence materials, subject to appropriate confidentiality arrangements.

Mungana considers that certain of these due diligence conditions are unreasonably broad, uncertain and subjective. However, your Directors are required to act in the best interest of Mungana in responding to any request for due diligence, whether from Auctus or any other party, and your Directors propose to deal with all such requests on that basis.

### 1.4 Accepting the Offer may deprive Mungana Shareholders of the value of any subsequent better offer from Auctus, a competing bidder or on market

Your Directors believe that the Offer may be Auctus' first step in a plan to take control of Mungana's primary asset, the Chillagoe Project. The timing of Auctus' Offer is opportunistic and was announced immediately prior to Mungana announcing its work plans and strategy to bring the King Vol Zinc Project into production, which your Directors believe will deliver value to Mungana Shareholders.

The Offer is subject to Auctus receiving acceptances in respect of at least 90% of the Mungana Shares on issue, in which case it has said it intends to proceed with compulsory acquisition of the remaining shares to acquire 100%. However, Auctus is permitted to waive the minimum acceptance condition and there is the potential that Auctus may waive that condition and acquire any Mungana Shares for which it receives acceptances. It is possible that, if Auctus fails to acquire a sufficient number of Mungana Shares such that it could compulsorily acquire the remaining shares, it may return in the future with a higher offer in order to acquire 100% those remaining shares.

If you accept the Offer and the Offer becomes unconditional, you will be not be able to benefit from any competing offer or subsequent further offer by Auctus (should either emerge).

Mungana Shareholders should note that Mungana is not aware of whether Auctus has any intention to waive the minimum acceptance condition or make any further offer should it not acquire 100% of Mungana (or sufficient interests to allow compulsory acquisition) under the Offer, and there can be no guarantee as to what action Auctus might take in these circumstances.

As noted above, since the Announcement Date, Mungana has received an indicative non-binding proposal from another party. That proposal did not specify a price and was subject to due diligence, which your Board is not yet satisfied it should grant, and accordingly there can be no assurance that any proposal capable of acceptance will eventuate.

Whilst prior to the Offer Mungana Shares have traded at or below the Offer Price, on and from the trading day after the Announcement Date Mungana's share price has consistently traded at or above the Offer Price.[2] If you accept the Offer, unless withdrawal rights are available, you will lose the ability to sell your Mungana Shares while the Offer remains open. Accordingly, by accepting the Offer, you may forgo the opportunity to sell your Mungana Shares on ASX at a higher price than that being offered by Auctus.

2 Determined on the basis of ASX trading information sourced from Commonwealth Securities Limited (without the consent of Commonwealth Securities Limited to the use of the data, as permitted by ASIC Class Order 07/429).

# 2. Your Directors' response to Auctus' claims

| Auctus' claim | Mungana's response |
| --- | --- |
| **You will receive an attractive premium for your Mungana Shares** | Mungana considers that the Offer Price does not represent an attractive premium for your Mungana Shares. The Offer Price does not reflect the value of Mungana and its assets according to the Independent Expert's Report in which the Independent Expert concluded that the Offer is not fair and not reasonable and assessed the fair market value of a Mungana Share on a control basis to be in the range of 24.19 cents to 31.69 cents. On and from the trading day after the Announcement Date, Mungana Shares have consistently traded at or above the Offer Price.[3] |
| **You should accept the Offer because of the risk associated with future funding requirements** | The Bidder's Statement states that Mungana faces "future funding uncertainties in a time of constrained equity markets" and that, if you accept the Offer, you will "remove risks associated with maintaining your investment in Mungana".<br><br>Your Directors acknowledge that there are risks associated with obtaining funding for the development of the King Vol Zinc Project, which will require significant funding to bring that project into production.<br><br>On 26 May 2015, Mungana entered into a trading halt pending a proposed Placement. If it proceeds, the Placement would be subject to the approval of Mungana Shareholders and seek to raise approximately $5 million (before transaction costs).<br><br>The funds raised from the proposed Placement would be used to carry out aspects of a work plan intended to ultimately bring the King Vol Zinc Project into production and carry out ongoing exploration. Significant further funding would be required, however, your Directors believe that the funds raised from the proposed Placement would enable it to make significant progress and better position Mungana to secure further funding in the future. |
| **You should accept the Offer because of the risk associated with commodities prices** | Your Directors acknowledge that there are risks associated with commodity prices. However, such risks are coupled with the opportunity to obtain benefits from positive movements in relevant commodity prices.<br><br>By accepting the Offer, you would relinquish any benefits that may otherwise flow to you as a result of Mungana's exposure to the market for zinc. |

[3] Determined on the basis of ASX trading information sourced from Commonwealth Securities Limited (without the consent of Commonwealth Securities Limited to the use of the data, as permitted by ASIC Class Order 07/429).

| Auctus' claim | Mungana's <u>response</u> |
| --- | --- |
| **You should accept the Offer because of development and operational risks for Mungana's projects** | Your Directors acknowledge that there are development and operational risks that may affect Mungana. However, these kinds of risks also affect other companies operating in the industry. These risks are discussed further in Section 8. Your Directors and management will seek to manage these risks as and when they arise. |
| **You should accept the Offer because the future trading price of Mungana Shares is uncertain and may fall if the Offer is not successful** | Your Directors acknowledge that the price of Mungana Shares is subject to a number of factors including general stock market movements, general economic conditions and demand for listed securities.<br><br>However, your Directors believe that Mungana's strategy relating to the King Vol Zinc Project and the Chillagoe Project, the Newcrest Agreement and the proposed Placement would be value accretive for the company. If you accept the Offer, unless withdrawal rights are available, you will relinquish any benefits that may flow as a consequence of these initiatives, unless the Offer lapses at the end of the Offer Period. |

# 3. Mungana Directors' recommendation and Directors' interests

## 3.1 Directors of Mungana

As at the date of this Target's Statement, the Mungana Board comprises:

- John Fitzgerald (Non-Executive Chairman)
- Anthony (Tony) James (Managing Director)
- Justin Jian Yi Wu (Non-Executive Director)
- Richard (Rick) Yeates (Non-Executive Director)

For information regarding the senior management of Mungana, refer to Section 7.5.

## 3.2 Directors' recommendation and intentions

After taking into account the matters set out in this Target's Statement (including the Independent Expert's Report) and in the Bidder's Statement, each of your Directors' recommend that you **REJECT** the Offer.

The reasons for the Directors' recommendation are set out in Section 1 of this Target's Statement.

Mr Fitzgerald intends to **REJECT** the Offer in respect of the Mungana Shares he owns or controls.

## 3.3 Interests and dealings of Directors in Mungana securities

As at the date of this Target's Statement:

- Mr Fitzgerald has a relevant interest in 27,143 Mungana Shares and 250,000 Mungana Options; and
- no other Director has a relevant interest in any Mungana Security.

No Director has acquired or disposed of a relevant interest in any Mungana Securities in the four month period ending on the date immediately before the date of this Target's Statement.

However, subject to relevant shareholder approvals being obtained, it is proposed that:

- Mr Fitzgerald would subscribe for 714,285 Mungana Shares as part of the proposed Placement;
- Mr James would subscribe for 714,285 Mungana Shares as part of the proposed Placement; and
- Mr Yeates would subscribe for 178,571 Mungana Shares as part of the proposed Placement.

The Offer would not apply to those Mungana Shares unless Auctus obtains ASIC relief to allow it to extend its offer to the shares to be issued under the proposed Placement.

Further details in relation to the proposed Placement will be set out in a Notice of General Meeting which will be dispatched as soon as practicable after the date of this Target's Statement.

## 3.4 Interests and dealings of Directors in Auctus securities

As at the date immediately before the date of this Target's Statement, no Director had a relevant interest in any Auctus securities.

No Director has acquired or disposed of a relevant interest in any Auctus securities in the four month period ending on the date immediately before the date of this Target's Statement.

## 3.5 Benefits and agreements

(a) Benefits in connection with retirement from office

No person has been or will be given any benefit (other than a benefit which can be given without member approval under the Corporations Act) in connection with the retirement of that person, or someone else, from the Board or managerial office of Mungana or a related body corporate of Mungana, as a result of the Offer.

(b) Benefits from Auctus

No Director has agreed to receive, or is entitled to receive, any benefit from Auctus which is related to or conditional on the Offer, other than in their capacity as a holder of Mungana Securities.

(c) Agreements in connection with or conditional on the Offer

No agreement has been made between any Director and any other person in connection with, or conditional upon, the outcome of the Offer, other than in their capacity as a holder of Mungana Securities.

(d) Interests in contracts with Auctus

No Director has any interest in any contract entered into by Auctus.

# 4. Frequently asked questions

This Section answers some key questions that you may have about the Offer. It is not intended to address all relevant issues for Mungana Shareholders. This Section should be read together with all other parts of this Target's Statement.

| Question | Answer |
|---|---|
| **Who is making the Offer?** | The Offer is made by Auctus Chillagoe Pty Ltd. Auctus is a proprietary company wholly owned by Auctus Chillagoe Holdings Pty Ltd, which is supported by private equity funds advised by Denham Capital Management LP. Further information in relation to Auctus can be obtained in Section 9 of this Target's Statement and in the Bidder's Statement. |
| **What is Auctus offering for my Mungana Shares?** | The Offer Price is 13.5 cents per Mungana Share. |
| **What is the Bidder's Statement?** | The Bidder's Statement is the document prepared by Auctus which sets out the terms of the Offer, as required by the Corporations Act. Auctus lodged its Bidder's Statement with ASIC on 29 April 2015. The Bidder's Statement was sent to each Mungana Shareholder registered as such as at 7:00 pm (Sydney time) on 6 May 2015. |
| **What is this Target's Statement?** | This Target's Statement is the Board's formal response to the Offer, as required by the Corporations Act. Accordingly, this document has been prepared by Mungana and contains important information to help you decide whether to accept the Offer. |
| **What choices do I have as a Mungana Shareholder?** | As a Mungana Shareholder, you have the following choices in respect of your Mungana Shares:<br>• **<u>REJECT</u>** the Offer by doing nothing (which is what your Directors recommend);<br>• sell all or some of your Mungana Shares, for example, on ASX (unless you have previously accepted the Offer and you have not validly withdrawn your acceptance); or<br>• accept the Offer.<br>There are several implications in relation to each of the above choices. A summary of these implications is set out in Section 5 of this Target's Statement.<br>You should seek independent, financial and taxation advice before making a decision as to whether or not to accept the Offer. |
| **What do your Directors recommend?** | Your Directors unanimously recommend that you **<u>REJECT</u>** the Offer.<br>The reasons for your Directors' recommendation are set out in Section 1 of this Target's Statement. |

| Question | Answer |
|---|---|
| **What do the Directors intend to do with their Mungana Shares?** | John Fitzgerald is the only Mungana Director who, as at the date of this Target's Statement, has a relevant interest in Mungana Shares. Mr Fitzgerald intends to **REJECT** the Offer in respect of those Mungana Shares he owns or controls.<br>On 26 May 2015, Mungana entered into a trading halt pending a proposed Placement, which would be subject to the approval of Mungana Shareholders. If it proceeds, Mr Fitzgerald, Mr James and Mr Yeates intend to participate in the proposed Placement. The Offer would not apply to the Mungana Shares to be issued under the proposed Placement unless Auctus obtains ASIC relief to allow it to extend its offer to those shares. |
| **What is the opinion of the Independent Expert?** | The Independent Expert has concluded that the Offer is not fair and not reasonable to Mungana Shareholders.<br>A copy of the Independent Expert's Report is set out in Annexure A of this Target's Statement. |
| **Why should I REJECT the Offer?** | You should **REJECT** the Offer for the following key reasons:<br>• the Offer does not attribute sufficient value to Mungana's existing portfolio of assets;<br>• the Independent Expert has concluded that the Offer is not fair and not reasonable;<br>• the Offer is highly conditional and uncertain; and<br>• accepting the Offer may deprive you of the ability to receive greater value for your Mungana Shares from any subsequent better offer from Auctus, a competing bidder or on market.<br>See Section 1 of this Target's Statement for further details of why you should **REJECT** the Offer. |
| **How do I REJECT the Offer?** | To reject the Offer, you should **TAKE NO ACTION** in relation to all correspondence from Auctus in relation to the Offer. |
| **Can I sell my Mungana Shares on ASX?** | During the Offer Period, you may sell your Mungana Shares on ASX for cash (less brokerage) provided you have not accepted the Offer for those Mungana Shares. The implications of selling your shares on market are set out in Section 5 of this Target's Statement. |
| **What are the consequences of accepting the Offer now, while it remains conditional?** | If you accept the Offer, unless withdrawal rights are available (see below), you will give up your right to sell your Mungana Shares or otherwise deal with your Mungana Shares while the Offer remains open.<br>If the share price trades above the Offer Price you will have lost your ability to sell your Mungana Shares on ASX at that higher price. On and from the trading day after the Announcement Date, Mungana Shares have consistently traded at or above the Offer Price.[4] |

[4] Determined on the basis of ASX trading information sourced from Commonwealth Securities Limited (without the consent of Commonwealth Securities Limited to the use of the data, as permitted by ASIC Class Order 07/429).

| Question | Answer |
|---|---|
| | While the Offer remains conditional (ie subject to the Offer Conditions), you will not be paid the Offer Price despite accepting the Offer for your Mungana Shares. You should take into account the possibility that there may be a delay in certain conditions being satisfied or that an Offer Condition may not be satisfied or waived. |
| **If I accept the Offer, can I withdraw my acceptance?** | You cannot withdraw or revoke your acceptance unless a withdrawal right arises under the Corporations Act. A withdrawal right will arise if, after you have accepted the Offer, Auctus varies the Offer in a way that postpones for more than one month the time that Auctus has to meet its obligations under the Offer (for example, if Auctus extends the Offer Period for more than one month while the Offer remains subject to any of the Offer Conditions). |
| **What are the consequences of the Offer becoming unconditional?** | If you accept the Offer after the Offer becomes unconditional or the Offer becomes unconditional after you have accepted it, you will be entitled to receive the Offer Price in respect of your Mungana Shares. If the Offer becomes unconditional, Auctus will also be entitled to attend meetings of Mungana and vote on behalf of those Mungana Shareholders who have accepted the Offer in order to, for example, defeat a resolution relating to a competing offer which may adversely affect the success of the Offer. |
| **What happens if Auctus increases the Offer Price?** | If Auctus increases the consideration payable under the Offer, the Directors will carefully consider the revised offer and advise you accordingly. |
| **When does the Offer close?** | The Offer is currently scheduled to close at 7:00 pm (Sydney time) on 15 June 2015, but the Offer Period can be extended in certain circumstances.<br><br>See Section 6.6 of this Target's Statement for details of the circumstances in which the Offer Period can be extended. |
| **What are the Offer Conditions?** | The Offer is highly conditional. It is subject to 30 conditions. Some of the Offer Conditions can be summarised as follows:<br><br>• Auctus receiving acceptances in respect of at least 90% of Mungana Shares on issue;<br><br>• Auctus receiving FIRB approval in respect of the acquisition of Mungana Securities;<br><br>• there being no material adverse change in relation to Mungana before the end of the Offer Period;<br><br>• no material acquisition, disposal, commitment or other specific transaction is undertaken by Mungana before the end of the Offer Period;<br><br>• no Product Agreement having been entered into before the end of the Offer Period with any third party;<br><br>• the S&P/ASX 200 Index not closing below 5,400 for three or more consecutive trading days; |

| Question | Answer |
| --- | --- |
| | • the price of copper not closing below $7,000 per tonne for three or more consecutive trading days;<br>• the price of zinc not closing below $2,650 per tonne for three or more consecutive trading days;<br>• there being no grant of a right or interest in a Principal Tenement by Mungana; and<br>• there being no issue of Mungana Shares other than on the exercise of a Mungana Option or the conversion of any Mungana Convertible Notes.<br>See Section 6.3 of this Target's Statement for further details in relation to the Offer Conditions. |
| **What happens if the Offer Conditions are not satisfied or waived?** | If the Offer Conditions are not satisfied or waived by the end of the Offer Period, the Offer will lapse. You will then be free to deal with your Mungana Shares even if you had accepted the Offer. |
| **What is the Placement?** | On 26 May 2015, Mungana entered into a trading halt pending a proposed Placement. If it proceeds, the Placement would be subject to the approval of Mungana Shareholders at a General Meeting scheduled to be convened and held as soon as practicable after the date of this Target's Statement<br>If the Placement proceeds, Mungana would issue approximately 36 million Mungana Shares for an issue price of 14.0 cents per share to raise approximately $5 million (before transaction costs). |
| **What effect could the proposed Placement have on the Offer?** | If the Placement proceeds, it would result in a breach of Offer Condition (cc)(iv), in which case Auctus may determine to allow the Offer to lapse or to seek approval from ASIC to withdraw the Offer.<br>It is, of course, open to Auctus to waive an Offer Condition that has been breached. If Auctus elects to continue with the Offer (irrespective of any breach of an Offer Condition as a result of the issue of Mungana Shares under the proposed Placement), the proposed placees would not have the ability to accept the Offer in respect of their Mungana Shares unless ASIC grants relief to Auctus to allow it to extend its offer to those shares, and Auctus then does extend its offer to those shares.<br>As at the date of this Target's Statement, Mungana has not received any indication from Auctus as to how it would exercise its discretion in these circumstances. |

| Question | Answer |
| --- | --- |
| **What is the Newcrest Agreement?** | The Newcrest Agreement is an agreement with Newcrest, which was announced on ASX on 25 May 2015, that provides for:<br>• the expenditure of up to $20 million by Newcrest on exploration for gold-copper porphyry deposits on the southern portion of the Chillagoe Project over a period of up to eight years; and<br>• upon satisfaction of that expenditure requirement and a discovery of a minimum of 1Moz of gold or gold-equivalent Mineral Resource, Newcrest to earn a 70% interest in an unincorporated joint venture with Mungana.<br>Further details on the Newcrest Agreement are set out in Section 7.4 of this Target's Statement. |
| **What effect could the Newcrest Agreement have on the Offer?** | It would be open to Auctus to take the view that Offer Condition (f) has been breached by reason of the fact that the Newcrest Agreement applies to some of the Principal Tenements, in which case Auctus may determine to allow the Offer to lapse or to seek approval from ASIC to withdraw the Offer. However, Mungana does not believe that the Newcrest Agreement is inconsistent with the commercial objectives of Auctus in making the Offer.<br>It is also open to Auctus to waive an Offer Condition that has been breached.<br>As at the date of this Target's Statement, Mungana has not received any indication from Auctus as to how it would exercise its discretion in these circumstances. |
| **When will I receive the Offer Price if I accept the Offer?** | You will not receive the Offer Price until after the Offer becomes unconditional.<br>If the Offer becomes unconditional, you will be paid the Offer Price on or before the earlier of:<br>• one month after the date of your acceptance of the Offer, or if the Offer is subject to an Offer Condition when you accept the Offer, within one month after all of the Offer Conditions have been fulfilled or waived (whichever is later); and<br>• 21 days after the end of the Offer Period (provided the Offer has become unconditional prior to the end of the Offer Period). |
| **What happens if I do nothing?** | You will remain a Mungana Shareholder.<br>If Auctus acquires 90% or more of Mungana Shares and the Offer becomes unconditional, Auctus intends to compulsorily acquire the remaining Mungana Shares. See Section 6.12 of this Target's Statement for more details.<br>If Auctus acquires between 50.1% and 90.0% of Mungana Shares and the Offer becomes unconditional, you will remain a minority shareholder and Mungana will then be controlled |

| Question | Answer |
| --- | --- |
| | by Auctus. |
| **Can I be forced to sell my Mungana Shares?** | You cannot be forced to sell your Mungana Shares unless Auctus becomes entitled to compulsorily acquire those shares under Chapter 6A of the Corporations Act.<br>See Section 6.12 of this Target's Statement for more information. |
| **Is there a number that I can call if I have further queries in relation to the Offer?** | If you have any further questions about the Offer, please contact the Shareholder Information Line on 1300 180 103 (within Australia) or +61 1300 180 103 (from outside Australia). |

# 5. Your options as a Mungana Shareholder

As a Mungana Shareholder, you have three options available to you. Those options are set out below.

You should note that:

- your Directors unanimously recommend that you **REJECT** the Offer;
- Mungana's Chairman, Mr John Fitzgerald, intends to **REJECT** the Offer in respect of the Mungana Shares he owns or controls; and
- your Directors encourage you to consider your personal risk profile, investment strategy, tax position and financial circumstances before making any decision in relation to your Mungana Shares.

**Option 1 - REJECT the Offer**

If you do not wish to accept the Offer and want to retain your Mungana Shares, you should simply do nothing.

If you choose to reject the Offer, do not take any action in relation to documents sent to you by Auctus.

**Option 2 - Sell your Mungana Shares on ASX**

Mungana Shareholders remain free to sell their Mungana Shares on ASX, provided they have not already accepted the Offer.

On 26 May 2015 (being the Last Practicable Trading Day), the closing share price for Mungana Shares was 14.5 cents. The latest price for Mungana Shares may be obtained from the ASX website at www.asx.com.au.

If you sell your Mungana Shares, you:

- will lose your exposure to the future growth potential of Mungana;
- will not receive the benefits of any potential higher offer for your Mungana Shares than has currently been made by Auctus;
- may be liable for capital gains tax on the sale; and
- may incur a brokerage charge.

Mungana Shareholders who wish to sell their Mungana Shares on ASX should contact their broker for information on how to effect that sale. They should also contact their tax adviser to determine the tax implications for them from such a sale.

**Option 3 - Accept the Offer**

Mungana Shareholders who accept the Offer:

- will not receive the Offer Price unless each of the Offer Conditions is satisfied or waived;
- will not receive the Offer Price until after the Offer becomes unconditional;

- will not be able to withdraw their acceptance and sell their Mungana Shares, meaning that they would not be able to accept a higher price from a competing bidder if such a bid eventuates, except in certain limited circumstances (see Section 6.9 of this Target's Statement); and

- may be liable to pay capital gains tax or income tax on the disposal of their Mungana Shares which may have financial consequences for some Mungana Shareholders.

Mungana Shareholders who wish to accept the Offer should refer to the Bidder's Statement for how to do so.

You should be aware that there is risk that one or more of the Offer Conditions will not be satisfied. Accordingly, in that circumstance, the Offer will not proceed unless all such Offer Conditions are waived by Auctus (see Section 6.3 of this Target's Statement for further details).

# 6. Important information about the Offer

## 6.1 Offer Price

The price being offered by Auctus is 13.5 cents per Mungana Share.

## 6.2 Offer Period

The Offer will be open for acceptance from 13 May 2015 until 7:00 pm (Sydney time) on 15 June 2015, unless extended or withdrawn.

The circumstances in which Auctus may extend or withdraw the Offer are set out in Section 6.6 and Section 6.7 respectively of this Target's Statement.

## 6.3 Offer Conditions

In respect of the Offer Conditions, Mungana Shareholders should note the following:

- **Offer Condition (f):** This Offer Condition broadly provides that, between the Announcement Date and the end of the Offer Period, Mungana does not grant a right over or interest in any part of the area covered by the Principal Tenements. Since the Announcement Date, Mungana has entered into the Newcrest Agreement. It would be open for Auctus to take the view that this agreement breaches Offer Condition (f) by reason of the fact that the Newcrest Agreement applies to some of the Principal Tenements. However, Mungana does not believe that the Newcrest Agreement is inconsistent with the commercial objectives of Auctus in making the Offer.

- **Offer Condition (cc)(iv):** This Offer Condition broadly provides that, between the Announcement Date and the end of the Offer Period, Mungana must not issue Mungana Shares. On 26 May 2015, Mungana entered into a trading halt pending a proposed Placement. If the Placement proceeds, Offer Condition (cc)(iv) will be breached.

- **Offer Conditions (k), (l), (m), (n), (o), (p) and (s):** These Offer Conditions broadly require Mungana to:

  - provide Auctus with certain due diligence materials; or

  - make certain public disclosures or grant site access to independent experts appointed by Auctus for specified purposes.

  If the requested due diligence materials are not provided, and the requested public disclosures are not made or the site access is not granted, by the end of the Offer Period, Offer Conditions (k), (l), (m), (n), (o), (p) and (s) will be breached. By letter dated 8 May 2015, Auctus requested that the above occurs by no later than the date of this Target's Statement.

  As at the date of this Target's Statement, Mungana has not provided the requested due diligence materials, made the requested public disclosures or provided the requested site access in light of:

  - the highly conditional nature of the Offer; and

  - the inadequacy of the Offer having regard to the Independent Expert's valuation of the fair value of a Mungana Share on a control basis.

Mungana's failure to comply with Auctus' requests in its letter will not of itself cause Offer Conditions (k), (l), (m), (n), (o), (p) or (s) to be breached.

Mungana considers that Offer Conditions (k), (l), (m), (n) and (s) are unreasonably broad, uncertain and subjective. However, regardless of the effect of these conditions, your Directors are required to act in the best interest of Mungana in responding to any request for due diligence, whether from Auctus or any other party, and your Directors propose to deal with all such requests on that basis.

As at the date of this Target's Statement, Mungana has not received any indication from Auctus as to how it would exercise its discretion if any of those Offer Conditions are breached.

### 6.4 Effect of non-satisfaction of Offer Conditions

If any Offer Condition is not satisfied and has not been waived, Auctus will have an option as to whether to proceed with the Offer or allow the Offer to lapse with unsatisfied conditions. If the Offer lapses, all acceptances of the Offer will be void and of no effect.

### 6.5 Status of Offer Conditions

Section 8.14 of the Bidder's Statement states that Auctus will give a Notice of Status of Offer Conditions to ASX and Mungana on 8 June 2015. Auctus is required to set out in its Notice of Status of Offer Conditions:

- whether the Offer is free of any or all of the Offer Conditions;
- whether, so far as Auctus knows, any of the Offer Conditions have been fulfilled; and
- Auctus' voting power in Mungana at that time.

If the Offer Period is extended before the Notice of Status of Offer Conditions is to be given, the date for giving the Notice of Status of Offer Conditions will be taken to be postponed for the same period. In the event of such an extension, Auctus is required, as soon as practicable after the extension, to notify ASX and Mungana of the new date for giving the Notice of Status of Offer Conditions.

If an Offer Condition is fulfilled during the Offer Period but before the date on which the Notice of Status of Offer Conditions is required to be given, Auctus must, as soon as practicable, give ASX and Mungana a notice which states that a particular Offer Condition has been fulfilled.

### 6.6 Extension of Offer Period

Auctus may extend the Offer Period at any time before giving the Notice of Status of Conditions (see Section 6.5 above) while the Offer is subject to conditions. However, if the Offer is unconditional (that is, all the Offer Conditions are satisfied or waived), Auctus may extend the Offer Period at any time before the end of the Offer Period.

In addition, there will be an automatic extension of the Offer Period if, within the last seven days of the Offer Period:

- Auctus improves the consideration offered under the Offer; or
- Auctus' voting power in Mungana increases to more than 50%.

If either of these two events occurs, the Offer Period is automatically extended so that it ends 14 days after the relevant event occurs.

## 6.7 Withdrawal of Offer

Auctus may not withdraw the Offer if you have already accepted it. However, if the Offer Conditions have not been satisfied or waived at the end of the Offer Period, then all acceptances will be void. Before you accept the Offer, Auctus may withdraw the Offer with the written consent of ASIC and subject to the conditions (if any) specified in such consent.

## 6.8 Effect of acceptance

The effect of acceptance of the Offer is set out in Section 8.7 of the Bidder's Statement. You should read that Section in full to understand the effect that acceptance will have on your ability to exercise the rights attaching to your Mungana Shares and the representations and warranties which you will be giving Auctus by accepting the Offer. In particular, accepting Auctus' Offer will prevent you from selling your Mungana Shares during the Offer Period and, if the Offer is declared or becomes unconditional, Auctus will be able to exercise the rights attaching to your Mungana Shares.

## 6.9 Withdrawal of your acceptance

If you accept the Offer, you will only be able to withdraw your acceptance in limited circumstances.

You may only withdraw your acceptance of the Offer if Auctus varies the Offer in a way that postpones, for more than one month, the time when Auctus needs to meet its obligations under the Offer. This will occur if Auctus extends the Offer Period by more than one month and the Offer is still subject to conditions.

## 6.10 When you will receive the Offer Price

You will not receive the Offer Price until after the Offer becomes unconditional. If the Offer becomes unconditional, you will be paid the Offer Price on or before the earlier of:

- one month after the date of your acceptance of the Offer, or if the Offer is subject to an Offer Condition when you accept the Offer, within one month after all of the Offer Conditions have been waived or fulfilled (whichever is later); and
- 21 days after the end of the Offer Period (provided the Offer has become unconditional prior to the end of the Offer Period).

See Section 8.8 of the Bidder's Statement for further details on when you will be paid the Offer Price by Auctus.

## 6.11 Effect of an improvement in the Offer Price

If Auctus improves the Offer Price, all Mungana Shareholders, whether or not they have accepted the Offer before that improvement in price, will be entitled to the benefit of that improved price.

## 6.12 Compulsory acquisition

Auctus has stated in Section 5.3(d) of the Bidder's Statement that if it becomes entitled to proceed to compulsory acquisition in accordance with the Corporations Act, it intends to compulsorily acquire any outstanding Mungana Shares.

The two types of compulsory acquisition procedures under Chapter 6A of the Corporations Act are summarised below.

(a) Follow on compulsory acquisition

Under Part 6A.1 of the Corporations Act, Auctus will be entitled to compulsorily acquire any outstanding Mungana Shares for which it has not received acceptances on the same terms as the Offer if, during or at the end of the Offer Period, Auctus (together with its associates):

(i) has relevant interests in at least 90% (by number) of the Mungana Shares; and

(ii) has acquired at least 75% (by number) of the Mungana Shares that Auctus offered to acquire under the Offer (whether the acquisitions happened under the Offer or otherwise).

If these thresholds are met, Auctus will have up to one month after the end of the Offer Period within which to give compulsory acquisition notices to those Mungana Shareholders who have not accepted the Offer. The consideration payable by Auctus will be the consideration last offered under the Offer.

Mungana Shareholders have statutory rights to challenge the compulsory acquisition. To be successful, a Mungana Shareholder will be required to establish to the satisfaction of a court that the terms of the Offer do not represent "fair value" for the Mungana Shares.

(b) General compulsory acquisition

Under Part 6A.2 of the Corporations Act, Auctus will be entitled to compulsorily acquire any outstanding Mungana Shares, if Auctus (either alone or with a related body corporate) holds full beneficial interests in at least 90% of Mungana Shares (by number) (ie if Auctus becomes a "90% holder").

If this threshold is met, Auctus will then have six months within which to give compulsory acquisition notices to Mungana Shareholders. The compulsory acquisition notices sent to Mungana Shareholders must be accompanied by an independent expert's report and an objection form.

The independent expert's report must set out whether the terms of the compulsory acquisition give a "fair value" for the Mungana Shares and the independent expert's reasons for forming that opinion.

If Mungana Shareholders with at least 10% of Mungana Shares covered by the compulsory acquisition notice object to the acquisition before the end of the objection period (which must be at least one month), Auctus may apply to the Federal Court or the Supreme Court of Western Australia for approval of the acquisition of the Mungana Shares covered by the notice.

## 6.13 **Lapse of Offer**

The Offer will lapse if the Offer Conditions are not waived or satisfied by the end of the Offer Period; in which case, all contracts resulting from acceptance of the Offer and all acceptances that have not yet resulted in binding contracts are void. In that situation, you will be free to deal with your Mungana Shares as you see fit.

# 7. Information relating to Mungana

## 7.1 Overview

Mungana was listed on ASX on 10 June 2010 (ASX code: MUX) as a spin out from ASX listed Kagara Limited (ASX code: KZL). Kagara became a large shareholder in Mungana as a result of the transaction. Kagara subsequently entered into voluntary administration in April 2012 and then liquidation in December 2013.

In December 2013, Mungana announced an agreement with Kagara to acquire assets comprising the Chillagoe Project, which are located near Chillagoe, North Queensland, from Kagara for $15 million, which was paid for by the issue of convertible notes with an aggregate face value of $15 million . This acquisition was completed on or about 31 July 2014.

As at 26 May 2015 (being the Last Practicable Trading Day), Mungana had 240,907,171 shares on issue and a market capitalisation of approximately $35 million (based on the closing trading price of 14.5 cents per share on ASX on the Last Practicable Trading Day).

## 7.2 Chillagoe Project

The Chillagoe Project is Mungana's primary asset. Following the appointment of Mr Anthony James, Mungana's Managing Director on 23 February 2015, Mungana announced a revised strategy for the development of the King Vol Zinc Project and ongoing exploration of the Chillagoe Project.

The strategy aims to bring the King Vol Zinc Project into production on the back of the high-grade King Vol deposit and well-established existing infrastructure, which includes a partially built zinc, copper and lead concentrator processing facility and associated infrastructure.

Mungana proposes to complete a feasibility study in conjunction with an Ore Reserve estimation. Some of the key steps to complete a feasibility study and associated Ore Reserve are as follows:

- carry out in-fill drilling at the King Vol deposit to increase the quantity of indicated and inferred Mineral Resources;
- undertake suitable technical evaluations, including geotechnical, mining, hydrological and metallurgical assessments;
- carry out detailed capital and operating cost estimates;
- determine suitable off-take parameters; and
- carry out a detailed risk assessment analysis in relation to key factors some of which are beyond Mungana's control.

The key development approvals that are required include those set out below. The required development approvals are intended to be progressed in parallel with the feasibility study.

- Obtain a mining lease for the King Vol deposit.
- Obtain an operating licence to commence development of the King Vol mine, which will require adequate assessment of water discharge and pumping, waste rock characterisation and baseline flora and fauna surveys.

The Chillagoe Project already has key infrastructure in place at the Mungana plant site and in the nearby town of Chillagoe. The plant site infrastructure includes access roads, power to the plant site, buildings and offices, water dams and tailings storage facilities. The nearby town of Chillagoe has housing options, including a camp site, core farm and associated facilities owned by Mungana. There is also a partially built zinc, copper and lead concentrator processing facility at the Mungana site. Many of the key components for that facility have already been acquired and have either been installed or are in storage pending their installation. As a result, Mungana anticipates significant savings on the estimated capital expenditure required to bring the King Vol Zinc Project into production relative to a new build scenario. However, there are still a number of further developmental steps that need to be taken. Before production can commence at the King Vol Zinc Project (among other things) the plant construction will need to be finished and commissioned, connection of the primary services will need to be finalised and the surface infrastructure and underground development will need to be completed at the mine.

Mungana will require significant further funding to complete all of the required steps associated with the mine development and carry out ongoing exploration.

Mungana Shareholders should be aware that if there are any delays associated with securing any required financing or obtaining any of the required approvals, or should Mungana's exploration not yield the expected results, Mungana's plan to bring the King Vol Zinc Project into production could also be delayed and this could adversely affect Mungana's financial performance. For further details on some of the key risks associated with an investment in Mungana, see Section 8 of this Target's Statement.

## 7.3 Mineral Resources

**Zinc Resources**

| Deposit | Category | Tonnes | Zn% | Cu% | Pb% | Au g/t | Ag g/t |
|---|---|---|---|---|---|---|---|
| **King Vol Area** | | | | | | | |
| King Vol | Indicated | 1,045,000 | 14.7 | 0.9 | 0.7 | 0.0 | 36.5 |
| King Vol | Inferred | 1,943,000 | 10.4 | 0.7 | 0.5 | 0.0 | 26.4 |
| Montevideo | *Resource requires upgrade to 2012 JORC compliance* | | | | | | |
| **Total** | | **2,988,000** | **11.9** | **0.8** | **0.6** | **0.0** | **29.9** |
| | | | | | | | |
| **Red Cap Area** | | | | | | | |
| Penzance | Inferred | 85,000 | 6.2 | 0.7 | 0.2 | 0.1 | 19.1 |
| Queenslander | Inferred | 1,570,000 | 4.4 | 0.5 | 0.2 | 0.0 | 11.6 |
| Morrisons | Inferred | 1,930,000 | 5.4 | 0.6 | 0.3 | 0.1 | 21.3 |
| Victoria | *Resource requires upgrade to 2012 JORC compliance* | | | | | | |
| **Total** | | **3,585,000** | **5.0** | **0.6** | **0.3** | **0.1** | **17.0** |
| | | | | | | | |
| **TOTAL** | | **6,573,000** | **8.1** | **0.7** | **0.4** | **0.0** | **22.9** |

**Copper Resources**

| Deposit | Category | Tonnes | Zn% | Cu% | Pb% | Au g/t | Ag g/t |
|---|---|---|---|---|---|---|---|
| **Red Cap Area** | | | | | | | |
| Penzance | Inferred | 228,000 | 1.3 | 3.2 | 0.0 | 0.2 | 58 |
| | | | | | | | |
| **Mungana Area** | | | | | | | |
| Griffiths Hill | *Resource requires upgrade to 2012 JORC compliance* | | | | | | |
| | | | | | | | |
| **Total** | | **228,000** | **1.3** | **3.2** | **0.0** | **0.2** | **58** |

**Gold Copper Resources**

| Deposit | Category | Tonnes | Zn% | Cu% | Pb% | Au g/t | Ag g/t |
|---|---|---|---|---|---|---|---|
| **Mungana Area** | | | | | | | |
| Red Dome/Mungana | Measured | 41,000,000 | | 0.29 | | 0.79 | 11.6 |
| | Indicated | 49,800,000 | | 0.18 | | 0.58 | 6.7 |
| | Inferred | 40,200,000 | | 0.15 | | 0.58 | 6.2 |
| **TOTAL** | | **131,000,000** | **0%** | **0.21** | **0%** | **0.65** | **8.1** |

## 7.4 **Newcrest Agreement**

On 25 May 2015, Mungana announced that it had entered into an exploration agreement for Newcrest to explore for significant porphyry gold-copper discoveries within the southern portion of the Chillagoe Project.

The Newcrest Agreement broadly provides for the following three stages:

- **Stage 1** – Newcrest is required to spend a minimum of $3 million on exploration over the first 18 months in an exploration area which excludes specific areas nominated by Mungana (**Exploration Area**). The excluded areas includes the existing King Vol base metal resources, access, processing and infrastructure facilities located at the Mungana mine site, the Mungana and Red Dome deposits, the Red Cap prospect and new areas of mineral resources identified by Mungana at Red Cap during Stage 1 (**Exclusion Area**). This gives Mungana time to conduct exploration activities to further define the Red Cap prospect area. If Newcrest does not incur the Stage 1 expenditure within the first 18 months, Newcrest must pay the balance to Mungana.

- **Stage 2** – If Newcrest satisfies the Stage 1 expenditure requirements, it may elect to execute an agreed form of farm-in agreement, under which it has the right, but not an obligation, to spend a minimum of $17 million on exploration in the Exploration Area over 78 months (subject to a minimum expenditure requirement of $2 million per annum). Newcrest may terminate this agreement at any time provided it complies with specific rehabilitation obligations in relation to its activities.

- **Stage 3** – If Newcrest satisfies the Stage 2 expenditure requirements and identifies Mineral Resources of at least 1Moz of gold or gold equivalent in the Exploration Area, it may elect to acquire a 70% legal and beneficial interest in the Exploration Area by executing an agreed form of joint venture agreement under which an unincorporated joint venture is formed. Consequences of non payment of called sums include suspended voting rights, dilution, a right to purchase the defaulting party’s JV interest at 90% of the interest's fair market value, vesting the JV manager with the right of sale of the defaulting party’s product, and the ability to enforce a cross security in specified circumstances.

If Newcrest does not exercise its option to enter into the farm-in and the joint venture, Mungana will retain:

- its interest in the Exploration Area; and

- any exploration data/knowledge obtained during the exploration commitment period and any farm-in period.

The exploration commitment, agreed form of farm-in agreement and agreed form of joint venture agreement each provide for a co-ordination committee and procedures where representatives from both companies will coordinate their respective activities on the Exploration Area and the Exclusion Area, with access route sharing rights, information-sharing rights and obligations.

## 7.5 **Board and senior management**

In February 2015, a new management team with strong mining and corporate experience was appointed, which complemented Mungana's existing Non-Executive Directors.

(a) Board of Directors

As at the date of this Target's Statement, the Mungana Board comprises:

(i) Mr John Fitzgerald (Non-Executive Chairman);

(ii) Mr Anthony (Tony) James (Managing Director);

(iii) Mr Justin Jian Yi Wu (Non-Executive Director); and

(iv) Mr Richard (Rick) Yeates (Non-Executive Director).

(b) Management team

As at the date of this Target's Statement, Mungana's management team comprises:

(i) Chris Newman (Geology Manager);

(ii) Andrew Beaton (Project Manager, North Queensland); and

(iii) Ben-Louis Ludik (Company Secretary).

## 7.6 Funding requirements and the proposed Placement

Mungana's cash balance, as at 31 March 2015, was approximately $2,371,000 and the current cash balance is not materially different.

On 26 May 2015, Mungana entered into a trading halt pending a proposed Placement to raise approximately $5 million (before transaction costs) via the issue of approximately $36 million shares. If it proceeds, the Placement would be subject to the approval of Mungana Shareholders at a General Meeting scheduled to be convened and held as soon as practicable after the date of this Target's Statement.

The issue of Mungana Shares in connection with the proposed Placement would mean that the total number of Mungana Shares on issue would increase by approximately 15% (based on the number of Shares on issue as at the Last Practicable Trading Day).

The funds raised from the proposed Placement would be used to progress certain steps that are required to bring the King Vol Zinc Project into production and ongoing exploration at the Chillagoe Project.

Mungana will require significant further funding (in addition to any funds raised from the proposed Placement) to bring the King Vol Zinc Project into production. Such further funds may need to be secured by way of one or more equity raisings which could have a dilutive effect on Mungana Shareholders.

## 7.7 Financial information

Mungana's last published financial statements are for the half-year ended 31 December 2014, as set out in its Half Year Report announced on ASX on 18 February 2015. Except as set out in this Target's Statement and the Independent Expert's Report, the Directors are not aware of any material changes to the financial position of Mungana since 31 December 2014.

## 7.8 Transaction expenses

The Offer will result in Mungana incurring fees and expenses that would not otherwise have arisen in the 2015 financial year. As a result of the Offer and based on the current

Offer Price, the aggregate amount of fees and expenses to be incurred (or expected to be incurred) is currently estimated to be between approximately $440,000 and $600,000 (exclusive of GST). They include:

- fees payable to financial and legal advisers, the Independent Expert, the Independent Technical Specialist and the Plant Valuation Specialist; and
- costs relating to printing and dispatch of this Target's Statement and the Shareholder Information Line.

# 8. Key risk factors

In considering this Target's Statement and the Offer, Mungana Shareholders should be aware that there are a number of risks which may affect the future operating and financial performance of Mungana. Some of the risks can be adequately mitigated by the use of safeguards and appropriate systems but many are beyond the control of Mungana and its Directors and cannot be mitigated.

The principal risks you should consider when deciding whether to maintain your investment in Mungana in the present circumstances, include the matters set out in Sections 8.1 and 8.2 below.

## 8.1 General risks

As with any entity with listed securities on ASX, the future prospects, operating and financial performance of Mungana and the value of the Mungana Shares are affected by a wide variety of factors, including:

(a) general business cycles;

(b) economic and political factors in Australia and overseas;

(c) interests rates;

(d) inflation;

(e) employment levels;

(f) changes in government fiscal or regulatory regimes and foreign trade policies;

(g) changes in accounting or financial reporting standards; and

(h) changes in taxation laws (or their interpretation).

Deterioration of the general economic conditions, adverse foreign exchange rate movements, the Australian and overseas stock markets, natural disasters and catastrophic events may also affect Mungana's operating and financial position.

## 8.2 Specific risks

(a) **Price of zinc:** In developing its work plan to bring the Chillagoe Project into production, Mungana has made certain assumptions regarding zinc prices and demand for zinc. The price that Mungana will receive for any zinc produced from the Chillagoe Project will depend on numerous factors which are beyond Mungana's control. It is difficult to predict accurately the future demand and price movements. Such movements may impact on Mungana's anticipated profit margins, future development plans and planned future production, which may in turn adversely impact the price of its shares.

(b) **Price of other commodities:** Although zinc production is the focus of Mungana's strategy, in light of the exploration activities to be carried out by Newcrest under the Newcrest Agreement and Mungana's own exploration activities, it may in the future have an exposure to the price of gold and/or copper. It is difficult to predict accurately the future demand and price movements.

(c) **Sell down by major Mungana Shareholders:** Mungana's major shareholders, Kagara and MPL, together hold approximately 72% of the Mungana Shares on issue and all of the Mungana Convertible Notes on issue. Both Kagara and MPL are in liquidation. Accordingly, at some point in the future, both of those entities will look to ultimately dispose of their entire shareholding. If not appropriately planned or timed, any partial or full sell down could have an adverse effect on Mungana's share price.

(d) **Exchange rates:** Any zinc sales may provide for payment in Australian dollars with reference to a US dollar zinc price, while the majority of costs will be in Australian dollars. Therefore, revenue will be related to the US dollar zinc price and may be affected by the AUD:USD foreign exchange rate. The AUD:USD foreign exchange rate is impacted by a number of factors beyond Mungana's control. If the Australian dollar strengthens relative to the value of the US dollar then, all other factors being equal, Mungana's financial results may be adversely affected due to the potential lower Australian dollar receipts available to cover costs.

(e) **Mineral Resources:** The Mineral Resources set out in this Target's Statement are estimates only and no assurance can be given that any particular recovery level will in fact be realised. Those estimates have been reported in compliance with the JORC Code 2012, however, such estimates are expressions of judgement based on knowledge, experience and industry practice and may require revision based on actual production experience. Estimates that are valid when made may change significantly when new information becomes available.

(f) **Exploration risks:** Mungana intends to create value through exploration. Exploration is a high risk activity that requires sustained and substantial expenditure. Exploration activities are speculative by nature and there can be no assurance that mineral exploration will result in the discovery of an economic resource. There can be no assurance that exploration of Mungana's current mining projects and any other mining projects acquired in the future will result in the discovery of an economic ore deposit. Even if an apparently viable resource is identified, there is no guarantee that it can be commercially exploited. If Mungana's exploration activities do not result in additional reserves, this may have an adverse effect on its ability to maintain or increase production into the future.

(g) **Development risks:** Mungana intends to develop the King Vol Zinc Project. The development of the King Vol Zinc Project will require the completion of a feasibility study, substantial capital expenditure and a number of regulatory approvals. There are a number of risks and uncertainties that are associated with the development of the King Vol Zinc Project that are largely beyond the control of Mungana. These include:

- the outcome of the initial drill program and subsequent resource estimation update to provide the basis for a successful feasibility study to be completed;
- the availability of adequate funding to complete the work programs associated with the various stages of the project feasibility and development;
- obtaining the necessary environmental and other government approvals and the timing of the permits;
- addressing any outstanding landholder, native title, cultural heritage and community issues; and

- unexpected technical, geographical or geological issues.

If faced by Mungana, these risks and uncertainties could result in Mungana not realising development plans or in such plans generating less revenue than expected, costing more than expected or taking longer to realise than expected. Any of these outcomes could have an adverse effect on Mungana's financial and operational performance.

(h) **Tenure and approvals:** There is a risk that the necessary mining tenements and environmental permits may not be obtained, granted or renewed within the timeframe anticipated by Mungana. Mungana believes that the mining lease for the King Vol deposit is in the final stages of approval and the final environmental work and approvals that are needed for the required operating licence will be granted within eight to twelve months. However, there is a risk that these approvals may not be granted within the expected timeframe, which could have an adverse effect on Mungana's financial and operational performance.

(i) **Operating risks:** Mungana does not currently conduct mining production operations. If Mungana brings the King Vol Zinc Project into production, those operations will be subject to operating risks that could result in decreased production, increased costs and reduced revenues. Such risks are beyond Mungana's control and include environmental hazards, industrial accidents, unexpected maintenance or mechanical failures, unanticipated operational or technical difficulties, regulatory changes, labour disputes, unusual or unexpected rock formations, geotechnical rock failures, unexpected shortages or increases in the costs of labour, flooding and extended interruptions due to inclement or hazardous weather conditions, fire, explosions and other incidents.

(j) **Funding risks:** Consistent with many resources exploration companies, the development of the King Vol Zinc Project will be dependent upon Mungana's ability to obtain debt and/or equity financing. Mungana's cash balance, as at 31 March 2015, was approximately $2,371,000 and the current cash balance is not materially different. Mungana will require significant funding (in addition to any funds raised pursuant to the proposed Placement) to bring the King Vol Zinc Project into production. There is a risk that Mungana may not be able to obtain adequate funding to progress the development of the King Vol Zinc Project or its ongoing exploration as and when such funding is required. There is a risk that Mungana will not be able to access funding on terms that make the King Vol Zinc Project economically viable, or at all. Even if Mungana is able to raise finance, it may be on terms that materially dilute your equity in Mungana. Current market conditions, including global volatility beyond the control of Mungana, has affected investor confidence, which in turn impacts on the capacity of any company to raise further capital.

(k) **Infrastructure risk:** Although the King Vol Zinc Project already has key infrastructure in place, further infrastructure and developmental steps will need to be taken before production can commence. For example, the partially built processing facility at the Mungana site will need to be finished and commissioned, primary services will need to be connected and the surface infrastructure and underground development will need to be completed at the mine. Any delays associated with the above could have a material impact on Mungana’s performance.

(l) **Offtake agreements:** As at the date of this Target's Statement, Mungana does not have in place agreements for the sale of its product from the King Vol Zinc Project. There are no guarantees that Mungana will be able to reach agreement on terms satisfactory to it. If Mungana is not able to enter into offtake agreements on satisfactory terms, this may have an adverse effect on the viability of the King Vol Zinc Project and, in turn, Mungana's financial position.

(m) **Native Title:** Interests in tenements in Australia are governed by the respective State legislation and are evidenced by the granting of licences or leases. Each licence or lease is for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, Mungana could lose title to or its interests in tenements if licence conditions are not met or if insufficient funds are available to meet expenditure commitments. Additionally, laws and regulations may be subject to change over time. The *Native Title Act 1993* (Cth), related State native title legislation and Aboriginal land rights and Aboriginal heritage legislation may affect Mungana's ability to gain access to prospective exploration areas or obtain production titles. Compensatory obligations may be necessary in settling native title claims if lodged over any tenements acquired by Mungana, potentially delaying or preventing the grant of a tenement in respect of a particular tenement application.

(n) **Environmental risk:** Mungana's exploration activities and, in the future, proposed production activities may substantially impact the environment or cause exposure to hazardous materials. Mineral exploration and production can affect the environment and result in substantial costs being incurred for environmental risk management, rehabilitation and damage control. Further, environmental conditions may be attached to mining tenements, and a failure to comply with these conditions may lead to forfeiture of the relevant tenements. There is also a risk that environmental issues already exist in the areas where Mungana is exploring or proposes to operate due to former activities at the relevant sites that could give rise to liability for Mungana. This could have an adverse effect on Mungana's financial and operational performance.

Mungana is committed to conducting its activities in an environmentally responsible manner, in accordance with applicable laws and regulations but the potential for liability cannot be mitigated entirely. The cost and complexity of complying with the applicable environmental laws and regulations may prevent Mungana from being able to develop potentially economically viable mineral deposits.

(o) **Occupational health and safety risk:** Mungana is committed to providing a healthy and safe environment for its personnel, contractors and visitors. Mungana provides appropriate instructions, equipment, preventative measures, first aid information and training to all stakeholders through its occupational health and safety management systems. However, there is a risk that occupational health and safety incidents may occur which could adversely impact Mungana and its activities.

(p) **Key personnel:** The success of Mungana will depend to a significant extent upon key management and technical personnel, including those employed on a contractual basis. The loss of services of certain personnel or contractors could adversely affect Mungana and its activities, including Mungana's current exploration and development work plans.

(q) **Government regulations and policies:** Mungana's mining operations are exclusively in Queensland and are subject to extensive government regulations and policies with respect to matters such as land use, rehabilitation of mining properties, and environmental damage and pollution. Any failure to comply with regulations or policies may result in penalties for non-compliance, which could have an adverse effect on Mungana's financial and operational performance. These regulations and policies change and may become more restrictive, impose stricter standards and increase penalties for non-compliance. Any future changes in these regulation or policies may increase Mungana's costs of production or adversely affect its ability to produce and sell its products.

# 9. Information relating to Auctus

## 9.1 Disclaimer

The information in this Section and all information concerning Auctus contained in other sections of this Target's Statement has been prepared by Mungana using the information contained in the Bidder's Statement.

Auctus has not lodged any financial statements with ASIC. Auctus is not listed on any prescribed financial market and, therefore, is not subject to the continuous disclosure requirements of the Corporations Act and the ASX Listing Rules.

## 9.2 Corporate information

Auctus was incorporated on 31 March 2015 as a special purpose vehicle for the specific purpose of making the Offer. Auctus is a wholly owned subsidiary of Auctus Chillagoe Holdings Pty Ltd, which was incorporated on 31 March 2015 as a holding company for the purposes of holding all of the issued share capital in Auctus.

Auctus Minerals Nominee Pty Ltd holds 100% of the issued capital in Auctus Holdings as trustee for the Auctus Minerals Australian Unit Trust.

Over 99% of the units in the Auctus Unit Trust are held by Auctus Minerals Trust Holdings LLC, a Delaware limited liability company, with the remaining units held by entities affiliated to the Auctus Directors. Auctus LLC is wholly owned by Auctus Minerals LLC.

Over 90% of Auctus Minerals LLC is held by Denham Commodity Partners Fund VI LP, with the remainder being held by Denham Commodity Partners Fund VI-A LP. Both funds are advised by Denham Capital Management LP, an energy and resources focused global private equity investment firm.

Further information about Auctus and Denham Capital, and the relationship between them, is contained in the Bidder's Statement. A diagram of the organisational structure of Auctus is set out in Section 2.1 of the Bidder's Statement.

## 9.3 Auctus Directors

According to the Bidder's Statement, Auctus' directors are:

- Stephen Murdoch;
- Paul Sims; and
- Terry O'Connor.

## 9.4 Funding of the Offer Price

The Offer is a 100% cash offer. The maximum amount of cash that will be payable by Auctus if acceptances are received for all Mungana Shares on issue (including any Mungana Shares issued during the Offer Period if all of the Mungana Options are exercised and the Mungana Convertible Note is converted into Mungana Shares) is approximately $38 million.

Section 4.3 of the Bidder's Statement states that the Auctus Group (defined as "Denham Funds, Auctus Minerals LLC and its subsidiaries, the Auctus Unit Trust and the Management Unitholders"):

> *has in aggregate existing cash reserves and entitlements to cash in excess of the [maximum amount potentially payable in relation to the Offer (plus transaction costs)] and intends to fund the Offer solely through those sources.*

Section 4.4 of the Bidder's Statement details a funding commitment deed under which Denham Funds has committed to provide the funds required by Auctus to pay the Offer Price.

The statement in Section 4.3 of the Bidder's Statement appears to imply that Denham Funds alone does not have sufficient existing cash reserves and entitlements to fund the Offer. The statement in Section 4.4 of the Bidder's Statement appears to imply that, whereas Denham Funds has committed to provide funds to Auctus, other members of the Auctus Group have not. It is also not clear what rights Denham Funds has to call on cash reserves and entitlements of other members of the Auctus Group. There is also no indication given as to whether any terms of the funding commitment deed have the potential to restrict the availability of funds to Auctus.

Accordingly, Mungana considers that:

- Section 4 of the Bidder's Statement does not satisfy the requirements of section 636(1)(f) of the Corporations Act and the relevant guidance in Takeover Panel Guidance Note 14 and ASIC Regulatory Guide 9.

- Mungana Shareholders do not have sufficient information to assess the ability of Auctus to perform its obligations under the Offer.

### 9.5 Publicly available information about Auctus

Auctus is required to lodge various documents with ASIC. Copies of documents lodged with ASIC by Auctus may be obtained from, or inspected at, an ASIC office.

### 9.6 Further information about Auctus

Section 2 of the Bidder's Statement provides further information relating to Auctus.

# 10. Additional information

## 10.1 Mungana Securities

As at 26 May 2015 (being the Last Practicable Trading Day), Mungana had:

(a) 240,907,171 Mungana Shares on issue;

(b) 250,000 Mungana Options on issue, which have an exercise price of $2.00 and expire on 17 November 2015; and

(c) 7,500 Mungana Convertible Notes on issue.

On 26 May 2015 Mungana entered into a trading halt pending a proposed Placement to raise approximately $5 million (before transaction costs) via the issue of approximately 36 million shares at 14 cents per share. If it proceeds, the Placement would be subject to the approval of Mungana Shareholders at a General Meeting scheduled to be convened and held as soon as practicable after the date of this Target's Statement.

Further details in relation to the Mungana Convertible Notes are set out in Section 10.3 and further details in relation to the proposed Placement will be set out in a Notice of General Meeting which will be dispatched as soon as practicable after the date of this Target's Statement.

## 10.2 Mungana's major shareholders

Based on Mungana's share register as at 26 May 2015 (being the Last Practicable Trading Day), the top four Mungana Shareholders held approximately 88.21% of the Mungana Shares, as indicated in the following table:

| Name of holder | Number of Mungana Shares | Percentage Shareholding |
|---|---|---|
| Mungana Pty Ltd (in Liquidation) | 146,235,988 | 60.70% |
| Kagara Ltd (in Liquidation) | 27,594,188 | 11.45% |
| GHG Mungana Co. Ltd | 25,120,000 | 10.43% |
| UOB Kay Hian Private Limited | 13,564,786 | 5.63% |

## 10.3 Mungana Convertible Notes

As at 26 May 2015 (being the Last Practicable Trading Day), there were 7,500 Mungana Convertible Notes on issue. The Mungana Convertible Notes:

- were issued on or about 31 July 2014 and are unsecured;
- together have a face value of $7.5 million and are convertible at $0.20 per Mungana Share (which is subject to adjustment for specified events);
- attract interest at 7.5% per annum (compounding quarterly), which is payable either in cash or Mungana Shares (at the election of Mungana);
- are either held by Kagara or its wholly owned subsidiary, MPL; and

- are convertible at any time at the noteholder's election prior to their expiry on 31 July 2019.

Pursuant to the terms of issue of the Mungana Convertible Notes (as summarised in Mungana's notice of general meeting dated 23 June 2014), there will be an event of default if Mungana is subject to a change of control without the noteholders' consent (other than by an acquisition of Mungana Shares by Kagara's wholly-owned subsidiary, MPL). Upon an event of default occurring, a noteholder is entitled to provide Mungana with notice that the remaining amount owing on the Mungana Convertible Notes is payable on demand or immediately to be converted (within three business days).

The maximum number of Mungana Shares that would have been issued on the conversion of the Mungana Convertible Notes, as at the Last Practicable Trading Day, was 39,880,975 Mungana Shares, which would have increased the total number of Mungana Shares on issue by approximately 16.6% (based on the number of Shares on issue as at the Last Practicable Trading Day). This assumes:

- all of the Mungana Convertible Notes are converted;
- all interest on the Mungana Convertible Notes is paid by way of the issue of Mungana Shares; and
- there are no adjustments to the conversion price.

## 10.4 Material litigation

To the best knowledge of the Directors and senior management of Mungana, Mungana is not involved in any litigation or dispute which is material in the context of Mungana and its subsidiaries taken as a whole.

## 10.5 Effect on Mungana's material contracts

To the best knowledge of the Directors and senior management of Mungana, none of the material contracts to which Mungana is a party contain change of control provisions which may be triggered as a result of the Offer or acceptances of the Offer, and which may have a material adverse effect on Mungana.

## 10.6 Consents

Torridon Partners Pty Ltd, Ashurst Australia, Grant Thornton Corporate Finance Pty Ltd , SRK Consulting (Australasia) Pty Ltd, GR Engineering Services Limited and Ernst & Young have given and have not, before lodgement of this Target's Statement with ASIC, withdrawn their consent:

- to be named in this Target's Statement in the form and context in which they are named; and
- if applicable, to the inclusion of each statement it has made (if any) in the form and context in which the statement appears in this Target's Statement.

More specifically:

(a) Grant Thornton Corporate Finance Pty Ltd has given, and not withdrawn, before lodgement of this Target's Statement with ASIC, its written consent to the inclusion of the Independent Expert's Report in the form and context in which it appears in Annexure A and references to the Independent Expert's Report in the form and context in which they appear in this Target's Statement.

(b) SRK Consulting (Australasia) Pty Ltd has given, and not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to the inclusion of the Executive Summary of the Independent Technical Specialist's Report in the form and context in which it appears in Appendix D to the Independent Expert's Report and the release of the full Independent Technical Specialist's Report on Mungana's website, and references to the Executive Summary of the Independent Technical Specialist's Report and the full Independent Technical Specialists Report in the form and context in which they appear in this Target's Statement.

(c) GR Engineering Services Limited has given, and not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to the inclusion of the Plant Valuation Report in the form and context in which it appears in Appendix E to the Independent Expert's Report and references to the Plant Valuation Report in the form and context in which they appear in this Target's Statement.

(d) Ernst & Young has given, and not withdrawn before lodgement of this Target's Statement with ASIC, its written consent to the inclusion of a reference to Mungana's reviewed financial reports for the half-year ended 31 December 2014 in the form and context in which that reference appears in Section 7.7 of this Target's Statement.

Each person named in this Section 10.6 as having given its consent to the inclusion of a statement or being named in this Target's Statement:

- does not make, or purport to make, any statement in this Target's Statement or any statement on which a statement in this Target's Statement is based other than those statements which have been included in this Target's Statement with the consent of that person; and

- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement, other than a reference to its name and any statements or report which have been included in this Target's Statement with the consent of that party.

ASIC has published various Class Orders that modify, or exempt parties from compliance with the operation of various provisions of Chapter 6 of the Corporations Act. Mungana has relied on that ASIC Class Order relief.

As permitted by ASIC Class Order CO 13/521 this Target's Statement contains statements which are made, or based on statements made, in documents lodged with ASIC or ASX, including the statements of Kagara and MPL referred to in Section 1.3, the statements in relation to the Newcrest Agreement and the statements in relation to the King Vol area Mineral Resource and Red Cap area Mineral Resource of the persons referred to in Section 10.7. Pursuant to this ASIC Class Order, the consent of persons to whom such statements are attributed is not required for the inclusion of these statements in this Target's Statement. Mungana, on request during the Offer Period, will provide within two business days of the request, a copy of the document (or part) free of charge to a Mungana Shareholder. A copy may be obtained by contacting Mungana via email at info@mungana.com.au. Copies of the documents filed with ASX may be obtained from the ASX website at www.asx.com.au and Mungana's website at www.munganagoldmines.com.au.

In addition, as permitted by ASIC Class Order 07/429, this Target's Statement contains share price trading data sourced from Commonwealth Securities Limited without its consent.

## 10.7 Competent Persons' statement

The information in Sections 1 and 7 of this Target's Statement relating to:

- the King Vol area Mineral Resource are based on, and fairly represent, the information and supporting documentation prepared by Mr Brian Wolfe, an employee of International Resource Solutions Pty Ltd and a consultant to Mungana, in compliance with the JORC Code 2012 details of which were released on ASX on 28 January 2015;

- the Red Cap area Mineral Resource are based on, and fairly represent, the information and supporting documentation prepared by Mr Andrew Beaton, an employee of Mungana, in compliance with the JORC Code 2012 details of which were released on ASX on 27 April 2015; and

- the Mungana area Mineral Resources are based on, and fairly represent, the information and supporting documentation prepared by Mr Andrew Beaton, an employee of Mungana. This information was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported. Mr Beaton consents to the inclusion in this Target's Statement of matters based on this information in the form and context in which it appears.

Mr Wolfe is a member of the Australian Institute of Geoscientists and Mr Beaton is a member of the Australian Institute of Mining and Metallurgy and both have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the JORC Code 2012.

Mungana confirms that it is not aware of any new information or data that materially affects the information in relation to King Vol area Mineral Resources included in the 28 January 2015 announcement and the Red Cap area Mineral Resources included in the 27 April 2015 announcement. Mungana confirms that all material assumptions and technical parameters underpinning the Mineral Resources estimates in the 28 January 2015 and 27 April 2015 announcements continue to apply and have not materially changed.

## 10.8 Continuous disclosure

Mungana is a disclosing entity as defined in the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and ASX Listing Rules.

Copies of the documents filed with ASX may be obtained from the ASX website at www.asx.com.au and Mungana's website at www.munganagoldmines.com.au.

Copies of the documents lodged with ASIC in relation to Mungana may be obtained from, or inspected at, an ASIC office.

Mungana Shareholders may obtain a copy of:

- Mungana's annual report;

- Mungana's constitution; and

- any document lodged by Mungana with ASX between the release of Mungana's annual report and the date of this Target's Statement, free of charge upon request by contacting Mungana via email at info@mungana.com.au or from the ASX website at www.asx.com.au. Mungana's annual report and this Target's Statement are also available on Mungana's website at www.munganagoldmines.com.au.

## 10.9 No other material information

This Target's Statement is required to include all the information that Mungana Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer, but:

- only to the extent to which it is reasonable for Mungana Shareholders and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information is known to any Director.

The Directors are of the opinion that the information that Mungana Shareholders and their professional advisers would reasonably require to make an informed assessment whether to accept the Offer is:

- the information contained in the Bidder's Statement (to the extent that the information is not inconsistent or superseded by information in this Target's Statement);
- the information contained in Mungana's releases to ASX, and in the documents lodged by Mungana with ASIC, before the date of this Target's Statement; and
- the information contained in this Target's Statement.

The Directors have assumed, for the purposes of preparing this Target's Statement, that the information in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). However, the Directors do not take any responsibility for the contents of the Bidder's Statement and are not to be taken as endorsing, in any way, any or all of the statements contained in it.

In deciding what information should be included in this Target's Statement, the Directors have had regard to:

- the nature of the Mungana Shares;
- the matters that Mungana Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to Mungana Shareholders' professional advisers; and
- the time available to Mungana to prepare this Target's Statement.

## 10.10 Taxation

The taxation consequences of accepting the Offer depend on a number of factors and will vary depending on your particular circumstances.

You should carefully consider the taxation consequences of accepting the Offer. Mungana Shareholders should not rely on the disclosure of taxation considerations in Section 6 of the Bidder's Statement as being advice on their own affairs. The outline provided in the Bidder's Statement is Auctus' own disclosure of the potential consequences and is of a general nature only. Accordingly, you should seek your own specific professional advice as to the taxation implications applicable to your circumstances.

Neither Mungana nor any of it Directors or advisers accept any liability or responsibility in respect of any statement concerning the taxation consequences of accepting the Offer in relation to particular Mungana Shareholders.

# 11. Glossary and interpretation

## 11.1 Definitions

**Announcement Date** means 29 April 2015.

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

**ASX** means ASX Limited ACN 008 624 691 or the financial market operated by it, as the context requires.

**ASX Listing Rules** means the official listing rules of the ASX.

**Auctus** means Auctus Chillagoe Pty Ltd ACN 605 055 285.

**Bidder's Statement** means the bidder's statement issued by Auctus in connection with its offer under Part 6.5 of the Corporations Act for all the Mungana Shares, dated 29 April 2015.

**Board** means the board of directors of Mungana.

**Chillagoe Project** means the exploration and pre-development project located in the Chillagoe region in North Queensland.

**Competent Person** has the meaning given to that term in the JORC Code 2012.

**Corporations Act** means the *Corporations Act 2001* (Cth) as relevantly modified by ASIC.

**Denham Capital** means Denham Capital Management LP.

**Denham Funds** means Denham Commodity Partners Fund VI LP and Denham Commodity Partners Fund VI-A LP.

**Directors** means the directors on the Board of Mungana.

**Executive Summary of the Independent Technical Specialist's Report** means the executive summary of the Independent Technical Specialist's Report set out in Appendix D of the Independent Expert's Report.

**FIRB** means the Foreign Investment Review Board.

**General Meeting** means an extraordinary general meeting of Mungana Shareholders to be convened to consider the proposed Placement.

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

**Independent Expert's Report** means the report produced by the Independent Expert set out in Annexure A of this Target's Statement.

**Independent Technical Specialist** means SRK Consulting (Australasia) Pty Ltd.

**Independent Technical Specialist's Report** means the report produced by the Independent Technical Specialist set out in full on Mungana's website at www.munganagoldmines.com.au.

**JORC Code 2012** means the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

**JORC Code 2004** means the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

**Kagara** means Kagara Limited (in Liquidation) ACN 008 988 583.

**King Vol Zinc Project** means the development of the mining project in respect of the King Vol deposit.

**Last Practicable Trading Day** means 26 May 2015, being the day that is two trading days prior to the date of this Target's Statement.

**Mineral Resource** has the meaning given to that term in the JORC Code 2012.

**MPL** means Mungana Pty Ltd (in Liquidation) ACN 101 738 096.

**Mungana** means Mungana Goldmines Limited ACN 136 606 338.

**Mungana Convertible Notes** means 7,500 convertible notes with an aggregate face value of $7.5 million and issued in accordance with the terms and conditions detailed in Mungana's notice of meeting announced on ASX on 23 June 2014.

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

**Mungana Security** means each of a Mungana Convertible Note, a Mungana Option and a Mungana Share.

**Mungana Share** means a fully paid ordinary share in Mungana.

**Mungana Shareholder** means a person registered in the register of members of Mungana as a holder of Mungana Shares.

**Newcrest** means Newcrest Operations Limited ACN 009 221 505.

**Newcrest Agreement** means the transaction with Newcrest comprising an expenditure commitment, a farm-in and joint venture announced on ASX on 25 May 2015.

**Notice of Status of Offer Conditions** means Auctus' notice disclosing the status of the Offer Conditions pursuant to section 630(3) of the Corporations Act.

**Notice of General Meeting** means a notice of general meeting in respect of (among other things) the Placement.

**Offer** means the offer by Auctus for all of the Mungana Shares on the terms and conditions set out in Section 8 of the Bidder's Statement.

**Offer Conditions** means the conditions of the Offer as set out in Section 8.9 of the Bidder's Statement.

**Offer Period** means the period during which the Offer will remain open for acceptance in accordance with Section 8.2 of the Bidder's Statement.

**Offer Price** means the consideration under the Offer as at the date of this Target's Statement, being 13.5 cents per Mungana Share.

**Ore Reserve** has the meaning given to that term in JORC Code 2012.

**Placement** means the proposed issue of approximately 36 million Mungana Shares for 14.0 cents per share to certain placees to raise approximately $5 million (before transaction costs).

**Plant Valuation Report** means the report produced by the Plant Valuation Specialist set out in Appendix E to the Independent Expert's Report.

**Plant Valuation Specialist** means GR Engineering Services Limited.

**Principal Tenements** means collectively:

(a) ML 20640 (Mungana West);

(b) MLA 20658 (King Vol);

(c) ML 4928 (Griffiths 1);

(d) ML 4977 (Griffiths 2);

(e) ML 5176 (Red Dome);

(f) ML 5319 (North West Mungana); and

(g) any rights or entitlements issued in substitution of any of the above.

**Product Agreement** means any legally binding agreement entered into with a third party during the Offer Period to sell, market, or dispose in any manner whatsoever, whether directly or indirectly, whether as principal or agent, whether or not conditionally or to be performed in the future (including, without limitation, by way of derivative instruments), any products to be mined or to be produced or otherwise to be derived from the Principal Tenements.

**Shareholder Information Line** means the information set out for the purposes of responding to questions from Mungana Shareholders in relation to the Offer, being 1300 180 103 (within Australia) or +61 1300 180 103 (from outside Australia).

**Target's Statement** means this document (including any attachments), being the statement of Mungana under Part 6.5 Division 3 of the Corporations Act.

## 11.2 Interpretation

In this Target's Statement, unless the context requires otherwise:

(a) headings are inserted for convenience and do not affect the interpretation of this Target's Statement;

(b) words and phrases in this Target's Statement have the same meaning given to them (if any) in the Corporations Act (being, if any special meaning is given for the purposes of Chapter 6 or 6A of the Corporations Act or a provision of those chapters, that special meaning);

(c) the singular includes the plural and vice versa;

(d) a gender includes all genders;

(e) a reference to a person includes a corporation, partnership, joint venture, association, unincorporated body or other body corporate and vice versa;

(f) if a word is defined, another part of speech has a corresponding meaning;

(g) a reference to a Section or Annexure is a reference to a Section or Annexure of this Target's Statement;

(h) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;

(i) unless expressly stated otherwise, a reference to time is a reference to time in Sydney, New South Wales; and

(j) unless expressly stated otherwise, a reference to **$** or cents is a reference to the lawful currency of Australia.

## 12. AUTHORISATION

This Target's Statement is dated 28 May 2015 and has been approved by a resolution passed by the Directors of Mungana.

Signed for and on behalf of Mungana:

**John Fitzgerald**
Chairman

## ANNEXURE A

## Independent Expert's Report

## CORPORATE DIRECTORY

**Directors**

Mr John Fitzgerald
Mr Anthony (Tony) James
Mr Justin Jian Yi Wu
Mr Richard (Rick) Yeates

**Company Secretary**

Mr Ben-Louis Ludik

**ASX Code:** MUX

**Registered Office**

Level 3, Unit 5
155 Denham Street
Townsville QLD 4810

**Website**

www.munganagoldmines.com.au

**Financial Adviser**

Torridon Partners
Level 1 Number 77
King Street
Perth WA 6000

**Legal Adviser**

Ashurst Australia
Level 32, Exchange Tower
2 The Esplanade
Perth WA 6000

**Independent Expert**

Grant Thornton Corporate Finance Pty Ltd
Level 17, 383 Kent Street
Sydney NSW 2000

**Shareholder Information Line**

- 1300 180 103 (within Australia)
- +61 1300 180 103 (outside Australia)

Grant Thornton
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# Mungana Goldmines Limited

Independent Expert's Report and Financial Services Guide

27 May 2015

The Directors
Mungana Goldmines Ltd
St James Place, Unit 5, Level 3
155 Denham Street
Townsville QLD 4810

27 May 2015

Dear Directors

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

**Introduction and the Takeover Offer**

Mungana Goldmines Limited ("MUX", "Mungana" or "the Company") is listed on the Australian Securities Exchange ("ASX") and is focussed on the exploration and development of base metals and gold deposits in Australia. The Company's flagship project is a high-grade zinc project located in North Queensland (the "King Vol Project"). As at the date of this report, MUX has a market capitalisation of approximately A$34.9 million.

On 29 April 2015, MUX received an unsolicited, conditional off-market takeover offer ("the Offer" or "Takeover Offer") from Auctus Chillagoe Pty Ltd ("Auctus")[1] to acquire all outstanding ordinary shares in MUX for a cash consideration of 13.5 cents per share ("Offer Price").

The Takeover Offer is highly conditional and includes a large number of defeating conditions (refer to Section 1.2 for details) including a minimum acceptance condition of at least 90% of MUX Shares.

Following receipt of the Bidder's Statement, MUX announced the following transactions:

- On 25 May 2015, MUX entered into a number of agreements with Newcrest Mining Limited ("Newcrest") which grant an option to Newcrest to enter into a farm-in agreement and subsequently a joint venture agreement for gold-copper porphyry deposits in the Chillagoe region ("JV Chillagoe Tenements")[2] (together the "Newcrest Agreements"). Based on the terms of the Newcrest Agreements, Newcrest can earn up to 70% in an unincorporated joint venture over a period of up to 8 years if Newcrest spend up to A$20 million on the JV Chillagoe Tenements and at least 1 million ounces of gold or gold equivalent is discovered (refer to Section

[1] Auctus is a special purpose vehicle incorporated for the specific purpose of making the Offer and is ultimately supported by private equity funds advised by Denham Capital Management LP ("Denham Capital"), a global private equity firm focussed on energy and resources.
[2] The JV Chillagoe Tenements exclude the King Vol Project, the existing gold/copper resources at Red Dome and Mungana, all resources defined in the Red Cap and the surface infrastructure and processing plan facility.

4.4.1. for details). The Company's major shareholder, Kagara Ltd (in liquidation) ("KZL")[3], which holds approximately 72% of the issued capital has provided written confirmation that it is supportive[4] of the Newcrest Agreements in the absence of a superior proposal. Accordingly, in light of the majority shareholder support, MUX has determined that it is not necessary to make the Newcrest Agreements conditional on a majority shareholders voting in favour of the Newcrest Agreements in the context of the Takeover Offer. However, we note that Auctus may take the view that a condition of the Takeover Offer has been breached, in which case it is possible that Auctus may decide to allow the Takeover Offer to lapse, even though MUX does not believe the Newcrest Agreements are inconsistent with the commercial objectives of Auctus in making the Takeover Offer.

- On 26 May 2015, MUX entered into a trading halt seeking to raise circa A$5 million before transaction costs ("Capital Raising") via the issue of 3,136,000 new MUX Shares at a price of 14 cents per share ("Capital Raising Price"). The Capital Raising would be subject to shareholders' approval for the purpose of ASX Listing Rules 7.1 and 7.9. In addition, we understand that if the Capital Raising proceeds, it will breach one of the Offer's defeating conditions. KZL has confirmed that their present intention would be to vote any Mungana Shares held by them at the time of the general meeting of Mungana shareholders in favour of the resolution to consider the Capital Raising. KZL reserves the right to revisit their intentions in circumstances where a superior proposal reasonably capable of being implemented, is announced.

The Directors of MUX ("the Directors") have unanimously recommended MUX Shareholders to reject the Takeover Offer and to take no action in respect of the Takeover Offer.

**Purpose of the report**

Whilst there is no legal requirement for the commissioning of an independent expert report in response to the Takeover Offer, the Directors have decided to commission an independent expert's report to assist MUX Shareholders in assessing the merits of the Takeover Offer for the purposes of section 640 of the Corporations Act.

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

In addition, GR Engineering Services Limited ("GRES") was engaged to provide an independent valuation report in relation to the plant, equipment and infrastructure assets held by MUX ("the GRES Report"). GRES Report is included as Appendix E to this report.

[3] KZL owns 100% of Mungana Pty Ltd (in Liquidation) ("MPL") which in turn owns 72% interest in MUX.
[4] Having regard to the circumstances, the information provided to them by MUX and the recommendations of the Board at that time, if a shareholders' meeting were to be convened to consider a resolution to permit the Newcrest Agreements, their present intention would be to vote any MUX Shares held by them at the relevant time in favour of that resolution.

**Summary of opinion in relation to the Takeover Offer**

**Grant Thornton Corporate Finance has concluded that the Takeover Offer is NOT FAIR AND NOT REASONABLE to MUX Shareholders.**

Whilst there are certain factors of the Takeover Offer that could be attractive to MUX Shareholders in the absence of a superior proposal, in our opinion as at the date of this report, these factors are not, on balance, sufficient to conclude that MUX Shareholders should be prepared to accept less than fair market value for their MUX Shares.

In forming our opinion, we have considered the following:

- The Offer Price is at a discount between 44.2% and 57.4% compared with the low end and high end of our valuation range of MUX on a 100% and control basis.
- The Offer is highly conditional with 30 defeating conditions included in the Bidder's Statement.
- The Capital Raising Price, which represents the value of MUX Shares on a minority basis, is at a 3.7% premium to the Offer Price, which represents the value of MUX Shares on a 100% basis and includes a premium for control.
- Since announcement of the Takeover Offer the price of MUX Shares have consistently traded above the Offer Price. Accordingly, the minority shareholders of MUX currently have an opportunity to realise cash value for their shares in excess of the Offer Price. In addition, in the absence of the Offer, the Capital Raising Price should provide support to the trading prices of MUX.

Notwithstanding the above conclusions, MUX Shareholders should be aware that the underlying value of a MUX share is expected to materially change over the next 12 to 18 months as its mineral projects, in particular the King Vol Project and the JV Chillagoe Tenements, move through their development cycle. Whilst the range of values attributed to MUX in our fairness assessment are considered reasonable as at the date of this report, the fair market value of the Company may increase or decline materially in value depending upon the outcome of the feasibility study on the King Vol Project, the success of future exploration programmes and the advancement of projects.

***Fairness assessment of the Takeover Offer***

In forming our opinion in relation to the fairness of the Takeover Offer, Grant Thornton Corporate Finance has compared the fair market value per share of MUX on a controlling and 100% basis to the Offer Price of A$0.135 per MUX Share. We note that in our valuation of MUX before the Takeover Offer we have incorporated both the Newcrest Agreements and the Capital Raising due to the following:

- *Newcrest Agreements* – These agreements have become effective and are not subject to shareholders' approval.

- *Capital Raising* – Whilst the Capital Raising is subject to shareholders' approval, KZL has indicated that it intends to vote in favour of the Capital Raising[5].

The following table summarises our fairness assessment:

| Fairness assessment | *Table reference* | Low Cents | High Cents |
|---|---|---|---|
| Fair market value per MUX Share before the Takeover Offer on a control basis | *6.0* | 24.19 | 31.69 |
| Takeover Offer per share | | 13.50 | 13.50 |
| Premium/(discount) in value per MUX Share (cents) | | (10.69) | (18.19) |
| Premium/(discount) in value per MUX Share (%) | | (44.2%) | (57.4%) |

*Source: GTCF Calculations*

The Offer Price of A$0.135 per MUX Share is below our assessed valuation range of a MUX Share on a control and 100% basis. Accordingly, we conclude that the Takeover Offer is NOT FAIR to MUX Shareholders.

MUX Shareholders should be aware that our assessment of the value per MUX Share does not reflect the price at which MUX Shares will trade if the Takeover Offer does not become unconditional. The price at which MUX Shares will ultimately trade depends on a range of factors including the liquidity of MUX Shares, macro-economic conditions, commodity prices, exchange rates, the underlying performance of the MUX business and the outcome of feasibility studies.

*Comparison with the trading prices*

We note that our assessment of the fair market value of MUX before the Takeover Offer between 24.2 cents and 31.7 cents is materially higher than the recent share trading. In our opinion, this differential is due to the following factors:

- The quoted MUX Share price does not include a premium for control whereas our valuation assessment of MUX set out in Section 6 has been undertaken on a 100% and control basis.

- There has been historically low level of trading in MUX Shares mainly as a result of the top three shareholders holding approximately 88% interest in MUX. The monthly volume traded as a percentage of outstanding shares ranged between 0.06% and 0.73%, with an average of 0.34% over the past 9 months.

- MUX Shares have been volatile over the past 9 months with the minimum and maximum monthly VWAP price (excluding periods after the announcement of the Takeover Offer) varying between 11.0 cents and 15.1 cents.

- The trading prices of MUX Shares before the announcement of the Offer did not reflect the terms of the Newcrest Agreements and the Capital Raising.

[5] Refer to section 1.3 of the Target's Statement for the limitations attached to KZL's intention.

For the reasons outlined above, it is our opinion that the trading share price of MUX before the announcement of the Takeover Offer may not be reflective of its fair market value. As a result, we have not relied on the quoted security price of MUX for our fairness assessment. For further details refer to Section 6.11.

***Reasonableness assessment***

Advantages

*Premium over the trading price before the announcement of the Offer*

The Offer Price of A$0.135 cash for each MUX Share represents a premium to MUX's closing price before the announcement of the Takeover Offer of approximately 30%.

However, MUX Shareholders should treat this premium with caution due to the following:

- The liquidity of MUX Shares is limited as discussed above.
- The announcement of the Takeover Offer seems to have been opportunistically timed. We note that trading prices of MUX Shares reached a 6 months low of 9 cents per share shortly before the announcement of the Offer whereas they traded on or around the Offer Price in the first half of April.
- Since the announcement of the Takeover Offer, the trading prices of MUX Shares have consistently traded above the Offer Price which seems to indicate a limited level of market support for the Takeover Offer.
- In our opinion, the trading prices of MUX may be impacted by the fact that KZL, the major shareholder of the Company with an interest of approximately 72%, has been in liquidation for a number of years and the liquidators have an obligation to realise their investment in MUX.

Overall, while the Offer Price represents approximately 30% premium to the trading prices the day before the announcement of the Takeover Offer, the premium analysis is not conclusive given the limitations outlined above.

*Certainty of the cash consideration*

Whilst we have opined that the Takeover Offer is not fair, MUX Shareholders have the opportunity to receive a certain cash amount at a premium to the trading prices of MUX before the announcement of the Takeover Offer. However, we note that given the recent uplift in the trading price of MUX Shares after announcement of the Takeover Offer, MUX minority shareholders also currently have the opportunity to sell MUX Shares on the ASX at a premium to the Offer Price.

The underlying value of MUX is expected to materially change as its mineral projects, in particular the King Vol and the tenements subject to the Newcrest Agreements, move through their development cycle. Whilst the range of values attributed to MUX Shares in our fairness assessment are considered reasonable at the date of this report, the fair market value of the Company may increase significantly or decline materially in value, depending upon the outcome of the drilling and feasibility study on the King Vol Project, the success of future exploration programmes and the advancement of key projects.

Accordingly, if MUX Shareholders are to accept the Takeover Offer, they will no longer be exposed to the ongoing risks associated with holding an investment in MUX.

### Disadvantages

*The Takeover Offer is not fair*

The Offer Price is at discount of between 44.2% and 57.4% to the low end and high end of our assessed valuation range, respectively. We note that our valuation assessment reflects the inherent uncertainties and risks associated with the early stage nature of assets held by MUX.

*The Offer Price is at a discount to the Capital Raising Price*

Subject to obtaining the necessary shareholders' approval, MUX is seeking to raise approximately A$5 million at 14 cents per share. We note that the Capital Raising Price, which represents the value of MUX Shares on a minority basis, is at a 3.7% premium to the Offer Price, which represents the value of MUX Shares on a 100% basis and includes a premium for control.

*Accepting MUX shareholders will no longer have any exposure to the King Vol Project and MUX's other mineral assets, including the JV Chillagoe Tenements*

MUX is currently implementing its revised corporate strategy announced to the market in the second half of 2014 built around an expedited transition of the high grade King Vol Project from pre-development to a producing asset leveraging off the existing Processing Plant and Infrastructure. Following completion of a feasibility study, MUX estimates that the use of existing Processing Plant and Infrastructure will materially reduce the typical capital expenditure required to bring the King Vol Project into production which is expected to commence at the end of 2016.

In addition, MUX has recently announced the Newcrest Agreements aimed at monetising the gold-copper potential associated with the JV Chillagoe Tenements which is not currently part of the core short-term strategy of the Company.

If the Takeover Offer becomes unconditional, MUX Shareholders accepting the Takeover Offer, will forgo the opportunity to participate in the potential near term growth prospects of the Company and they will receive less than fair market value for their shares.

*Potential special value of MUX Shares for existing Shareholders.*

As set out in Section 6.2, GRES has assessed the Processing Plant and Infrastructure on three different bases as summarised below:

- Fire sale of second hand equipment – A$3.9 million.
- Fair market value on the assumption that the purchaser will relocate the Processing Plant – between A$8 million and A$10 million.

- Going concern value based on the replacement cost of the Processing Plant and Infrastructure to its current conditions and location – A$51.4 million.

Given that the Processing Plant in the current location can only be used by MUX and by a limited number of other potential purchasers with assets located in close proximity to the existing infrastructure (i.e. special value), in our fairness assessment, we have adopted the fair market value of the Processing Plant and Infrastructure of between A$8 million and A$10 million.

However, if the degree of confidence in the King Vol Project's resources is increased over the next twelve months and the feasibility study is successfully completed, the value of the Processing Plant and Infrastructure for MUX Shareholders could be materially higher than the A$8 million to A$10 million included in our valuation assessment because MUX may have the ability to complete and use the Processing Plant and Infrastructure in the existing location. GRES has assessed this going concern value at A$51.4 million.

*Tax consequences*

MUX Shareholders who accept the Takeover Offer will receive $0.135 cash for each MUX Share currently held. Depending upon individual shareholders' taxation position this may give rise to Capital Gains Tax consequences at a time that may or may not be advantageous to individual MUX Shareholders. A generic and indicative outline of the taxation implications of the Takeover Offer is included in Section 6 of the Bidder's Statement. MUX Shareholders should seek their own independent taxation advice regarding the taxation consequences of the Takeover Offer.

**Other considerations**

*The Takeover Offer is highly conditional*

As set out in Section 8 of the Bidder's Statement, the Takeover Offer is highly conditional including but not limited to the following:

- Minimum acceptance conditions of 90% of the issued capital.

- Foreign Investment Review Board ("FIRB") and other regulatory approvals.

- The zinc price, copper price and S&P/ASX 200 Index do not close below certain specified levels for three or more consecutive days.

- Auctus undertaking certain due diligence procedures on MUX's commitments in relation to offtake and marketing agreements.

- MUX making certain public disclosure in the Target's Statement in relation to the status and conditions of the processing plant and certain related infrastructure or allowing Auctus to conduct due diligence.

*Zinc market outlook*

The outlook for zinc remains quite positive compared with other base and bulk metals. As a result of the closure of some large mine operations around the world between 2012 and 2015, the zinc market has shifted from oversupply to a supply deficit in 2015. Output from Australia is also expected to materially reduce with the planned closure of the Century Mine in late 2015 or early 2016 which are expected to remove approximately 600kt of zinc contained per annum[6].

Current consensus forecast in relation to zinc prices and the dynamic between supply and demand should provide strong support for the Company's strategy in relation to an expedited transition to production of the King Vol Project over the next 18 months.

*MUX cash reserves and potential future dilution*

MUX has estimated that significant capital expenditure will be required after completion of a feasibility study to bring the King Vol Project into production[7]. Whilst the Company's cash balance as at 31 March 2015 was approximately A$2.4 million and clearly MUX's major shareholder does not have the financial capacity to support a future capital raising of the Company, the Directors have indicated that during the recently completed road show, they have received strong support in the financial community for the current strategy of MUX.

In the absence of the Takeover Offer or an alternative transaction, MUX will be required to raise the required funds  to develop the King Vol Project after completion of a feasibility study. However, we believe that the potential dilution for MUX Shareholders arising from future capital raisings maybe limited compared with the Offer Price due to the following:

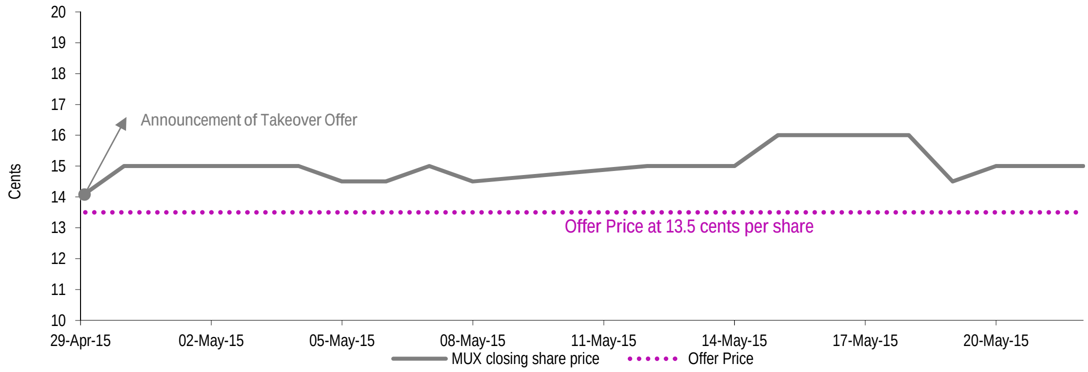
- The Capital Raising Price is at a premium to the Offer Price.
- MUX should be able to fund a significant proportion of the construction capital expenditure via external debt which will reduce the extent of any potential dilution for MUX Shareholders, though the underlying financial risk of the Company may increase.

*MUX's share price after the announcement of the Takeover Offer*

The graph below illustrates the trading prices of MUX Shares following announcement of the Takeover Offer on 29 April 2015.

[6] Zinc price is expected to increase from US$2,158 per tonne in the June 2015 quarter to US$2,548 per tonne in the September 2017 quarter.
[7] However, we note that the existing Processing Plant and Infrastructure will allow MUX to realise significant cost savings compared with a new built scenario.

Comparison of historical share price with Offer Price




*Source: S&P Capital IQ and GTCF Calculations*

As set out in the graph above, MUX trading prices have consistently traded above the Offer Price and in the range of 14 cents to 16 cents per share after the announcement of the Takeover Offer. In our opinion, this may indicate that the market believes that an increased or alternative offer may eventuate. However, if the Takeover Offer does not become unconditional, the trading prices of MUX may decrease from the current levels, even if, in our opinion, completion of the Capital Raising should provide support to the MUX Shares at a level on or around the Offer Price.

*Directors' intentions*

The Directors unanimously recommend that MUX Shareholders reject the Takeover Offer.

We note that the only Director who holds MUX shares (Mr. John Fitzgerald) intends to reject the Takeover Offer in relation to those shares.

***Reasonableness conclusion***

**Based on the qualitative factors identified above, it is our opinion that the Takeover Offer is NOT REASONABLE to MUX Shareholders.**

**Overall conclusion**

**After considering the abovementioned quantitative and qualitative factors, Grant Thornton Corporate Finance has concluded that the Takeover Offer is NOT FAIR and NOT REASONABLE to MUX Shareholders.**

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

**Other matters**

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

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

Yours faithfully

GRANT THORNTON CORPORATE FINANCE PTY LTD

| | |
|---|---|
| ANDREA DE CIAN | PHILLIP RUNDLE |
| Director | Director |

27 May 2015

**Financial Services Guide**

## 1 Grant Thornton Corporate Finance Pty Ltd

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

Grant Thornton Corporate Finance has been engaged by MUX to provide general financial product advice in the form of an independent expert's report in relation to the Takeover Offer.

## 2 Financial Services Guide

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

## 3 General financial product advice

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

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

## 4 Remuneration

When providing the report, Grant Thornton Corporate Finance's client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the Report, Grant Thornton Corporate Finance will receive from MUX fees in the order of A$55,000 plus GST, which is based on commercial rate plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

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

## 5 Independence

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

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

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

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

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

We note that Grant Thornton Corporate Finance was engaged, as an independent expert by MUX in relation to MUX's acquisition of key mineral assets[8] from its largest shareholder, KZL in May 2014.

In our opinion, the above engagement does not impact on our ability to provide an independent and unbiased opinion in the context of the Takeover Offer. Accordingly, we consider Grant Thornton Corporate Finance to be independent of MUX, its Directors and all other parties involved in the Takeover Offer.

## 6 Complaints process

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

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

[8] Key mineral assets include MUX's existing flagship project, the King Vol Project.

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

**Compensation arrangements**

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

# Contents

# 1 Overview of the Takeover Offer

## 1.1 The Takeover Offer

On 29 April 2015, MUX received an unsolicited, conditional off-market takeover offer from Auctus to buy all existing shares of MUX for a cash consideration of 13.5 cents per share.

Auctus is a special purpose vehicle incorporated for the specific purpose of making the Offer and is ultimately supported by private equity funds advised by Denham Capital, a global private equity firm focussed on energy and resources.

Set out below are the key terms of the Offer:

- An offer price of 13.5 cents per share payable in cash. The Offer can only be accepted in relation to all the Mungana Shares held by MUX Shareholders.
- The Offer will remain open for acceptances until 15 June or any later date to which the Offer period is extended in accordance with the Corporations Act ("Offer Period").
- The Offer extends to all MUX Shares that are issued on the exercise of any options in MUX or conversion of the Tranche B Convertible Notes[9] during the Offer period.
- Auctus may seek to enter into a private agreement with the holders of the Mungana Options to seek cancellation for the payment of a fee[10] subject to the Offer becoming unconditional.
- Auctus may seek to enter into a private agreement with the holders of the Mungana Convertible Note to acquire them subject to the Offer becoming unconditional.

The Directors unanimously recommend that all MUX Shareholders should reject the Offer and take no action in relation to the Offer.

## 1.2 Conditions of the Takeover Offer

The Takeover Offer is subject to a number of defeating conditions, including but not limited to the following:

- Minimum acceptance conditions of at least 90% of MUX Shares.
- Before the end of the Offer Period, Auctus receives approval from the FIRB for the purpose of the Foreign Acquisitions and Takeovers Act ("FATA").
- No prescribed occurrences. We note that the issue of MUX Shares under the Capital Raising would constitute a breach of this condition.

[9] Tranche B Convertible Note with a face value of A$7.5 million issued to KZL. For details refer to Section 4.6.3.
[10] Subject to any consent required by the ASX Listing Rules or waiver of such requirement being obtained.

- The S&P/ASX 200 Index does not close below 5,400 for three or more consecutive days (as at the date of this report it is approximately 5,600).

- The cash sale price of copper and zinc as quoted on the London Metal Exchange (converted into A$ using the official exchange rate published by the Reserve Bank of Australia) do not close below A$7,000 per tonne and A$2,650 per tonne respectively for three or more consecutive trading days.

- No material acquisitions, disposals and new commitments.

- No material adverse changes.

- Other conditions as set out in Section 8 of the Bidder's Statement.

### 1.3 Auctus' intention in relation to the Takeover Offer

Auctus' intentions upon acquisition of 90% or more of the MUX Shares are summarised below:

- If it becomes entitled to do so under the Corporations Act, Auctus intends to compulsorily acquire any outstanding MUX Shares. In this circumstance, Auctus intends to remove MUX from the official list of ASX.

- It intends to replace some or all directors on the MUX Board (subject to the Corporations Act and MUX Constitution).

- It intends to undertake a strategic review of MUX overall business including existing employees, corporate functions and accounting policies of MUX.

- The Offer does not extend to any Mungana Options or the Mungana Convertible Note. If entitled to do so, Auctus intends to offer to buy-out all the Mungana Options and the Convertible Note in accordance with the provisions of Chapter 6A.1 of the Corporations Act.

## 2 Purpose and scope of the report

### 2.1 Purpose

Section 640 of the Corporations Act requires that a target statement made in response to a takeover offer for securities in an Australian publicly listed company must be accompanied by an independent expert's report if:

- the bidder's voting power in the target is 30% or more; and
- for a bidder who is, or includes, an individual – the bidder is a director of the target company; or
- for a bidder who is, or includes, a body corporate – a director of the bidder is a director of the target company.

The independent expert's report must state whether, in the opinion of the independent expert, the takeover offer is fair and reasonable to the target company's independent shareholders and provide the reasons for forming that opinion.

As at the date of our report, we note that there is no legal requirement to prepare an independent expert's report as Auctus has less than 30% interest in MUX and there is no common director between MUX and Auctus. However, the Directors of MUX have requested Grant Thornton Corporate Finance to prepare an independent expert's report to assist MUX Shareholders to assess the merits of the Takeover Offer and whether the Takeover Offer is fair and reasonable to the MUX Shareholders for the purposes of Section 640 of the Corporations Act.

### 2.2 Basis of assessment

The Corporations Act does not define the meaning of "fair and reasonable". In preparing this report, Grant Thornton Corporate Finance has had regard to Regulatory Guide 111 "Content of expert reports" ("RG 111") which establishes certain guidelines in respect of independent expert's reports prepared for the purposes of the Corporations Act. RG 111 is framed largely in relation to reports prepared pursuant to section 640 of the Corporations Act and comments on the meaning of "fair and reasonable" in the context of a takeover offer.

As the Takeover Offer is a takeover bid, RG111 requires the following assessment:

- An offer is considered fair if the value of the offer price or consideration is equal to or greater than the value of the securities that are subject to the offer. The comparison should be made assuming 100% ownership of the target company and irrespective of whether the consideration offered is scrip or cash and without consideration of the percentage holding of the offeror or its associates in the target company.
- An offer is considered reasonable if it is fair. If the offer is not fair it may still be reasonable after considering other significant factors which justify the acceptance of the offer in the absence of a higher bid. ASIC has identified the following factors which an expert might consider when determining whether an offer is reasonable:

- The offeror's pre-existing entitlement, if any, in the shares of the target company.
- Other significant shareholding blocks in the target company.
- The liquidity of the market in the target company's securities.
- Taxation losses, cash flow or other benefits through achieving 100% ownership of the target company.
- Any special value of the target company to the offeror, such as particular technology or the potential to write off outstanding loans from the target company.
- The likely market price if the offer is unsuccessful.
- The value to an alternative offeror and likelihood of an alternative offer being made.

Grant Thornton Corporate Finance has determined whether the Takeover Offer is fair to the MUX Shareholders by comparing the fair market value range of MUX Shares on a 100% basis with the value of the Offer Price, being A$0.135 per MUX Share.

In considering whether the Takeover Offer is reasonable to the MUX Shareholders, we have considered a number of factors, including:

- Whether the Takeover Offer is fair.
- The implications to MUX and MUX Shareholders if the Takeover Offer does not complete.
- Other likely advantages and disadvantages associated with the Takeover Offer as required by RG111.
- Other costs and risks associated with the Takeover Offer that could potentially affect the MUX Shareholders.

*Independent technical specialists*

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

- SRK was engaged to provide an independent valuation report in relation to mineral assets owned by MUX. The SRK Report is included as Appendix D.
- GRES was engaged to provide an independent valuation report in relation to the plant, equipment and infrastructure assets owned by MUX. The GRES Report is included as Appendix E.

## 2.3 Independence

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

Grant Thornton Corporate Finance has no involvement with, or interest in, the outcome of the approval of the Takeover Offer other than that of independent expert. Grant Thornton Corporate Finance is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this report.

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

We note that Grant Thornton Corporate Finance was engaged as an independent expert by MUX in relation to MUX's acquisition of key mineral assets[11] from its largest shareholder, KZL in May 2014.

In our opinion, the above engagement does not impact on our ability to provide an independent and unbiased opinion in the context of the Takeover Offer. Accordingly, we consider Grant Thornton Corporate Finance to be independent of MUX, its Directors and all other parties involved in the Takeover Offer.

## 2.4 Consent and other matters

Our report is to be read in conjunction with the Target's Statement dated on or 27 May 2015 in which this report is included, and is prepared for the exclusive purpose of assisting the MUX Shareholders in their consideration of the Takeover Offer. This Report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this Report in its current form and context, and consents to its inclusion in the Target's Statement.

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

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

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[11] Key mineral assets include MUX's existing flagship project, the King Vol Project.

## 3 Profile of the zinc and gold mining industry

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

### 3.1 Overview

Zinc is a key raw material used mainly for galvanising iron and steel, brass production and die-casting. Consumption of zinc is predominately influenced by the performance of the construction and manufacturing industries which are major users of galvanised iron and steel.

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

### 3.2 Consumption and production

*Zinc*

The global production of refined zinc has increased by a CAGR of 1.1% below demand growth by 1.2% over the period from 2011 to 2014. In 2013, Australia accounted for approximately 11% of total global production and exported A$2.4 billion in zinc concentrates[12].

The growth rate of global zinc production has increased over 2012 to 2014, though it is forecast to be moderately lower in 2015 with the closure of several large zinc/lead mines, including MMG Limited's Century mine in Australia (capacity of 600 ktpa) which is reaching the end of its mine life.

Growth in consumption in 2015 is expected to be supported by stronger demand for galvanised steel in China with the government planning to spend over US$1 trillion on infrastructure projects over the next few years, and limited by slowing auto sales growth in Europe and China. Currently, China is the world's largest consumer of refined zinc, accounting for over 40% of global consumption in the past five years[13].

The table and graph below summarises the historical global supply and demand for refined zinc concentrates and Australia's contribution to global production levels:

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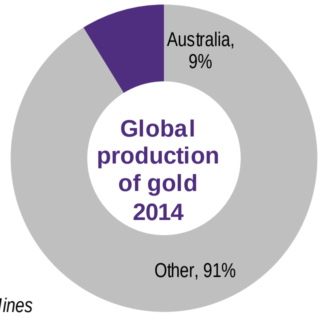
[12] Sucden Financial Quarterly Metals Report, April 2015
[13] World Bureau of Metal Statistics

| Global supply / demand for gold (Kt) | 2011 | 2012 | 2013 | 2014 (e) | 2015 (f) |
|---|---|---|---|---|---|
| Production | 4.0 | 4.5 | 4.3 | 4.3 | 4.1 |
| *Growth %* | | *11.8%* | *-4.3%* | *0.1%* | *-4.2%* |
| Consumption | 4.1 | 4.6 | 4.1 | 3.9 | 4.4 |
| *Growth %* | | *12.8%* | *-10.9%* | *-4.0%* | *10.9%* |
| Balance | -0.07 | -0.13 | 0.19 | 0.35 | -0.25 |

*Source: Sucden Financial Quarterly Metals Report April 2015, & Department of Natural Resources and Mines*




*Gold*

The global production of gold has increased by a CAGR of 2.3% above demand growth by 3.5% over the period from 2011 to 2014. In 2013, Australia accounted for approximately 9% of total global production and exported A$13.0 billion in gold[14].

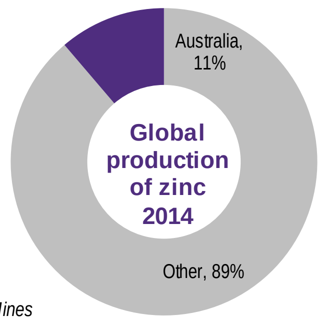
The demand for gold has historically been driven by the demand for fabrication of jewellery and industrial equipment ("Primary Demand"). However, recently Primary Demand as a proportion of total demand has declined primarily due to increasing interest in gold as an investment asset[15]. Since 2003, investment has represented the strongest source of growth in the demand for gold. However, according to the World Gold Council, investment demand as a percentage of total demand decreased substantially in 2013 due mainly to expected improvement in global economic conditions, particularly in the US and Europe.

With approximately 255 tonnes of gold produced, Australia was the world's second largest gold producer in 2014 after China. Australia is also regarded as one of the world's top gold reserves holders with approximately 9.9 billion tonnes of ore reserves, which accounts for approximately 19% of the world estimated gold reserves. The majority of gold mines in Australia are located in Western Australia, and operated by a small group of gold producers.

The table and graph below summarises the historical global supply and demand for gold and Australia's contribution to global production levels:

| Global supply / demand for refined zinc (Mt) | 2011 | 2012 | 2013 | 2014 (e) | 2015 (f) |
|---|---|---|---|---|---|
| Production | 13.1 | 12.6 | 12.9 | 13.5 | 14.0 |
| *Growth %* | | *-3.7%* | *2.4%* | *4.7%* | *3.7%* |
| Consumption | 12.7 | 12.3 | 12.9 | 13.6 | 14.2 |
| *Growth %* | | *-2.9%* | *4.4%* | *5.5%* | *4.0%* |
| Balance | 0.37 | 0.25 | 0.01 | -0.10 | -0.15 |

*Source: Sucden Financial Quarterly Metals Report April 2015, & Department of Natural Resources and Mines*

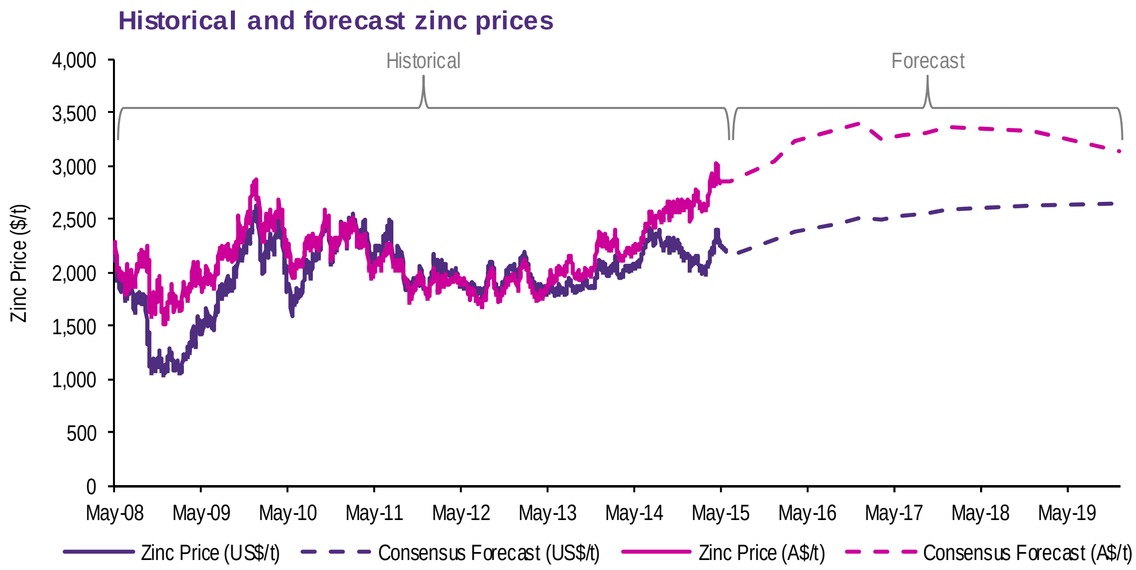



[14] Sucden Financial Quarterly Metals Report, April 2015
[15] Gold Demand Trends, Full Year 2014, World Gold Council, February 2015

### 3.3 Historical and forecast price of zinc and gold

*Zinc*

Set out below are the nominal historical and forecast prices of zinc since May 2008:




*Source: S&P Capital IQ, Consensus Forecast and GTCF Calculations*
*Note: Zinc price in AUD terms is based on median forecast exchange rates sourced from various brokers*

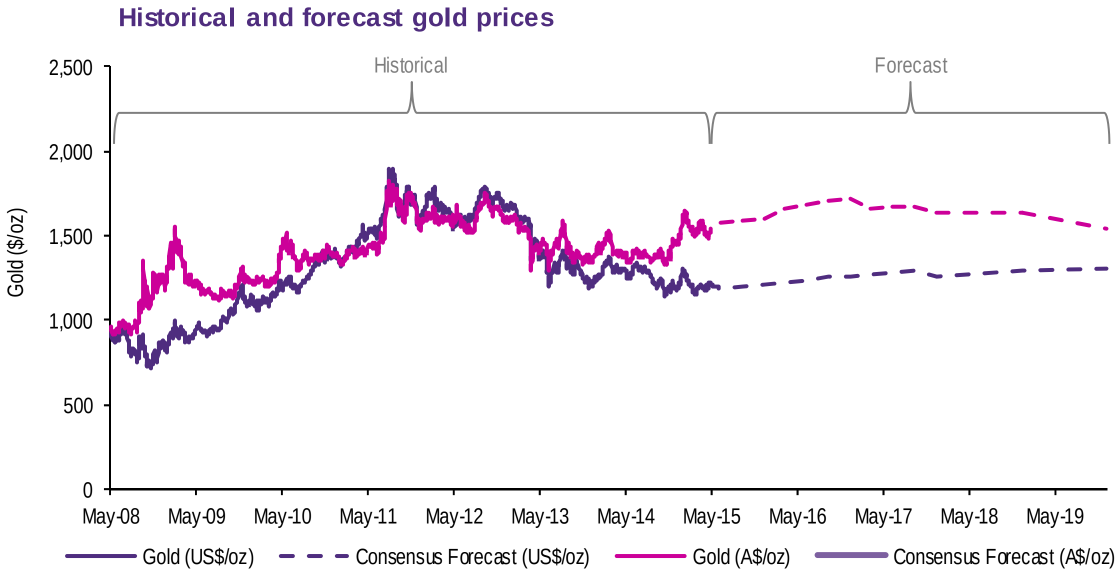
Since 2007, volatility in global financial markets (resulting from the Global Financial Crisis) and concerns in relation to European sovereign debt levels ("European Debt Crisis") adversely impacted global economic growth, decreased demand for zinc, and increased the volatility of zinc prices.

Subsequent to 2009, continual expansion of large developing economies such as China and India has supported a general increase in the zinc price. However, sovereign debt issues constraining growth in Japan, the US and the European Union ("EU"), slower growth in China and India, and increase in production levels, have resulted in subdued zinc prices since 2012.

However the outlook for zinc remains quite positive compared with other base and bulk metals. As a result of the closure of some large mine operations around the world between 2012 and 2015, the zinc market has recently shifted from oversupply to a supply deficit. Output from Australia is also expected to materially reduce with the planned closure of Century Mine in late 2015 or early 2016.

*Gold*

Set out below are the nominal historical and forecast prices of gold since May 2008:




*Source: S&P Capital IQ, Consensus Forecast and GTCF Calculations*
*Note: Zinc price in AUD terms is based on median forecast exchange rates sourced from various brokers*

Unlike zinc prices, the price of gold increased at an annualised 4.1% over the past five years. Prices increased significantly as the Global FInanical Crisis hit in 2007-08 and peaked at over US$1,730/oz during 2011-12 due to ongoing concern over the US and European debt crises. During 2012-14, gold prices began declining as economic conditions improved, reducing the relative attractiveness of gold as an investment asset. However, we note that like zinc prices, the recent decline in the AUD/USD exchange rate has supported gold price growth in AUD terms. As at 20 May 2015, the gold spot price traded at US$1,210/oz or A$1,536/oz.

The price of gold is forecast to remain relatively flat in the short to medium term in line with the expected recovery and stabilisation of the global economy and financial markets.

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

# 4 Profile of MUX

## 4.1 Company overview

MUX was listed on the ASX in June 2010 from the spin-off of gold rights ("Gold Rights") to certain North Queensland tenements ("the Northern Region Assets") held by KZL (i.e. KZL retained the legal tenure). As a direct result of the transaction, KZL[16] became a major shareholder of MUX.

KZL entered into voluntary administration in April 2012 and was subsequently placed into liquidation on 16 December 2013.

On 27 December 2013, MUX announced that it had entered into a binding heads of agreement for the acquisition of the Northern Region Assets from KZL ("the Northern Region Assets Acquisition") for a consideration of A$15.0 million payable via the issue of secured convertible notes in two tranches of A$7.5 million each ("Tranche A and Tranche B Convertible Notes"). The Northern Region Assets included the high-grade zinc project (i.e. the King Vol Project) and the partially complete 600 ktpa base metal treatment facility (i.e. the Processing Plant"). The Northern Region Assets Acquisition completed in July 2014 and the Tranche A Convertible Note was converted shortly, which increased KZL's shareholding in MUX to 72%.

With completion of the Northern Region Assets Acquisition, MUX appointed a new management team and announced a revised operating strategy whereby MUX would focus on the development of the King Vol Project and surrounding base metal deposits ("North Queensland Zinc Strategy"). We understand KZL and its Liquidators have endorsed the new strategy and management team to restore value in the Northern Region Assets.

On 25 May 2015, MUX announced that it had entered into the Newcrest Agreements which provide Newcrest with an option to enter into a farm-in and subsequent joint venture agreement to explore specifically for a large gold-copper porphyry deposit beyond the planned activities and capability (technical and commercial) of MUX (for details refer to Section 4.4.1. The Newcrest Agreements are limited to the JV Chillagoe Tenements and they do not include, among others, the King Vol Project and surrounding infrastructure.

## 4.2 Assets overview

MUX is mainly focused on the development and exploration of zinc and gold in Australia. The Company's current asset portfolio includes the following key projects:

- *King Vol Project* – wholly owned flag ship high-grade zinc project located near Cairns, North Queensland and existing partially completed infrastructure owned by MUX. The project is central to MUX's North Queensland Zinc Strategy.

- *Red Cap Project* – wholly owned polymetallic project located in close proximity to the King Vol Project. The project forms a later part of the North Queensland Zinc Strategy.

[16] Through its wholly owned subsidiary, MPL.

- *Mungana and Red Dome Projects* – wholly owned large scale low-grade gold, silver and copper pre-development and exploration project located in Chillagoe, Queensland (previously subject to the Gold Rights).

The table below summarises MUX's total attributable JORC[17] defined mineral resources ("Resources").

| Project | Key resource | Ownership % | Category | Kilotonnes (Kt) | Zn (%) | Cu (%) | Pb (%) | Au (g/t) | Ag (g/t) |
|---|---|---|---|---|---|---|---|---|---|
| King Vol | zinc | 100% | Indicated | 1,045 | 14.7% | 0.9% | 0.7% | - | 36.5 |
| | | | Inferred | 1,943 | 10.4% | 0.7% | 0.5% | - | 26.4 |
| Red Cap | zinc, copper | 100% | Inferred | 3,813 | 4.8% | 0.7% | 0.2% | 0.06 | 19.5 |
| Red Dome/ Mungana | gold | 100% | Measured | 41,000 | - | 0.29% | - | 0.79 | 11.6 |
| | | | Indicated | 49,800 | - | 0.18% | - | 0.58 | 6.7 |
| | | | Inferred | 40,200 | - | 0.15% | - | 0.58 | 6.2 |

*Source: MUX ASX announcements*
*Note (1): For King Vol and Red Cap Projects, we have only included resources upgraded to JORC 2012. However, we note that the Red Dome/ Mungana Projects are only JORC 2004 compliant. Refer to Section 6.10.1 for more detailed discussion.*

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

### 4.2.1 King Vol

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

Given the significant amount of pre-feasibility work previously conducted at the King Vol Project by KZL and its close proximity to the partially completed Processing Plant and Infrastructure (refer to Section 4.3 for further details), MUX are currently focused on the development of King Vol Project to near term production as a central part of the North Queensland Zinc Strategy.

The current work plan for the King Vol Project/ North Queensland Zinc Strategy is summarised below:

- *Stage 1 (Start-up to 300 ktpa throughput)* – completion of current drilling program and completion of feasibility study in March 2016. First production is targeted for the end of 2016 at an annualised throughput rate of 350 ktpa for 40 ktpa of zinc concentrate.

- *Stage 2 (Consolidate to 600 ktpa throughput)* – increase production levels with additional resource conversion from known deposits in the Red Cap and Mungana Project areas.

[17] A reported Mineral Resource as defined in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code – 2012 Edition)

- *Stage 3 (Expand beyond 600 ktpa throughput)* – further drilling to define new resources at known exploration targets.

### 4.2.2 Red Cap Project

The Red Cap Project is located approximately 4 km from a partially completed Infrastructure, and consists of four key polymetallic exploration areas: Penzance, Victoria, Queenslander and Morrisons mainly prospective for zinc and copper. The Red Cap Project forms part of Stage 2 of the North Queensland Zinc Strategy.

### 4.2.3 Mungana and Red Dome Projects

The Mungana and Red Dome Projects are situated 3 km apart and are both on granted mining leases.

In late 2010, an initial scoping study ("Scoping Study") was undertaken which indicated potential for the development of an open pit mine at Red Dome and selective underground mining at both the Mungana and Red Dome Projects. Following the initial Scoping Study, MUX completed stage 1 of a Bankable Feasibility Study ("BFS") in December 2011. Stage 1 of the BFS proposed an open pit mine followed by subsequent underground mining at both the Mungana and Red Dome Projects and utilising a conventional flotation and cyanide leaching treatment method to recover the gold, silver and copper. This method is similar to the process previously utilised in the open pit mine at the Red Dome deposit in the 1980s and 1990s.

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

The Directors of MUX had approved the commencement of stage 2 (final) of the BFS which was initially scheduled for completion in the September quarter of 2012 but has since been put on hold due to KZL entering into voluntary administration in April 2012. On 31 December 2012, MUX announced the suspension of further exploration at the Mungana and Red Dome Projects. MUX is currently investigating potential development strategies.

### 4.2.4 Advanced exploration projects

MUX also owns a number of exploration projects including:

- *Montevideo Project* – a polymetallic exploration area mainly prospective for zinc located adjacent to the King Vol Project.

- *Griffiths Hill Project* – the Griffiths Hill Project (or the Red Dome Copper Zone) consist of a polymetallic deposit mainly prospective for copper and zinc.

## 4.3 The Processing Plan and Infrastructure

As a part of the recently completed Northern Region Assets Acquisition, MUX obtained full ownership of the Processing Plant and Infrastructure which includes:

- *A partially completed Processing Plant (crushing and floatation plant)* – We note that the Processing Plant is incomplete and was put on care and maintenance due to KZL entering into Voluntary Administration in April 2012. Many of the required items are in storage. The Processing Plant has a nominated capacity throughput of 600 ktpa.

- *Buildings* – consisting of transportable site offices, chemical sheds and containers.

- *Camp site* – consisting of transportable site accommodation units, water treatment plant and poly tanks.

- *Various mining vehicles*.

- *Sundry plant* – consisting of a drill, welder and air compressor.

The Processing Plant and Infrastructure forms part of the North Queensland Zinc Strategy and is expected to enable low capital cost and quick start-up to zinc production. We note GRES have independently valued the replacement value of the Processing Plant and Infrastructure (to its current condition and in its current location) to be approximately A$51.4 million. For further details refer to GRES Report attached as Appendix E, and summarised in Section 6.2 of this Report.

## 4.4 Material contracts and agreements

### 4.4.1 Newcrest Agreements

The terms of the Newcrest Agreements are set out below:

- The Newcrest Agreements grant options to Newcrest to enter into a farm-in agreement and subsequently a joint venture agreement over a period of up to eight years as described below:

  **Stage 1** – Newcrest is required to spend a minimum of A$3 million on exploration over the first 18 months. If Newcrest does not incur this expenditure Newcrest must pay the balance to MUX.

  **Stage 2** – If Newcrest elects to do so, Newcrest may execute a farm-in agreement under which Newcrest has the right to spend a minimum of A$17 million on exploration over 78 months (subject to a minimum expenditure requirement of A$2 million per annum). Newcrest may terminate this agreement at any time.

  **Stage 3** – If Newcrest incurs a total of $20 million on exploration within 8 years and identifies a Mineral Resources of at least 1 million ounces of gold or gold equivalent, Newcrest may elect to acquire a 70% interest in the exploration area by executing a joint venture agreement under which an unincorporated joint venture is formed with MUX holding the remaining 30%.

- The exploration commitment, farm-in and joint venture agreements only cover the southern Chillagoe tenements, and exclude any assets that form the basis of the current MUX operating strategy (i.e. the North Queensland Zinc Strategy). As such, the King Vol Project, the existing gold copper resources at Red Dome and Mungana, all resources defined in the Red Cap Project area and the surface Infrastructure are excluded from the Newcrest Agreements.

- If Newcrest does not exercise its options to enter into the farm-in or the joint venture, MUX will retain all interests in the exploration area and any exploration data/knowledge obtained during the exploration commitment period and any farm-in period.

- MUX has the option to acquire any deposits found that are outside of Newcrest's stated objectives at a cost equivalent to 125% of exploration expenditure incurred.

For further details refer to the ASX announcement made by MUX dated on 25 May 2015.

## 4.5 Financial information

### 4.5.1 Financial performance

The historical consolidated income statements of MUX for the years ended 30 June 2013 ("FY13"), 30 June 2014 ("FY14"), half year ended 31 December 2014 ("HY15") and year to date ended 30 April 2015 ("YTDApr15") are set out in the table below:

| MUX<br>Consolidated statements of comprehensive income | FY13<br>Audited<br>(A$'000) | FY14<br>Audited<br>(A$'000) | HY15<br>Reviewed<br>(A$'000) | YTDApr15<br>Management<br>(A$'000) |
|---|---|---|---|---|
| Revenue | 435 | 98 | 80 | 139 |
| Administration costs | (3,943) | (2,529) | (1,817) | (1,292) |
| Interest expense | - | 244 | (367) | (511) |
| Share based payments | (186) | 724 | (10) | (10) |
| Exploration assets written off | - | (28,424) | - | - |
| Stamp duty | (12,196) | 12,195 | - | (657) |
| Impairment losses (trade receivables) | 18 | - | 3,807 | 3,807 |
| Other expenses | - | - | - | (124) |
| EBITDA | (15,872) | (17,692) | 1,693 | 1,352 |
| Depreciation | (135) | (217) | (253) | (447) |
| EBIT | (16,007) | (17,909) | 1,440 | 905 |
| Profit/(loss) before tax | (16,007) | (17,909) | 1,440 | 905 |
| Income tax (expense) | - | - | - | - |
| Profit/(Loss) after income tax | (16,007) | (17,909) | 1,440 | 905 |

*Source: MUX Annual Report 2014 and Management Accounts for YTDApr15*

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

- Revenue relates to interest received on short-term deposits and operating bank accounts.

- In FY13, the Queensland Office of State Revenue ("QOSR") issued to MUX a stamp duty assessment of approximately A$12.2 million in relation to the Gold Rights over the Northern Region Assets. In FY14, the QOSR reversed the stamp duty assessment. MUX also received a refund of A$1.2 million in stamp duty assessment payments made to date.

- In YTDApr15, bad debt expenses of circa A$3.8 million were reversed as part of the Northern Region Assets Acquisition.

- In YTDApr15, stamp duty expense of A$657 thousand relates to the Northern Region Assets Acquisition.

- Administration costs and other expenses mainly consist of insurance, professional fees and cost of employment.

#### *4.5.1.1 Financial position*

The consolidated balance sheets of MUX as at 31 December 2014 and 30 April 2015 are set out in the table below:

| MUX<br>Consolidated statements of financial position | 31-Dec-14<br>Reviewed<br>(A$'000) | 30-Apr-15<br>Management<br>(A$'000) |
|---|---|---|
| Current assets | | |
| Cash and cash equivalents | 3,073 | 2,154 |
| Trade and other receivables | 92 | (34) |
| Total current assets | 3,165 | 2,120 |
| | | |
| Non-current assets | | |
| Capitalised exploration expenditure | 27,900 | 28,411 |
| Property, plant & equipment | 7,565 | 7,373 |
| Investments | 285 | 263 |
| Other non-current assets | 2,725 | 2,555 |
| Total non-current assets | 38,475 | 38,602 |
| | | |
| Total assets | 41,640 | 40,722 |
| | | |
| Current liabilities | | |
| Trade and other payables | (366) | (96) |
| Provisions | (1,900) | (138) |
| Interest bearing liabilities | (7,739) | (7,882) |
| Total Current Liabilities | (10,005) | (8,116) |
| | | |
| Non-current liabilities | | |
| Provisions | - | (1,528) |
| Total non-current liabilities | - | (1,528) |
| | | |
| Total liabilities | (10,005) | (9,644) |
| | | |
| Net assets | 31,635 | 31,078 |

*Source: MUX Annual Report 2014 and Management Accounts for YTDApr15*

We note the following in relation to the consolidated balance sheet as at 30 April 2015:

- Capitalised exploration expenditure of A$28.4 million is mainly in relation to feasibility study and exploration costs capitalised for the Mungana and Red Dome Project.

- Interest-bearing liabilities of A$7.8 million relates to the Tranche B Convertible Notes (refer to Section 6.5 for further details).

## 4.6 Capital Structure

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

- 240,907,171 MUX Shares.
- 250,000 unlisted options ("the Options") exercisable at A$2.00 per option expiring on 17 November 2015.
- Tranche B Convertible Notes with a face value of A$7.5 million.

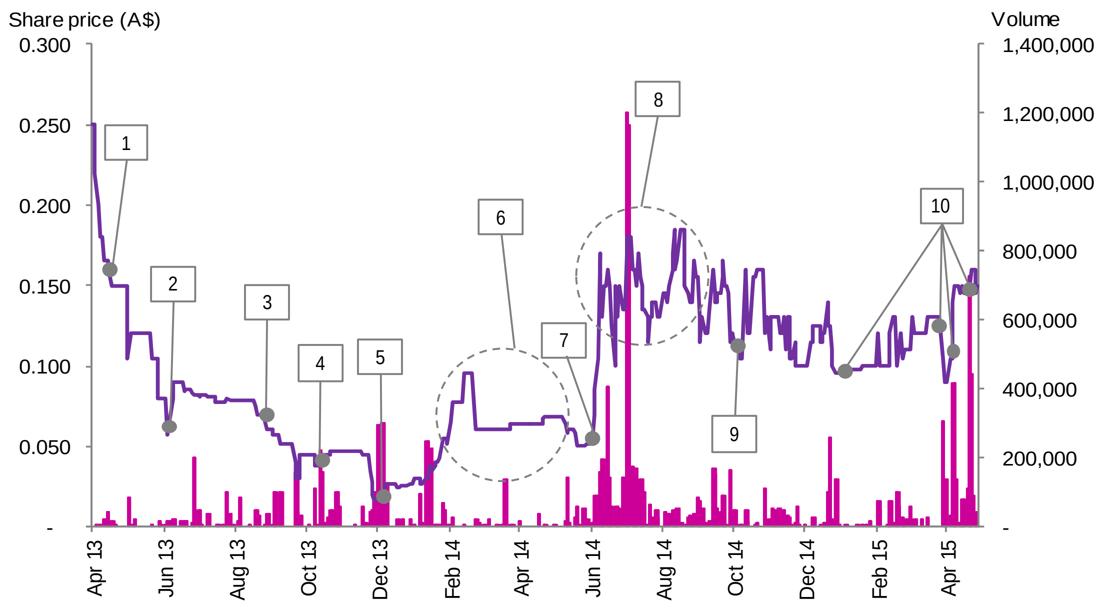
### 4.6.1 MUX Shares

The top ten shareholders of MUX as at 19 May 2015 are set out below:

| Top shareholders as at 19 May 2015 | | | |
|---|---|---|---|
| Rank | Name | Number of shares | Interest (%) |
| 1 | MPL *(wholly owned by KZL)* | 173,830,175 | 72% |
| 2 | GHG MUNGANA CO LTD | 25,120,000 | 10% |
| 3 | UOB KAY HIAN PRIVATE LTD | 13,564,786 | 6% |
| 4 | NATIONAL NOMINEES LTD | 4,012,000 | 2% |
| 5 | MINOTAUR RESOURCES INVESTMENTS PTY LTD | 3,076,923 | 1% |
| 6 | LOW IMPACT DIAMOND DRILLING SPECIALISTS PTY LTD | 2,458,543 | 1% |
| 7 | J P MORGAN NOMINEES AUSTRALIA LTD | 1,603,210 | 1% |
| 8 | PARKRANGE NOMINEES PTY LTD | 1,378,950 | 1% |
| 9 | HSBC CUSTODY NOMINEES (AUSTRALIA) LTD | 1,059,950 | 0% |
| 10 | HOUGHTON WATERVILLE PTY LTD | 867,705 | 0% |
| Top 10 shareholders total | | 226,972,242 | 94% |
| Remaining shareholders | | 13,934,929 | 6% |
| Total shares outstanding | | 240,907,171 | 100% |

*Source: MUX Management*

The daily movements in MUX's share price and volumes for the period from May 2013 to May 2015 is set out below:




*Source: Capital IQ*

We note the following with regard to the share price history since April 2013:

| No. | Date | Comments |
|---|---|---|
| 1 | 6 May 2013 | MUX, KLZ and MPL entered into a new binding heads of agreement to implement a joint sale process for the Northern Region Assets (including the Gold Rights) owned by KLZ and MPL and MUX. Share price closed at A$0.165. |
| 2 | 28 Jun 2013 | MUX entered into an asset sale agreement to sell its mineral rights under the Gold Rights to an external third party. Share price closed at A$0.065. |
| 3 | 17 Sep 2013 | MUX announced that the conditions of the heads of agreement with KZL and MLP for the Northern Region Assets have been terminated as a result of a breach by the purchaser and its guarantor. Share price closed at A$0.070. |
| 4 | 6 Nov 2013 | MUX has reached an agreement with QOSR to extend the payment terms for the A$12.19 million Stamp Duty assessments until 28 February 2015. Share price closed at A$0.045. |
| 5 | 30 Dec 2013 | MUX, KZL and its wholly owned subsidiary MPL have entered into a binding heads of agreement under which the Northern Region Assets owned by KZL and MPL will be sold to MUX (Northern Region Assets Acquisition). Share price closed at A$0.027. |
| 6 | 18 Feb 2014 | MUX announced that it had entered into a sale agreement with KZL and MPL in relation to the Northern Region Assets Acquisition. KZL also announced that the condition precedent to the binding heads of agreement regarding consent from Investec has been satisfied. Share price closed at A$0.055. |
| 6 | 2 Apr 2014 | MUX entered into a binding term sheet with WPG Resources Ltd for the sale of MUX's interests in the Tarcoola and Tunkillia Projects for a consideration consisting of A$1.5 million cash, A$0.23 million in WPG shares and A$1.0 million[1] in deferred consideration contingent on the achievement of certain milestones. Share price closed at A$0.061. |
| 6 | 17 Apr 2014 | MUX announced a R&D refund of A$2.27 million. Share price closed at A$0.064. |
| 6 | 23 Apr 2014 | MUX applied to the South Australian Government and its regulatory authorities for a mining lease approval for its Tunkillia Project. Share price closed at A$0.064. |
| 6 | 7 May 2014 | MUX announced that its Stamp Duty Liability of circa A$12.19 million had been fully discharged by the QOSR and that it expects to receive a refund of A$1.2 million in stamp duty assessment payments made to date (received on 21 May 2014). Share price closed at A$0.064. |
| 6 | 14 May 2014 | MUX announced that WPG has agreed to proceed with the purchase of the Tunkillia and Tarcoola Projects. A Sale and Purchase Agreement was signed on 21 May 2014. Share price closed at A$0.067. |

| | | |
|---|---|---|
| 6 | 29 May 2014 | MUX announced completion of the WPG Transaction. Share price closed at A$0.068. |
| 7 | 24 Jun 2014 | MUX issued a shareholder update outlining its strategy for the King Vol project following the acquisition of the Northern region base metal and gold assets. Share price closed at A$0.052. |
| 8 | 7 Jul 2014 | MUX announced that it is conducting work to verify each of the mineral resources contained in the Northern Region Assets acquired from KZL, with the intention of publishing them under the JORC 2012 Code. Share price closed at A$0.150. |
| 8 | 24 Jul 2014 | Shareholders approved the acquisition of the Northern Region Assets from KZL. Share price closed at A$0.170. |
| 9 | 22 Oct 2014 | MUX announced that it has received and paid the final stamp duty assessment of A$631,000 to the QOSR for it's A$15m acquisition of the Northern Region Assets from the Liquidators of KZL. Further, the Company expects the A$7.5m Tranche A Convertible Note to convert within 30 days. Share price closed at A$0.115. |
| 10 | 28 Jan 2015 | MUX announced an updated JORC 2012 compliant Mineral Resource estimate for its flagship King Vol zinc deposit. Share price closed at A$0.098. |
| 10 | 16 Apr 2015 | MUX announced an updated JORC 2012 compliant Mineral Resource estimate for its Red Cap deposit. Share price closed at A$0.130. |
| 10 | 29 Apr 2015 | Auctus officially launches bidders statement to acquire all fully paid ordinary shares in MUX at A$0.135 cash per share (i.e. the Takeover Offer"). Share price closed at A$0.140. |
| 10 | 11 May 2015 | The board of MUX recommended that shareholders reject the Takeover Offer. Share price closed at A$0.145. |

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

Set out below is the share price performance of MUX since April 2014:

| Mungana Goldmines Ltd | Share Price | | | Average |
|---|---|---|---|---|
| | High | Low | Close | weekly volume |
| | $ | $ | $ | 000' |
| **Month ended** | | | | |
| Apr 2014 | 0.066 | 0.061 | 0.064 | 36 |
| May 2014 | 0.068 | 0.064 | 0.068 | 12 |
| Jun 2014 | 0.105 | 0.049 | 0.105 | 112 |
| Jul 2014 | 0.190 | 0.100 | 0.160 | 888 |
| Aug 2014 | 0.175 | 0.115 | 0.150 | 179 |
| Sep 2014 | 0.185 | 0.115 | 0.120 | 126 |
| Oct 2014 | 0.165 | 0.105 | 0.105 | 190 |
| Nov 2014 | 0.165 | 0.110 | 0.130 | 84 |
| Dec 2014 | 0.130 | 0.100 | 0.125 | 69 |
| Jan 2015 | 0.140 | 0.095 | 0.098 | 131 |
| Feb 2015 | 0.120 | 0.098 | 0.100 | 38 |
| Mar 2015 | 0.130 | 0.100 | 0.120 | 95 |
| Apr 2015 | 0.150 | 0.090 | 0.150 | 294 |
| **Week ended** | | | | |
| 6 Feb 2015 | 0.100 | 0.098 | 0.098 | 8 |
| 13 Feb 2015 | 0.100 | 0.100 | 0.100 | 3 |
| 20 Feb 2015 | 0.100 | 0.100 | 0.100 | 15 |
| 27 Feb 2015 | 0.120 | 0.100 | 0.100 | 125 |
| 6 Mar 2015 | 0.125 | 0.100 | 0.120 | 110 |
| 13 Mar 2015 | 0.130 | 0.100 | 0.100 | 172 |
| 20 Mar 2015 | 0.120 | 0.105 | 0.110 | 53 |
| 27 Mar 2015 | 0.130 | 0.110 | 0.120 | 81 |
| 3 Apr 2015 | 0.120 | 0.110 | 0.120 | 23 |
| 10 Apr 2015 | 0.130 | 0.115 | 0.130 | 29 |
| 17 Apr 2015 | - | - | 0.130 | - |
| 24 Apr 2015 | 0.120 | 0.090 | 0.090 | 535 |
| 1 May 2015 | 0.150 | 0.100 | 0.150 | 843 |
| 8 May 2015 | 0.150 | 0.145 | 0.145 | 107 |
| 15 May 2015 | 0.165 | 0.145 | 0.160 | 1,377 |
| 22 May 2015 | 0.160 | 0.145 | 0.150 | 133 |

*Source: Capital IQ, Calculations*

### 4.6.2 Options

MUX currently has 250,000 unlisted options attributable to Mr. J Fitzgerald who currently holds the title of non-executive director and Chairman of the Board. The options are exercisable at A$2.00 per option and expire on 17 November 2015.

### 4.6.3 Tranche B Convertible Notes

As part of the consideration for the purchase of the Northern Region Assets by MUX from KZL in July 2014, MUX issued two tranches of convertible notes. Tranche A was converted upon completion of the deal with Tranche B currently outstanding. The key details of the outstanding Tranche B Convertible Notes are shown below:

| Key terms | Tranche B |
|---|---|
| Issuer | MUX |
| Issue date | 31-Jul-14 |
| Maturity date | 31-Jul-19 |
| Principal amount | A$7,500,000 |
| Interest rate | 7.5% (compounding quarterly and payable on the earlier of 30 June each year or the date of conversion or the date of redemption in cash or MUX shares at MUX's option) |
| Default interest rate | 18% (compounding quarterly and payable on the earlier of 30 June each year or the date of conversion or the date of redemption in cash) |
| Payment of interest | If the convertible Notes are converted, any accrued interest is to be satisfied by issue of MUX shares or payment in cash at the discretion of MUX |
| Conversion price | A$0.20 per share |
| Conversion condition | Convertible at any time before or on maturity date |

# 5 Valuation methodologies

## 5.1 Introduction

In accordance with our adopted valuation approach set out in Section 2, our fairness assessment involves comparing the Offer Price of A$0.135 per MUX Share to the fair market value of MUX Shares on a control basis.

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

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

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

## 5.2 Valuation methodologies

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

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

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

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

## 5.3 Selected valuation methodology

Grant Thornton Corporate Finance has selected the fair market value of net assets as the primary method to assess MUX's equity value in relation to the Takeover Offer. The fair market value of net assets is based on the sum of parts of MUX's exploration and development mineral assets, and other assets and liabilities in MUX's unaudited balance sheet as at 30 April 2015 as set out in Section 4.5.2.

For the purposes of this report, Grant Thornton Corporate Finance has engaged SRK to prepare a valuation of the exploration and pre-development assets of MUX which was completed in accordance with the VALMIN Code[18]. A copy of the SRK Report is included as Appendix D to this report. In addition, Grant Thornton Corporate Finance has engaged GRES to provide a valuation of MUX's Processing Plant and Infrastructure.

Grant Thornton Corporate Finance has not used the DCF methodology and or/earnings approach to assess the fair market value of MUX's mineral assets. This is mainly due to the project portfolio of MUX still being at the exploration and pre-development stage. In particular, the flagship project, the King Vol Project does not yet have any defined reserves and is currently subject to a feasibility study.

### 5.3.1 Cross-check methodology

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

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

- The quoted share price of MUX.

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

## 6 Valuation assessment of MUX Shares

As discussed in Section 5.3, Grant Thornton Corporate Finance has adopted the fair market value of net assets methodology to assess the equity value of MUX Shares. Set out below is a summary of our valuation assessment of MUX Shares on a control basis as at the date of this Report.

| Valuation summary<br>MUX (A$'000s) | Section reference | Low | High |
|---|---|---|---|
| Fair market value of MUX mineral assets | 6.1 | 57,367 | 77,614 |
| Fair market value of the Processing Plant and Infrastructure | 6.2 | 8,000 | 10,000 |
| Add: Adjusted other assets/(liabilities) | 6.3 | 2,913 | 2,913 |
| Add: Value of scrip and deferred component of WPG Offer | 6.4 | 1,917 | 2,324 |
| Less: Value of Tranche B Convertible Notes | 6.5 | (7,492) | (9,367) |
| Less: Value of Options | 6.6 | - | - |
| Less: Transaction costs | 6.7 | (500) | (500) |
| Add: Tax losses | 6.8 | - | - |
| Add: cash from the Capital Raising (net of transaction costs) | 6.9 | 4,806 | 4,806 |
| Equity value of MUX on a control basis | | 67,011 | 87,789 |
| Number of MUX Shares ('000s) | 6.9 | 277,043 | 277,043 |
| Value per share on a control basis (cents) | | 24.19 | 31.69 |

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

*Note: Totals may not add due to rounding.*

### 6.1 Fair market value of MUX's mineral assets

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

| Value of the MUX's mineral assets as assessed by SRK<br>Project | Status | % attributable to MUX | Valuation (attributable to MUX)<br>Low A$'000 | Preferred A$'000 | High A$'000 |
|---|---|---|---|---|---|
| King Vol | Pre-development | 100% | 5,200 | 9,100 | 13,300 |
| Red Cap | Advanced Exploration | 100% | 5,920 | 7,890 | 16,290 |
| Griffiths Hills | Pre-development | 100% | 1,000 | 1,900 | 3,350 |
| Mungana | Pre-development | 100% | 13,200 | 16,500 | 27,300 |
| Red Dome | Pre-development | 100% | 19,400 | 22,800 | 40,200 |
| Other exploration projects | Exploration | 100% | 5,490 | 9,300 | 16,650 |
| Value of the MUX's mineral assets as assessed by SRK | | | 50,210 | 67,490 | 117,090 |
| SRK preferred range | | | 57,367 | | 77,614 |

*Source: SRK Report*

In our assessment of MUX Shares before the Takeover Offer, we have adopted SRK's preferred value range for MUX's mineral assets due to the following:

- The high end of the range of MUX's mineral assets is approximately 2.5 times the low end of the range. This results in an extremely wide market value range for MUX.
- RG111 states that an expert should usually provide a range of values which should be as narrow as possible, as a broad range of values undermines the usefulness of the report.
- The preferred value range is SRK's view the most likely value range of MUX's mineral assets.

- As indicated in the SRK Report, preferred values take into account the current market conditions, mineralisation, grade and depth of the deposits.

## 6.2 Fair market value of the Processing Plant and Infrastructure

GRES has assessed the value of MUX's Processing Plant and Infrastructure which includes buildings, incomplete processing plant and vehicles. In undertaking the valuation assessment, GRES adopted a direct, sales or market comparison approach. GRES' valuation assessment has been prepared under the following definitions and assumptions:

- *Fire Sale value (A$3.9 million):* value MUX can expect to realise through the immediate sale of easily portable and demountable components of the Processing Plant and Infrastructure to second hand equipment dealers as separate components. Components (such as the airstrip) that are not easily portable and demountable in a relatively short period of time are valued at nil.

- *Fair Market Value (A$8.0 million to A$10.0 million)*: value at which the portable and demountable components of the Processing Plant and Infrastructure could be willingly divested in a package to a willing and knowledgeable buyer within a reasonable period of time from the date of valuation. Non-portable and non-demountable components are valued at nil.

- *Going Concern value (A$51.4 million):* based on the *replacement* cost of the existing Processing Plant and Infrastructure in its entirety to its current condition and current location that would otherwise be incurred by MUX.

We note that GRES' definition of fair market value is consistent with our definition of fair market value. We have not adopted GRES' Fire Sale and Going Concern values due to the following:

- Whilst the Infrastructure is currently under care and maintenance, the Processing Plant and Infrastructure form a key component of MUX's current operating strategy to develop the King Vol and Red Cap Projects. It is unlikely MUX would seek to undertake a Fire Sale of the Processing Plant and Infrastructure in the foreseeable future.

- The Going Concern value incorporates special value to MUX which would unlikely be available to a pool of potential purchasers who will likely be required to relocate the Processing Plant and Infrastructure to a different location.

Accordingly, in our valuation assessment, we have adopted a value range for the Processing Plant and Infrastructure of between A$8.0 million and A$10.0 million.

## 6.3 Other assets and liabilities

We have assessed the fair market value of other assets and liabilities of MUX based on the unaudited balance sheet as at 30 April 2015 as set out in Section 4.5.2. Our assessment of MUX's other assets and liabilities are set out below:

| Adjusted other net assets/(liabilities) as at 30 April 2015<br>MUX (A$'000s) | |
|---|---|
| Cash and cash equivalents | 2,120 |
| Other non-current assets | 2,555 |
| Trade and other payables | (96) |
| Provisions | (1,666) |
| Adjusted other net assets/(liabilities) | 2,913 |

*Source: Management and GTCF calculations*

In relation to the above, we note that the capitalised exploration and evaluation assets have been separately assessed by SRK as set out in Section 6.1, the Processing Plant and Infrastructure have been assessed by GRES as set out in Section 6.2, and the Tranche B Convertible Notes have been separately assessed by Grant Thornton Corporate Finance as set out in Section 6.5.

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

On 29 May 2014, MUX completed a sale and purchase agreement with WPG Resources Ltd ("WPG") for the sale of its interests in two gold projects (Tunkillia and Tarcoola Projects). The consideration (the "WPG Consideration") included, among other elements, the following scrip, and deferred/contingent components:

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

For the purpose of our report, we have separately valued the scrip, deferred and royalty components of the WPG Offer to MUX as summarised below:

| Scrip, deferred and royalty components of the WPG Offer to MUX | Note | Low<br>A$'000 | High<br>A$'000 |
|---|---|---|---|
| Scrip (7.5 million WPG Shares at A$0.04 per share as at 19 May 2015) | | 300 | 300 |
| Deferred consideration of A$1.0 million cash/ WPG Shares | *Note 1* | 565 | 623 |
| Net smelter royalty (1.0% to 1.5%) | *Note 2* | 1,053 | 1,401 |
| Total assessed deferred and scrip component of WPG Consideration | | 1,917 | 2,324 |

*Source: ASX announcements, Management and GTCF calculations*

**Note 1 – Deferred consideration**

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

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

- Milestone 2: A$0.25 million in cash at the earlier of commencement of mine construction and mining operations at the Tunkillia or Tarcoola Projects.

- Milestone 3: A$0.50 million in cash or WPG Shares at the earlier of commencement of mine construction and mining operations at the Tunkillia Project[20].

Based on recent WPG announcements on the ASX, and the pre-feasibility study completed on the Tunkillia and Tarcoola Projects, we have calculated the net present value of these deferred payments in accordance with the timetable outlined in the pre-feasibility study. We have adopted a discount rate[19] of between 20% and 25% to reflect the significant uncertainty inherent in pre-development mining projects of this nature.

**Note 2 – Net smelter royalty**

The WPG Offer includes a net smelter royalty ("NSR") for gold and silver produced from the Tunkillia Project[20] based on the following sliding scale:

- If gold price per oz is below US$1,750/oz, the NSR will be 1.0%.

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

- If gold price per oz is above US$2,000/oz, the NSR will be 1.50%.

Based on our analysis of broker and consensus forecasts (as set out in section 3.6), the gold price is not expected to reach or exceed US$1,750/oz. Accordingly, we have assumed a NSR of 1.0% and calculated the net present value of the NSR based on the production profile indicated by the PFS and WPG's public announcements and a discount rate between of 20% and 25%.

## 6.5 Tranche B Convertible Notes

As set out in Section 4.6.3, the Tranche B Convertible Notes have a total face value of A$7.5 million and is convertible upon KZL's request at A$0.20 per MUX Share made at any time before or on the maturity date of the Convertible Note.

We have estimated the fair market value of the Tranche B Convertible Notes using an equity value methodology based on the model set out by Tsiveriotis and Fernandes.[21]

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

- Maturity date of 20 May 2019.

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[19] The calculation of the discount rate is based on the CAPM method and the following variables: risk free rate of approximately 4.5%, beta of 1.1, market risk premium of 6% and specific risk premium between 10% and 15%. (Note discount rate is rounded to 20% and 25%).
[20] Specifically within Mineral Claim 4347(MC4347) or the area of any tenement succeeding or replacing MC4347 which overlaps MC4347
[21] Tsiveriotis, K. and Fernandes, C., "Valuing convertible bonds with credit risk', Journal of Fixed Income, 95-102, September 1998

- Conversion price of A$0.20.
- Underlying value of MUX Shares for the purpose of estimating the fair market value of the Convertible Note assessed between A$0.20 and A$0.25. In our estimate, we have considered the following:
  - Trading prices of MUX ranged between 10 cents and 19 cents between 1 August 2014 and 28 April 2015 (1-day prior to the announcement of the Takeover Offer).
  - The trading prices of MUX ranged between 14 cents and 16 cents after 29 April 2015.
  - The share price of MUX closed at 15 cents on 19 May 2015.
  - Our valuation assessment of MUX share price on a minority basis before the Takeover Offer is in the range of 18.6 cents to 24.4 cents[22].
- Risk-free rates of 2.18%, being the average yield on the 3-years and 5-years Australian Government Bond as at 19 May 2015.
- Market-based interest rate for convertible notes with similar terms and risk profile assessed at 15%. In particular, we have placed more reliance on comparable convertible notes for resource companies where the holder has the option to convert and the convertible note is unsecured (given that the Tranche B Convertible Notes are unsecured).
- Assessed volatility of 60% with consideration of the 4-year average historical share price volatility of MUX, comparable companies and expectation that long term volatility will reduce from the current level as MUX transitions from pre-development to construction.

Based on the above, we have assessed the value of the Tranche B Convertible Notes to be in the range of approximately A$7.5 million to A$9.4 million.

### 6.6 Options

MUX currently has 250,000 unlisted options exercisable at A$2.00 per option and expire on 17 November 2015. Based on the above terms, the current MUX trading prices on the ASX and Grant Thornton's underlying valuation assessment of MUX, we have assumed the value of those options to be nil.

### 6.7 Transaction costs

For the purpose of the valuation, Grant Thornton Corporate Finance has taken into consideration costs associated with the Takeover Offer payable by MUX. Management of MUX has advised that

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[22] Minority value of MUX Shares before the Takeover Offer calculated as value per share on a control basis x (1-minority discount). Evidence from studies indicates that the premium for control on successful takeovers has typically been in the range of 20% to 40% in Australia. The minority discount range implied by this is between 17% and 29%. We have adopted a minority discount of 23% for the purpose of estimating the minority value of MUX Shares before the Takeover Offer.

the estimated non-contingent transaction costs to be incurred by MUX are approximately A$0.5 million irrespective of whether the Takeover Offer is completed or otherwise.

### 6.8 Taxation losses

MUX advised that it had approximately A$28.3 million in accumulated tax losses as at 30 June 2014 which could potentially be used to offset against future taxable income. However, the amount has not been recognised as an asset for financial reporting purposes as it does not satisfy the recognition criteria under the relevant accounting standards.

In our opinion, under the fair market value principle, a hypothetical purchaser will attribute limited or no value to the accumulated tax losses given the high degree of uncertainty in relation to the ability to utilise them. Accordingly, we have attributed no value to the existing tax losses.

### 6.9 Capital Raising

Based on discussions with Management, we have included in our valuation assessment of MUX the terms of the Capital Raising being the issue of 36,136,000 new MUX Shares at a price of A$0.14 per share raising A$5.06 million before transaction costs (estimated at 5% of the Capital Raising).

### 6.10 Valuation cross-check – resource multiple

As discussed in Section 5.3.1, we have considered the reasonableness of our valuation having regard to the resource multiple observed for listed comparable companies.

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

- ASX listed company with its flagship project focused on zinc and/or gold.
- Status of development of the flagship project (i.e. exploration/ development phase).
- The existence or availability of mining and processing infrastructure.
- Size of the company, including market capitalisation.
- Resource and grade estimates.

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

Our assessment of MUX based on the fair market value of net assets implies a Resource multiple of between 35.9x and 48.3x on a zinc metal ratio basis and between 19.7x and 26.5x on a gold metal ratio basis as summarised below:

| Cross check | Reference | Low (A$'000) | High (A$'000) |
|---|---|---|---|
| Assessed fair market value of MUX | 6.0 | 67,011 | 87,789 |
| Less: Net cash as at 30 April 2015 and the Capital Raising | 6.3, 6.9 | (6,926) | (6,926) |
| Enterprise value of MUX (control basis) | | 60,085 | 80,863 |
| Zinc metal ratio | | | |
| Total zinc metal ratio contained (kt) | Note 1 | 1,673 | 1,673 |
| Implied Resource multiple (EV/t) | | 35.9x | 48.3x |
| Gold metal ratio | | | |
| Total gold metal ratio contained (koz) | Note 1 | 3,046 | 3,046 |
| Implied Resource multiple (EV/oz) | | 19.7x | 26.5x |

*Source: ASX announcements and calculations*

*Note 1 – Zinc and gold metal ratio estimation attributable to MUX*

For the purpose of our cross check, Grant Thornton Corporate Finance has estimated zinc and gold metal ratios for the resources attributable to MUX. Our metal ratio calculations[23] assumes 100% recovery for all metals (this is also consistent with SRK's definition of 'metal ratios'). We note that our calculation of the metal ratios are for our valuation purposes only and does not attempt to reflect or estimate a reported metal equivalency under JORC Code 2012. We have assumed 100% recoverability in order to ensure the required level of comparability between MUX and the selected comparable companies. We note that robust recovery rates which meet the standards of the JORC Code 2012 are rarely available in the public domain for pre-development companies. In our opinion, the above approach is consistent with the valuation methodology that would be adopted by a pool of potential purchasers under the fair market value concept.

Whilst we have estimated the metal ratios for the King Vol and Red Cap Projects based on their total resource base[24], we note that for the Mungana and Red Dome Projects we have only included a portion of their total resource base. This is based on the following considerations:

- Compared to our selected comparable companies (as set out in Section 6.10.2), the Mungana and Red Dome Projects' resource bases are significantly larger. Most of the selected comparable companies do not have significant resources outside of their flagship/ feasibility studies. In this regard, we note that the stage 1 BFS is based on an estimated 10 year mine life and total gold metal ratio production of only circa 1.7 Moz (refer to Section 4.2.3 for further details).

- The Mungana and Red Dome Project resource bases are yet to be upgraded to 2012 JORC compliance. However, we understand that Management have announced that that the geological information for the projects has not materially changed since it was last reported, and the quantum and quality of the resources are expected to remain largely the same under 2012 JORC compliance.

With regard to the above, for the purpose of our valuation assessment we have assumed only

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[23] Zinc and gold metal ratios are the sum of contained resources adjusted for the ratio of the resource price to the price of zinc and gold, respectively. For this purpose we have adopted the spot prices as at the 20 May 2015 (gold price at US$1,208/oz, silver price at US$17/oz, zinc price at US$2,255/t, lead price at US$1,936/t, cobalt US$30,100, nickel price at US$13,390 and copper price at US$6,270/t).

[24] We note that we have not included the resource base for the Montevideo, Victoria and Griffiths Hill projects as they require upgrade to 2012 JORC compliance and MUX has refrained from inclusion of the resources in their latest investor presentation.

attributable gold metal ratio of 1.7 Moz for the Mungana/Red Dome Project.

### 6.10.2 Resource multiple of listed comparable companies

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

| Company | EV[6] (A$'m) | Location[1] | Stage[2] | Resource type[2] | Mineral type[2] | Attributable resources[3] Mt | Zn grade[4] % | Zn Metal Ratio grade[5] % | Zn Metal Ratio EV/t | Au grade[4] g/t | Au Metal Ratio grade[5] g/t | Au Metal Ratio EV/oz |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MUX[7] | | | | M+I+I | Au, Ag, Cu, Pb, Zn | 49.0 | 1.1% | 3.4% | | 0.56 | 1.76 | |
| Tier 1 - ASX listed base and precious metal companies | | | | | | | | | | | | |
| Red River Resources Ltd. | 33.4 | QLD | Scoping(P) | M+I+I | Au, Ag, Cu, Pb, Zn | 4.9 | 7.6% | 14.5% | 47.1x | 0.45 | 7.56 | 25.6x |
| Heron Resources Limited | 18.1 | NSW, WA | PEA | M+I+I | Au, Ag, Cu, Pb, Zn, Co, Ni | 824.1 | 0.1% | 4.8% | 0.5x | 0.02 | 2.50 | 0.2x |
| Metals Australia Ltd. | 2.3 | WA | Scoping(P) | M+I+I | Zn,Ag,Cu | 0.9 | 6.5% | 7.3% | 36.2x | - | 3.79 | 19.9x |
| MacPhersons Resources Limit | 27.3 | WA | Expl | M+I+I | Au,Ag,Zn | 22.9 | 0.5% | 2.4% | 50.8x | 0.57 | 1.21 | 27.9x |
| Ironbark Zinc Ltd. | 48.2 | Greenland | BFS | M+I+I | Pb, Zn | 29.9 | 6.2% | 6.6% | 24.3x | - | 3.43 | 13.3x |
| Stavely Minerals Limited | 27.5 | VIC | Expl | I | Au,Ag,Cu,Zn | 29.2 | 0.0% | 1.4% | 69.4x | 0.02 | 0.70 | 38.1x |
| Aeon Metals Limited | 35.1 | QLD | PFS(P) | I+I | Ag,Cu,Pb,Zn,Co | 376.3 | 0.2% | 1.3% | 7.5x | - | 0.65 | 4.1x |
| Golden Cross Resources Ltd. | 5.9 | NSW | Scoping | I+I | Ag,Cu | 28.0 | - | 2.6% | 8.3x | 0.55 | 1.32 | 4.5x |
| Venturex Resources Limited | 6.4 | WA | FS | M+I+I | Au, Ag, Cu, Pb, Zn | 26.2 | 3.4% | 7.8% | 3.2x | 0.09 | 4.01 | 1.7x |
| RMG Ltd. | 7.5 | QLD | Expl | I | Ag, Zn | 23.7 | 1.2% | 1.3% | 24.8x | 0.86 | 0.66 | 13.6x |
| Low | 2.3 | | | | | 0.9 | 0.0% | 1.3% | 0.5x | - | 0.65 | 0.2x |
| Average | 21.2 | | | | | 136.6 | 2.6% | 5.0% | 27.2x | 0.26 | 2.58 | 14.9x |
| Median | 22.7 | | | | | 27.1 | 0.8% | 3.7% | 24.6x | 0.05 | 1.91 | 13.5x |
| High | 48.2 | | | | | 824.1 | 7.6% | 14.5% | 69.4x | 0.86 | 7.56 | 38.1x |
| Tier 2 - ASX listed gold companies | | | | | | | | | | | | |
| Matsa Resources Limited | 26.2 | WA | FS | I+I+R | Au | 13.0 | na | na | na | 1.19 | 1.19 | 48.7x |
| Gold Road Resources Limited | 237.0 | WA | PFS(P) | M+I+I | Au | 123.3 | na | na | na | 1.26 | 1.26 | 46.5x |
| Gascoyne Resources Limited | 13.1 | WA | FS(P) | M+I+I | Au | 32.1 | na | na | na | 1.58 | 1.58 | 8.1x |
| Blackham Resources Limited[8] | 28.0 | WA | DFS(P) | M+I+I | Au | 44.0 | na | na | na | 3.30 | 3.30 | 6.0x |
| WPG Resources Ltd | 7.7 | QLD | DFS (P) | M+I+I | Au, Ag | 13.3 | na | na | na | 1.54 | 1.44 | 11.4x |
| RNI NL | 27.1 | WA | FS | M+I+I | Au | 34.3 | na | na | na | 1.79 | 1.79 | 13.8x |
| Aphrodite Gold Limited | 5.8 | WA | PFS | I+I | Au | 28.7 | na | na | na | 1.52 | 1.52 | 4.2x |
| Low | 5.8 | | | | | 13.0 | na | na | na | 1.19 | 1.19 | 4.2x |
| Average | 49.3 | | | | | 41.2 | na | na | na | 1.74 | 1.73 | 19.8x |
| Median | 26.2 | | | | | 32.1 | na | na | na | 1.54 | 1.52 | 11.4x |
| High | 237.0 | | | | | 123.3 | na | na | na | 3.30 | 3.30 | 48.7x |
| Tier 1 & Tier 2 Median | 26.2 | | | | | 28.7 | 0.8% | 3.7% | 24.6x | 0.57 | 1.52 | 13.3x |

*Note:*

*(1) Location of flag ship asset*

*(2) For definition of acronyms refer to glossary (Appendix C).*

*(3) Attributable resources = total resources x percentage of ownership in the flagship project (JORC 2012 compliant and JORC 2004 compliant resources where the company has indicated an intention to upgrade those resources to JORC 2012 in the short term)*

*(4) Zinc and gold grades are only in relation to the actual zinc and gold resources, respectively*

*(5) Zinc and gold metal ratios are the sum of contained resources adjusted for the ratio of the resource price to the price of zinc and gold, respectively. For this purpose we have adopted the spot prices as at the 20 May 2015 (gold price at US$1,208/oz, silver price at US$17/oz, zinc price at US$2,255/t, lead price at US$1,936/t, cobalt US$30,100, nickel price at US$13,390 and copper price at US$6,270/t). We note that this metal ratio estimation calculation is for the purposes of our valuation and does not attempt to estimate or reflect a reported metal equivalent under JORC Code 2012*

*(6) EV based on latest available market capitalisation and adjusted for latest quarterly cash balance as at 30 March 2015*

*(7) MUX resource base for the Mungana and Red Dome Projects adjusted as discussed in Section 6.9.1*

*(8) Blackham Resources EV adjusted for recently acquired funding package from Orion Mine Finance announced on 19 May 2015*

*Source: Capital IQ, company presentations and websites, other publicly available information and GTCF calculations*

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

- The resource multiples listed above have been calculated based on the market price for minority or portfolio share holdings and do not include a premium for control whereas our valuation assessment of MUX set out in Section 6 has been undertaken on a 100% and control basis.

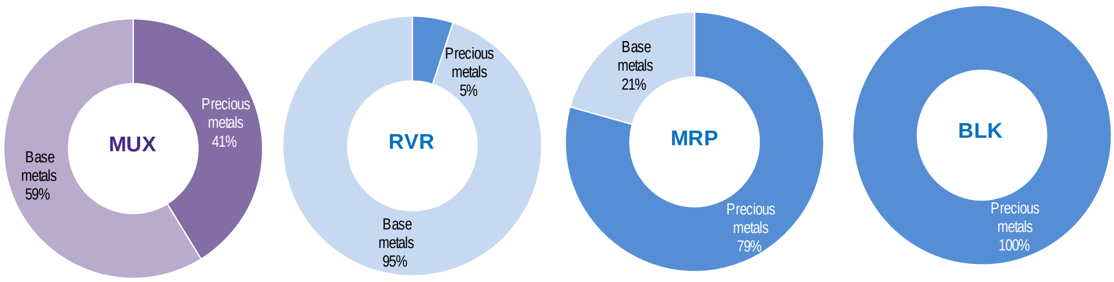
- For the purpose of our valuation, we have calculated the attributable resources of each company based on their ownership interest in their respective JORC defined projects[25].

- MUX has a zinc metal ratio grade of 3.4% and gold metal ratio grade of 1.8 g/t which is towards the median metal ratio grades of selected comparable companies. However, we note that the project specific zinc grades for the King Vol and Red Cap Projects are substantially higher (12% and 5%, respectively), and the gold grade for the Mungana and Red Dome Projects (0.65g/t) is substantially lower than most of the comparable companies.

- In terms of contained resource base, MUX has a relatively balanced split between precious (41%) and base metals (59%) unlike most of the comparable companies which tend to be more focused on either precious or base metal projects. In particular, we note that Tier 2 companies are pure gold companies. Accordingly, we have considered both a zinc metal ratio and gold metal ratio (being the two most representative metals for MUX and the selected comparable companies) for the purposes of our cross check.

Based on an analysis of the comparable companies, in our opinion Red River Resources Ltd ("RVR"), MacPhersons Resources Limited ("MRP") and Blackham Resources Ltd ("BLK") are the most comparable companies to MUX. The graphs below illustrate the allocation of the contained resource base between base and precious metals for MUX and our selected most comparable companies discussed in more details below.

Base and Precious metals as a percentage of the contained attributable resource base




*Source: Company presentations and websites, other publicly available information and GTCF calculations*

RVR's flagship Thalanga Project is a high-grade zinc project (6.9%) located in North Queensland of a similar resource base size (2.3 Mt) with existing infrastructure owned by RVR. Similar to the King Vol Project, RVR is currently in the process of completing a scoping study. However, we note RVR expects to commence production (end of 2015) sooner than MUX (end of 2016) and does not own any material precious metal projects.

MRP has a base metal to precious metal ratio most similar to MUX out of the basket of comparable companies. However, MRP's flagship Nimbus silver-zinc-gold project only has a low zinc grade of 0.9% and has a silver focus (though we note that the price of gold and silver have been historically highly correlated). Like the King Vol Project, production at the Nimbus project is expected to commence towards that end of 2016 with required mining assets already acquired and completion of a definitive feasibility study expected in the second half of 2015.

[25] The enterprise value of the comparable companies have been adjusted for any minority or non-controlling interest in the same flagship project.

Similar to MUX's King Vol Project, BLK's near term flagship high-grade Matilda Gold Project is expecting production to commence in the second half in 2016 with existing plant and infrastructure already in place. However, we note whilst BLK is still the process of completing a definitive feasibility study, its Matilda Project is fully funded into production. BLK is also only focused on gold.

The average metal ratio resource multiple of RVR, MRP and BLK is approximately A$48.9/t (zinc metal ratio basis) and A$19.8/oz (gold metal ratio basis) on a minority basis. Our valuation assessment of MUX implies a zinc metal ratio of between A$35.9/t to A$48.3/t and a gold metal ratio of between A$19.7/oz to A$26.5/oz on a control basis. Accordingly with consideration to the analysis outlined above, we believe that our valuation assessment of MUX based on the market value of net assets approach is reasonable.

### 6.11 Comparison with the listed market price

Prior to reaching our valuation conclusion, we have also considered the quoted security price of MUX Shares. Set out below are the monthly VWAP and trading volumes since August 2014 after completion of the Northern Region Assets Acquisition:

| Month end | Volume traded ('000) | Monthly VWAP (A$) | Total value of shares traded (A$'000) | Volume traded as % of total shares |
|---|---|---|---|---|
| Aug 2014 | 751 | 0.1451 | 109 | 0.5% |
| Sep 2014 | 554 | 0.1509 | 84 | 0.3% |
| Oct 2014 | 876 | 0.1482 | 130 | 0.5% |
| Nov 2014 | 336 | 0.1304 | 44 | 0.2% |
| Dec 2014 | 316 | 0.1177 | 37 | 0.1% |
| Jan 2015 | 548 | 0.1181 | 65 | 0.2% |
| Feb 2015 | 151 | 0.1129 | 17 | 0.1% |
| Mar 2015 | 416 | 0.1096 | 46 | 0.2% |
| Apr 2015 | 1,296 | 0.1210 | 157 | 0.5% |
| 22 May 2015 | 1,761 | 0.1505 | 265 | 0.7% |
| Min | | | | 0.06% |
| Max | | | | 0.73% |
| Average | | | | 0.34% |
| Median | | | | 0.28% |

*Source: Capital IQ*

We note that our assessment of the fair market value of MUX on a control basis of between 24.2 cents and 31.7 cents per share is higher than the recent share trading even if a premium for control is taken into account.

In our opinion, this pricing differential between our valuation assessment of MUX on a control basis before the Takeover Offer and the recent share trading before the announcement of the Takeover Offer (29 April 2015) is due to the following factors:

- There has been historically low level of trading in MUX Shares mainly as a direct result of the top three shareholders holding approximately 88% interest in MUX. The monthly volume traded as a percentage of outstanding shares ranged between 0.06% and 0.73% with an average of 0.34% (includes period ended 22 May 2015).

- MUX Shares have been volatile over the past 9 months with the minimum and maximum monthly VWAP price (excluding periods after the announcement of the Takeover Offer) varying between 11.0 cents and 15.1 cents between August 2014 and May 2015.

- The trading prices before the announcement of the Takeover Offer do not reflect the terms of the Newcrest Agreement and the Capital Raising.

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

# 7 Sources of information, disclaimer and consents

## 7.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Final Draft Target Statement.
- Bidder Statement – Acutus.
- Sale and purchase agreement – WPG.
- Mungana Gold Project Stage One Feasibility Study, 30 January 2012.
- Draft Tunkillia Gold Project Scoping Study Report, 17 April 2012.
- Annual reports of MUX for FY2013 and FY2014.
- Final half-year financial report of MUX for HY2015.
- MUX management accounts for YTDApr15.
- Releases and announcements by MUX on the ASX.
- MUX website.
- IBISWorld Industry Report.
- Other information provided by MUX.
- Other publicly available information.
- CapitalIQ.
- Consensus Economics Forecast.
- Mergermarket.
- Various broker reports.
- Discussions with Management.
- SRK Report.
- GRES Report.

## 7.2 Qualifications and independence

Grant Thornton Corporate Finance Pty Ltd holds Australian Financial Service Licence number 247140 under the Corporations Act and its authorised representatives are qualified to provide this report.

Grant Thornton Corporate Finance provides a full range of corporate finance services and has advised on numerous takeovers, corporate valuations, acquisitions, and restructures. Prior to accepting this engagement, Grant Thornton Corporate Finance considered its independence with respect to MUX and all other parties involved in the Takeover Offer with reference to the ASIC Regulatory Guide 112 "Independence of experts" and APES 110 "Code of Ethics for Professional Accountants" issued by the Accounting Professional and Ethical Standard Board. We have concluded that there are no conflicts of interest with respect to MUX, its shareholders and all other parties involved in the Takeover Offer.

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

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

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

We note that Grant Thornton Corporate Finance was engaged as an independent expert by MUX in relation to MUX's acquisition of key mineral assets[26] from its largest shareholder, KZL in May 2014.

In our opinion, the above engagement does not impact on our ability to provide an independent and unbiased opinion in the context of the Takeover Offer. Accordingly, we consider Grant Thornton Corporate Finance to be independent of MUX, its Directors and all other parties involved in the Takeover Offer.

## 7.3 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by MUX and publicly available information. Grant Thornton Corporate

[26] Key mineral assets include MUX's existing flagship project, the King Vol Project.

Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by MUX through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of MUX.

This report has been prepared to assist the directors of MUX in advising the MUX Shareholders in relation to the Takeover Offer. This report should not be used for any other purpose. In particular, it is not intended that this report should be used for any purpose other than as an expression of Grant Thornton Corporate Finance's opinion as to whether the Takeover Offer is fair and reasonable to the MUX Shareholders.

MUX has indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by MUX, which MUX knew or should have known to be false and/or reliance on information, which was material information MUX had in its possession and which MUX knew or should have known to be material and which MUX did not provide to Grant Thornton Corporate Finance. MUX will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

## 7.4 Consents

Grant Thornton Corporate Finance consents to the issuing of this report in the form and context in which it is included in the Target Statement to be sent to the MUX Shareholders. Neither the whole nor part of this report nor any reference thereto may be included in or with or attached to any other document, resolution, letter or statement without the prior written consent of Grant Thornton Corporate Finance as to the form and content in which it appears.

# Appendix A – Valuation methodologies

## Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

## Discounted future cash flows

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

## Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

## Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

## Comparable market transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company.

The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

## Appendix B - Description of comparable companies

| Company | Description |
| --- | --- |
| Red River Resources Ltd. | Red River Resources Ltd is engaged in the exploration and development of mineral projects in Australia. The company primarily explores for gold, iron ore, zinc, lead, tin, and nickel metals, as well as for raw materials, such as antimony, niobium, and tungsten. The company holds interests in the Miaree, Blythe, Bolgart, Gnowangerup/Tambellup, Minigwal, and Manjimup projects in Western Australia. |
| Heron Resources Limited | Heron Resources Limited is engaged in the exploration and development of mineral properties in Australia. The company primarily explores for a range of commodities, including nickel, zinc, gold, and base metals. The company owns interests in the Woodlawn zinc-copper project located to the southwest of Sydney in New South Wales; and the Kalgoorlie nickel project located north of Kalgoorlie in Western Australia. The company also holds various other base metal and copper-gold exploration properties located in the Lachlan Fold Belt of New South Wales. |
| Metals Australia Ltd. | Metals Australia Ltd. is engaged in the exploration of mineral deposits in Australia and Africa. The company primarily explores for uranium, base metals, and gold. The company holds interests in the Manindi zinc project located in the Murchison District of Western Australia; the Sherlock Bay extended base metal project located between Roebourne and Whim Creek in the Western Pilbara; and Victorian gold projects in Western Victoria. The company also has interests in the Mile 72 uranium project located on the coast of Namibia; and the Engo Valley uranium project located on the Skeleton Coast of northern Namibia. |
| MacPhersons Resources Limited | MacPhersons Resources Limited is engaged in the exploration and evaluation of various precious and base metal projects in Australia. The company primarily explores for gold, silver, zinc, lead, and copper deposits. The company focuses on the Nimbus–Boorara projects that comprise 205 square kilometres and are located in Kalgoorlie, Western Australia. |
| Ironbark Zinc Ltd. | Ironbark Zinc Limited is engaged in the exploration and evaluation of mineral properties in Greenland and Australia. The company primarily explores for zinc, gold, copper, silver, lead, and precious metals. The company has projects in northern Greenland, eastern Greenland, North West Greenland, and New South Wales. |
| Stavely Minerals Limited | Stavely Minerals Limited is engaged in the acquisition and exploration of early to advanced stage mineral projects in Australia. The company primarily explores for copper, gold, zinc, and silver deposits. The company holds interests in the Stavely and Ararat projects located to the east of the regional town of Glenthompson and west of the regional centre of Ararat, Victoria. |
| Aeon Metals Limited | Aeon Metals Limited is engaged in the exploration for base and precious metals in Australia. It primarily focuses on copper and molybdenum properties. It holds 100% interest in the Walford Creek copper-lead-zinc project, the Greater Whitewash Polymetallic project, the Ben Hur Copper project, and 7B Copper/Gold project near Monto, Queensland. |
| Golden Cross Resources Ltd. | Golden Cross Resources Limited is engaged in the exploration and development of mineral properties in Australia and Panama. The company primarily holds 100% interest in the Molong Copper Hill copper-gold project in central New South Wales. The company also explores for silver, lead, zinc, nickel, and phosphate deposits, as well as platinum group elements. |
| Venturex Resources Limited | Venturex Resources Limited is engaged in the discovery, acquisition, and development of base and precious metal resources in Australia. It owns or controls resources of copper, zinc, lead, silver, and gold at Sulphur Springs, Kangaroo Caves, Whim Creek, Mons Cupri, Salt Creek, and Liberty-Indee projects in the Western Pilbara, Australia. The company is also exploring for gold in Brazil. |
| RMG Ltd. | RMG Limited is engaged in the exploration of base metals in Australia and Chile. The company explores for gold, copper, silver, lead, and zinc. The company has an option to acquire a 75% interest in 11 square kilometres of mining licenses at Tuina in the Atacama Desert copper region of northern Chile; and option to earn a 100% interest in the Kamarga zinc and copper project located in northwest Queensland. |
| Matsa Resources Ltd. | Matsa Resources Ltd. is engaged in the exploration and development of mineral properties in Australia and Thailand. The company primarily explores for gold, copper, iron, nickel, and other base metals. The company's flagship property includes the Mt Henry gold project, which covers an area of 135 square kilometres in the southern Norseman-Wiluna Greenstone belt located in Western Australia. |

| Company | Description |
|---|---|
| Gold Road Resources Ltd. | Gold Road Resources Ltd. is engaged in the exploration and development of mineral properties in Australia. The company explores for gold, copper and molybdenum deposits. The companys principal property includes the Yamarna project covering tenements of approximately 5,000 square kilometres located on the eastern edge of the Yilgarn Craton in Western Australia. The company was formerly known as Eleckra Mines Limited and changed its name to Gold Road Resources Limited in November 2010. |
| Gascoyne Resources Ltd. | Gascoyne Resources Ltd.is engaged in the exploration of gold and base metal mineral properties in Australia. The company holds exploration licenses and applications totalling approximately 4,500 square kilometres in the Gascoyne and Murchison regions with principal ownership of the Glenburgh gold project covering a tenement area of approximately 2,000 square kilometres in the Southern Gascoyne region of Western Australia. |
| Blackham Resources Ltd. | Blackham Resources Ltd. is engaged in the exploration and development of mineral properties in Australia. Its principal property includes the Matilda Gold project, which consists of approximately 780 square kilometres of tenements, including Regent and the Matilda, and Williamson gold mines located in Western Australia. The company is also evaluating the development of the Scaddan and Zanthus Coal projects in Western Australia. |
| WPG Resources Ltd | WPG Resources Ltd is engaged in the exploration, evaluation, and development of mineral properties in Australia. The company principally focuses on exploring two gold projects, Tunkillia and Tarcoola in the Gawler Craton. It holds interests in tenements in the Northern Gawler Craton with a combined area of 5,373 square kilometres covering iron ore, gold, copper, nickel, and uranium, as well as coal interests in South Australia. |
| RNI NL | RNI NL is engaged in the exploration, evaluation, and development of mineral tenements in Western Australia. The company focuses on exploring for copper and gold discoveries in 1,866 square kilometres tenement in the Grosvenor, Horseshoe, Peak Hill, Cashmans, Morck's Well, and Doolgunna project areas located in Bryah Basin, Western Australia. |
| Aphrodite Gold Limited | Aphrodite Gold Limited is engaged in the exploration and development of mineral properties in Australia. The company's flagship project is the Aphrodite Gold Project located in the Eastern Goldfields of Western Australia. |

*Source: Capital IQ*

## Appendix C – Glossary

| Term | Definition |
|---|---|
| “MUX” or “Mungana” or “the Company” | Mungana Goldmines Limited |
| ASX | Australian Securities Exchange |
| Auctus | Auctus Chillagoe Pty Ltd |
| “The Offer” or “Takeover Offer” | Unsolicited takeover offer by Auctus involving a cash consideration of 13.5 cents per share in MUX |
| Newcrest | Newcrest Mining Limited |
| Newcrest Agreements | A set of agreements between MUX and Newcrest which grant an option to Newcrest to enter into a farm-in agreement and subsequently a joint venture agreement for the gold-copper porphyry deposits in the Chillagoe region. |
| Denham Capital | Denham Capital Management LP |
| JV Chillagoe Tenements | Southern Chillagoe tenements excluding any assets that form the basis of the current MUX operating strategy (i.e. the North Queensland Zinc Strategy). |
| KZL | Kagara Ltd (in Liquidation) |
| Capital Raising Price | 36 million new MUX Shares at a price of 14 cents per share |
| Capital Raising | Approximately A$5 million before transaction costs |
| The Directors | The Directors of MUX |
| SRK | SRK Consulting (Australasia) Pty Limited |
| GRES | GR Engineering Services Limited |
| Processing Plant | The existing partially built Mungana base metals concentrator plant |
| Infrastructure | Surrounding infrastructure to the Processing Plant |
| “Grant Thornton Corporate Finance” or “GTCF” | Grant Thornton Corporate Finance Pty Ltd |
| FSG | Financial Services Guide |
| ASIC | Australian Securities and Investments Commission |
| Offer Period | Until 15 June or any later date to which the Offer period is extended in accordance with the Corporations Act |
| FIRB | Foreign Investment Review Board |
| FATA | Foreign Acquisitions and Takeovers Act |
| RG 111 | ASIC Regulatory Guide 111 “Content of expert reports” |
| RG 112 | ASIC Regulatory Guide 112 “Independence of Experts” |

| Term | Definition |
|---|---|
| Gold Rights | Spin-off of gold rights to certain North Queensland tenements |
| The Northern Region Assets | North Queensland tenements |
| The Northern Region Assets Acquisition | Binding heads of agreement by MUX for the acquisition of the Northern Region Assets from KZL |
| Tranche A and Tranche B Convertible Notes | Two tranches of A$7.5 million each |
| North Queensland Zinc Strategy | Development of the Kind Vol Project and surrounding base metal deposits |
| Resources | Total JORC defined mineral resources |
| Scoping Study | An initial scoping study in late 2010 |
| BFS | Bankable Feasibility Study |
| FYXX | Financial year ended 30 June 20XX |
| HYXX | Financial year ended 31 December 20XX |
| YTDApr15 | Year to date ended 31 April 2015 |
| QOSR | Queensland Office of State Revenue |
| The Options | 250,000 unlisted options exercisable at A$2.00 per option expiring on 17 November 2015 |
| DCF | Discounted cash flow |
| WPG | WPG Resources Ltd |
| EV | Enterprise Value |
| RVR | Red River Resources Ltd |
| MRP | MacPhersons Resources Limited |
| BLK | Blackham Resources Ltd |
| APES 110 | Code of Ethics for Professional Accountants |

Appendix D – SRK Report

Appendix E – GRES Report

# Independent Technical Review and Mineral Resource Valuation Mungana Goldmines Ltd

**Report Prepared for**

## Grant Thornton Corporate Finance Pty Ltd

**Report Prepared by**

srk consulting

SRK Consulting (Australasia) Pty Ltd

MUN005

May 2015

# Independent Technical Review and Mineral Resource Valuation of Mungana Goldmines Ltd


## Grant Thornton Corporate Finance Pty Ltd

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**SRK Project Number MUN005**

May 2015


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# Executive Summary

SRK Consulting Australasia Pty Ltd (SRK) was commissioned by Grant Thornton Corporate Finance Pty Ltd (Grant Thornton) to prepare an updated Independent Technical Report and Mineral Resource Valuation (ITR) for the mineral assets of the ASX listed company, Mungana Goldmines Ltd (MUX). SRK previously provided an ITR for MUX in May 2014, which include a valuation of MUX's mining and exploration licences dated December 2013 (SRK, 2014). This ITR report provides an update of the 2014 valuation report work and also provides a high level review of assets, where appropriate, as a result of material changes to those assets. The Report has been undertaken under the guidelines of the VALMIN Code (2005 Edition), which incorporates the JORC Code (2012 edition).

SRK's full report, body and appendices can be found on the MUX website;

http://www.munganagoldmines.com.au/

## Summary of Principal Objectives

MUX has received an unsolicited takeover bid from Auctus Chillagoe Pty Ltd (Auctus), (ASX, 29 April 2015). This Mineral Resource Valuation will be included in Grant Thornton's Independent Expert's Report to accompany MUX's Target Statement.

## Outline of Work Programme

The following aspects were considered in the writing of this report:

- A high level review of its Mineral Resource estimates and the methodologies applied, which was mainly undertaken by SRK in December 2013 (SRK, 2014); this did not include any re-estimation of Mineral Resources;
- A review of exploration technical reports and supporting documentation prepared by MUX, mainly undertaken by SRK in December 2013 (SRK, 2014);
- A high level review of Mineral resource estimates or exploration project areas, where appropriate, as a result of material changes to those estimates or assets;
- Compilation of Comparable Transactions by the SRK project team; and
- Valuation Component and Report Preparation.

SRK notes that the VALMIN Code 2005 in Clause 65 recommends that a site inspection be completed should it be 'likely to reveal information or data that is material to the report'. SRK previously reviewed the assets to be valued in December 2013 (SRK, 2014) as part of a Heads of Agreement (HoA) between MUX and Kagara. SRK is satisfied with the amount of additional information provided by MUX for this valuation.

### Introduction and Background

MUX is developing the following exploration projects:

**North Queensland**

- Mungana/ Red Dome (Pre-Development Projects);
- Mungana Base Metals Lode (Advanced Exploration Area);
- King Vol and Griffiths Hill/Red Dome (Pre-Development Projects);
- Shannon-Zillmanton (Advanced Exploration Area);
- Red Dome Leach Pad (Advanced Exploration Area);

- Penzance, Montevideo, Victoria, Queenslander and Morrisons (Advanced Exploration Areas);
- Chillagoe (Exploration Areas); and
- Charters Towers (Exploration Areas).

## Tenements

MUX holds title to a 100% interest in the tenements listed in Table ES-1, as supplied by MUX. SRK has not independently reviewed the status of these tenements.

**Table ES-1: Mungana Goldmines Ltd's tenement holding**

| Tenement | Project | Status | Sub-blocks |
|---|---|---|---|
| EPM 12902 | Arkaroola | Granted | 5 |
| EPM 15458 | Red Dome | Granted | 75 |
| EPM 15459 | Red Dome Extended | Granted | 8 |
| EPM 18530 | Red Dome West | Granted | 2 |
| EPM 19064 | Fluorspar | Granted | 8 |
| EPM 7672 | Walsh River | Granted | 20 |
| EPM14104 | Walsh River Extended | Granted | 5 |
| EPM 14108 | Walsh River Extended 2 | Granted | 20 |
| EPM 19196 | Dargalong | Granted | 35 |
| ML 4798 | Beaverbrook | Granted | - |
| MLA 20658 | King Vol | Application | - |
| ML 4910 | Shannons | Granted | - |
| ML 4911 | Zillmanton | Granted | - |
| ML 4921 | Shannon West | Granted | - |
| ML 4928 | Griffiths 1 | Granted | - |
| ML 4977 | Griffiths 2 | Granted | - |
| ML 5176 | Red Dome | Granted | - |
| ML 5319 | North West Mungana | Granted | - |
| ML 20640 | Mungana West | Granted | - |
| EPM 25132 | Liontown 1 | Granted | 100 |
| EPM 25133 | Liontown 2 | Granted | 87 |
| EPM 25134 | Liontown 4 | Granted | 33 |
| EPM 25135 | Liontown 3 | Granted | 79 |
| EPM 25148 | Liontown 5 | Granted | 34 |
| EPM 25270 | Liontown 6 | Granted | 3 |
| EPM 25271 | Liontown 7 | Granted | 46 |
| EPM 25437 | Liontown 8 | Granted | 100 |
| EPM 25680 | Liontown 9 | Granted | 29 |

## High Level Review of Resource Estimates and Exploration Areas

SRK previously reviewed the reported Resources of Kagara Zinc Limited (KZL) and MUX in December 2013. For this valuation, SRK has relied upon the previous review work (SRK, 2014) where no material change in the Resources has been reported.

SRK notes that of the Resource assets valued (Pre-Development and Advanced Exploration Areas), only King Vol has materially changed.

SRK has provided a high level review of the following assets and areas as for the valuation of these assets:

- King Vol Pre-Development Project
- Chillagoe Exploration Area
- Charters Towers Exploration Area.

King Vol

SRK has reviewed the updated Resource report for King Vol as provided by MUX and notes there have been material changes to the style and nature of the Resource model, which have broadly resulted in increased tonnages with decreasing grade.

The material changes to the model and datasets are described below. The full Resource report is provided in Appendix B.

- Mineral Resources were modelled using data derived from Mungana Goldmines Ltd's (Mungana) drill hole database. This database is essentially the same as used for the previous update of the King Vol resource completed by Kagara Limited in March 2012; however, around 700 sample pulps have been re-assayed due to quality assurance/ quality control (QA/QC) batch failures (relating to standards performance); and
- Previous resource estimates for the King Vol Skarn Deposit had employed an ordinary kriging (OK) methodology into 33 individually interpreted wireframes with the vast majority of the resource tonnes contained within one interpreted zone. For the purposes of the current resource estimate, many of these smaller wireframes have been consolidated according to stratigraphical position and a total of three separate wireframes have been used as input.

SRK has reviewed the updated King Vol Resource Report at a high level. Whilst SRK agrees with the broad principles and methods involved in the Resource update, SRK has not independently reviewed the Resource model in detail nor verified the updated tonnes and grades.

SRK has compared the net value change between these two Resources based on the derived comparable transaction value, dollar per commodity tonne basis. The updated 2014 Resource has potentially resulted in an increased attributable value of 9.0% or approximately (A$0.9M). Whilst SRK considers this to be a material increase in the value of the Resource, SRK does not consider it to be material to the final valuation of MUX as the net potential increase represents ~1.5% of the final valuation total (see valuation summary below).

**Chillagoe Exploration Area Review**

The exploration ground held by MUX in the Chillagoe area has been reviewed by SRK for the purposes of this valuation. The previous review conducted in December 2013 has been used as the basis of this updated review; however, there have been a number of material changes to the exploration areas since SRK's previous review. The Exploration Licences held by MUX as of May 2015 in general cover the same region as the previous review, are subject to relinquishment and/or renewal, resulting in a smaller, more focused area.

The Chillagoe district in Northern Queensland has a mining history dating back to the 1880s, but the district's potential to become a significant gold camp was not recognised until the discovery of the Red Dome deposit in the late 1970s and the Mungana deposit in the in the 1980s. The Palmerville Fault marks the western margin of the Hodgkinson Province and separates the Precambrian Dargalong Metamorphics in the west from the Palaeozoic-aged rocks in the east. There is a sliver of Ordovician Mulgrave Formation along the eastern side of the Palmerville Fault, and an eastwardly younging sequence including the Chillagoe and Hodgkinson formations.

The Chillagoe Formation hosts the majority of mineralisation in this region and it outcrops along a 5–10 km-wide north-west striking belt which extends for 150 km from Mt Garnet in the south-east to north-west of Chillagoe where the belt, and bounding Palmerville Fault, changes orientation and extends for a further 120 km.

Multiple phases of intrusive activity in the Chillagoe district tend to be associated with gold, copper, zinc, lead, silver, tin, molybdenum, tungsten and bismuth mineralisation. The Mungana and Red Dome gold deposits are associated with a particular suite of intrusions of Late Carboniferous age. The surrounding host rocks comprise marbles and sandstones of the Silurian Chillagoe Formation and skarns are frequently developed in reaction zones at the contact points between these different rock types. Mineralisation also frequently develops in these skarns, and within stockwork vein systems within and around the porphyries.

## Charters Towers

SRK has not previously reviewed exploration ground held by MUX in the Charters Towers area. Due to the time constraints of this review and valuation, SRK has relied upon the desktop review of the Charters Towers exploration areas by MUX as the basis of its review and in valuing the area. The full report has been provided as Appendix B.

SRK's review of the Charters Towers area is at a very high level.

SRK took particular note of the historic assay results identified by MUX; these values include downhole assays, bulk samples and rock chip samples. Whilst SRK has not validated these reported results or the original exploration reports, it is considered that they appear reasonable based on SRK's knowledge of the area.

SRK has performed a basic verification check of the potential of the exploration areas spatially by reviewing the known mineral occurrences in the area. This was accomplished by downloading the known mineral occurrences layers from the Queensland 'MinesOnlineMaps' system and reviewing those occurrences in proximity or located within MUX's tenure.

SRK notes that the total value of the exploration areas is a minor component of the total value ascribed to MUX's assets.

## Market Analysis

SRK has reviewed the current commodity prices and trends with particular reference to the commodity prices at the date of the previous valuation December 2013 (SRK, 2014). The commodity price trends can be reviewed in Figure ES- 1.

Since the previous valuation Australian zinc and gold prices have increased by a factor of ~19% and 12% respectively; copper, lead and silver commodities have generally decreased by a factor of approximately 3–4%.

SRK considers that MUX's Resources are predominantly gold and zinc; therefore, the current commodity pricing factors favour an increase in the value of comparable transaction on a $/t and $/oz basis. These factors support an increase in potential value since the previous valuation date.

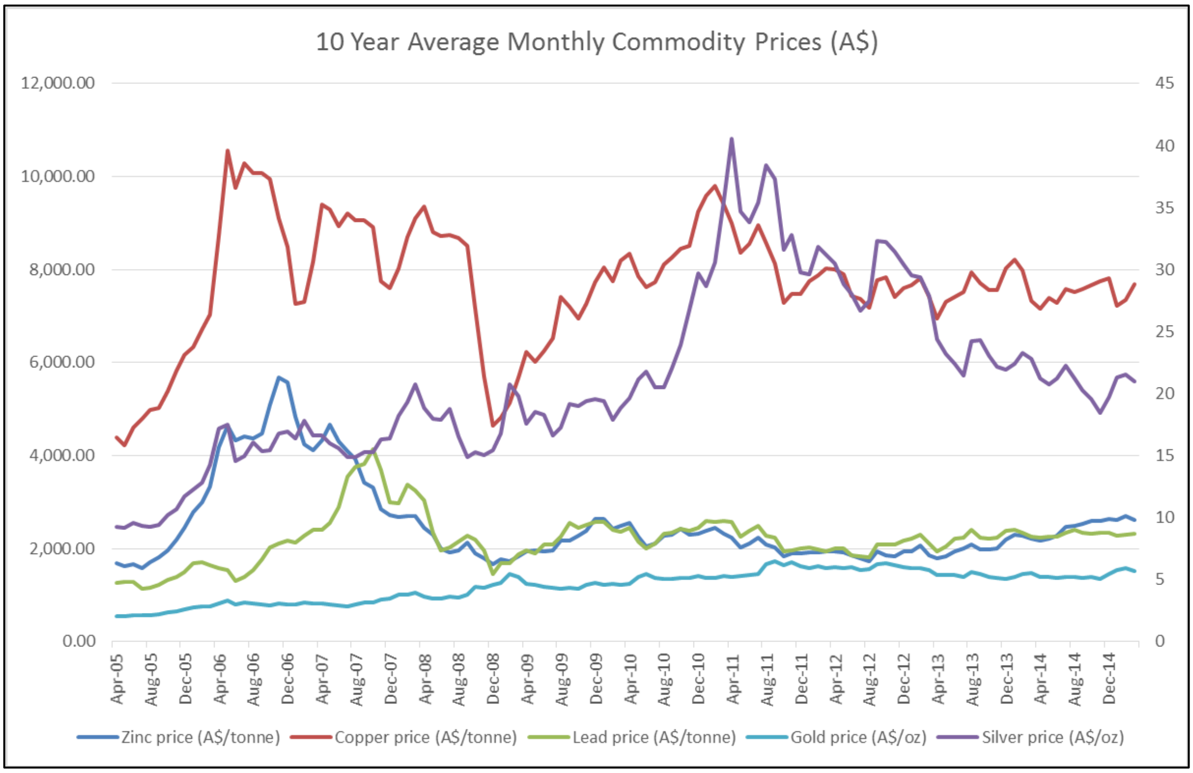


**Figure ES- 1: Average monthly commodity prices**

Source: http://www.indexmundi.com/.

## Valuation

The valuation of MUX's assets was divided into three categories, in accordance to the following Development Stage Categories (Page 21 of the VALMIN Code 2005):

- ***Exploration Areas*** – Properties where mineralisation may or may not have been identified, but where a Mineral or Petroleum Resource has not been identified;
- ***Advanced Exploration Areas*** – Properties where considerable exploration has been undertaken and specific targets have been identified that warrant further detailed evaluation. A resource estimate may or may not have been made but sufficient work will have been undertaken on at least one prospect to provide both a good understanding of the type of mineralisation present and encouragement that further work will elevate one or more of the prospects to the resource category; and
- ***Pre-Development Projects*** – Properties where Mineral or Petroleum Resources have been identified and their extent estimated (possibly incompletely) but where a decision to proceed with development has not been made. Properties at the early assessment stage, properties for which a decision has been made not to proceed with development, properties on care and maintenance and properties held on retention titles are included in this category if Mineral or Petroleum Resources have been identified, even if no further Valuation, Technical Assessment, delineation or advanced exploration is being undertaken.

SRK favoured the use of the Comparable Transaction method of valuation supported by the Metal Transaction Ratio (MTR, base metal deposits), both market-based approaches, for the valuation of Pre-Development and Advanced Exploration projects. An alternative method was applied to the valuation, as prescribed by VALMIN, in order to provide a cross-check. The Yardstick (Rule of Thumb) method, which is also a market-based approach, was used in this study.

SRK recommended preferred values and value ranges for exploration properties on the basis of declared Resources, Exploration Targets and areal extent of tenure. In the case of the Pre-Development Projects and Advanced Exploration Areas, SRK calculated and compared the cost per metal ounce or tonne valuation factors. The MTR method has also been considered when valuating MUX's base metal deposits. These were compared to Yardstick factors as a means of cross-checking. SRK's value ranges adopted for these projects were considered reasonable on this basis. In the case of the Exploration Areas, SRK has also considered exploration commitments and expenditure, as well as a Modified Kilburn rating system to arrive at an estimated valuation range.

SRK's preferred value was then determined within the range of possible values obtained for each deposit, considering all the available information provided by MUX.

SRK notes that the VALMIN Code 2005 cautions against ascribing value to licences under application.

King Vol is located within Mining Licence Application, MLA 20658; however, the project is also within EL 7672, a granted Exploration Licence. SRK has not applied a discount to account for the risk that the licence may be not granted, as this valuation is focused on the Resources and not Reserves at this stage.

While evaluating Resource Comparable Transactions, SRK has, in some cases, considered a metal ratio in order to compare transactions with more than one predominant metal or potential for future metal credits. The metal ratio considered by SRK is similar to the calculation of metal equivalents, but considers 100% recovery for all relevant metals within the resources, as at the early exploration stages reliable and accurate recovery data is not available in most cases. SRK has not attempted to disclose JORC-compliant Mineral Resources using metal equivalents in this report.

In general, these methods are accepted valuation approaches for mineral projects and are in common use for determining Fair Market Value of mineral assets, using market derived data. The "Fair Market Value" is defined by VALMIN (2005) as the amount of money (or the cash equivalent of some other consideration) determined by the relevant expert in accordance with the provisions of the VALMIN for which the mineral asset should change hands, on the relevant date in an open and unrestricted market between a willing buyer and a willing seller in an 'arm's length' transaction, with each party acting, knowledgeably, prudently and without compulsion. The Fair Market Value is usually comprised of two components, the underlying Technical Value (defined below) of the mineral asset, and a premium or discount related to market, strategy or other considerations.

The "Technical Value" is defined in the VALMIN as an assessment of a mineral asset's future net economic benefit at the valuation date under a set of assumptions deemed most appropriate by a relevant expert or specialist, excluding any premium or discount to account for such factors as market or strategic considerations.

Overall, funds for early stage/resource definition exploration projects have become a major issue for the junior companies in the past few years, including 2015. SRK understands the market conditions should be considered in this valuation, and as a result preferred values have been selected towards the lower value of the valuation range.

SRK's recommended valuation ranges and preferred values for each project are detailed in Section 5. SRK has determined a fair market value (as defined by VALMIN). SRK's preferred values includes additional technical considerations related to the mineralisation, such as grade and depth. It also considers the information based on existing technical reviews and verbal information provided on the projects provided by the MUX management team.

**Table ES-2: Summary of SRK's Valuation**

| Project | Owner | Low Value (A$M) | High Value (A$M) | Preferred Value (A$M) |
|---|---|---|---|---|
| **Pre-Development Projects** | | | | |
| Mungana* | MUX | 13.2 | 27.3 | 16.5 |
| Red Dome** | MUX | 19.4 | 40.2 | 22.8 |
| Griffiths Hill | MUX | 1.0 | 3.4 | 1.9 |
| King Vol | MUX | 5.2 | 13.3 | 9.1 |
| **Total Pre-Development Projects** | | **38.8** | **84.2** | **50.3** |
| **Advanced Exploration Areas** | | | | |
| Mungana Base Metal Lode*** | MUX | 0.1 | 0.3 | 0.1 |
| Penzance | MUX | 0.3 | 0.9 | 0.6 |
| Queenslander*** | MUX | 1.0 | 2.6 | 1.3 |
| Morrisons*** | MUX | 1.7 | 5.0 | 2.3 |
| Victoria*** | MUX | 2.9 | 7.8 | 3.7 |
| Montevideo*** | MUX | 0.7 | 2.0 | 0.7 |
| Red Dome Leach Pad*** | MUX | 0.4 | 1.6 | 0.5 |
| Shannon-Zillmanton*** | MUX | 0.3 | 1.2 | 0.5 |
| **Total Advanced Exploration Areas** | | **7.4** | **21.3** | **9.7** |
| **Exploration Areas** | | | | |
| **Chillagoe** | **100% MUX** | **3.0** | **6.1** | **4.0** |
| **Charters Towers** | **100% MUX** | **1.0** | **5.5** | **3.5** |
| **Total Exploration Areas** | | **4.0** | **11.6** | **7.5** |
| **Total After Transaction** | | **50.2** | **117.1** | **67.5** |

***Mungana Pre-Development Project:** SRK suggests a preferred value towards the lower end of the suggested range, in recognition of the expected difficulties in converting the Resources into Reserves. This is related to the existence of flooded underground workings, lower grade and the depth of underground workings. The impact of the depth of the underground resource is minimised by the presence of a decline in place to 650 m.

****Red Dome Pre-Development Project:** SRK suggests a preferred value towards the lower end of the suggested range, in recognition of the expected difficulties in converting Resources into Reserves due to the existence of flooded pits, lower grade, depth of resources and metallurgical issues due to problematic clay mineralogy encountered in the oxide profile at Red Dome.

*****Base Metal Projects preferred values:** SRK has generally considered the average of the lower values derived from each of the three methods (comparable transactions, Yardstick and MTR) as the preferred value for the polymetallic base metal projects. Where average grades were considered to be low SRK has chosen a value based on the primary valuation method and considered appropriate given the range of values and grade and tonnes.

SRK has then considered a final range for the MUX assets based on a 15% range around the preferred value (Table ES-3).

SRK's valuation of MUX's assets is generally towards the lower end of the ranges derived by the analysis of comparative transactions and supporting methods. Whilst SRK's preferred value is positioned conservatively within this range, SRK has adopted this position due to varying levels of technical and geological uncertainties (Section 6) across the MUX assets.

SRK has provided an estimate of fair market value of the MUX assets. SRK has not provided an estimate of the value of Mungana Goldmines Ltd.

**Table ES-3: Summary of SRK's Valuation of MUX's assets as of May 2015**

| Project | Owner | Low Value (A$M) | High Value (A$M) | Preferred Value (A$M) |
|---|---|---|---|---|
| Mungana Total Assets | MUX | 57.4 | 77.6 | 67.5 |

# SRK Report Client Distribution Record

Project Number: MUN005

Report Title: Independent Technical Review and Mineral Resource Valuation Mungana Goldmines Ltd (Executive Summary)

Date Issued: 27/05/2015

| Name/Title | Company |
|---|---|
| Andrea De Cian, Director - Corporate Finance | Grant Thornton Corporate Finance Pty ltd |

| Rev No. | Date | Revised By | Revision Details |
|---|---|---|---|
| 0 | 26/05/2015 | M Davies | Draft report |
| 1 | 27/05/2015 | M Davies | Final Report |

GR ENGINEERING SERVICES
ENGINEERING CONSULTANTS AND CONTRACTORS

# GRANT THORNTON AUSTRALIA

## Mungana Plant Valuation

Inspection Report

Reference: 300040 757336:B:mw

21-May-15

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## Document History and Status

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| B | 25-May-15 | TO | TP | 25-May-15 | Issued for Information |
| C | 26-May-15 | TO | TP | 26-May-15 | Issued for IER |
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# TABLE OF CONTENTS

# 1. INTRODUCTION

## 1.1 General

In May 2015 Grant Thornton Australia. (GT) commissioned GR Engineering Services (GRES), to conduct an inspection and provide a valuation report of the Mungana processing plant and infrastructure for inclusion in an IER in relation to the takeover offer.

Mungana Goldmines (ASX: MUX) was listed on the Australian Securities Exchange (ASX) in July 2010. The company was established as a Gold "spin-off" from Kagara Ltd (ASX: KZL). The Mungana Plant is located 16 kilometres north-west of the township of Chillagoe and about 230km west of Cairns in North Queensland. The Mungana plant was constructed for Kagara in 2007/08 but construction was ceased in 2008 and the plant was never completed or commissioned.

In April 2012 Kagara entered into voluntary administration. In 2013 several agreements were resolved between Mungana and Kagara (administrator appointed) that led to a Heads of Agreement being finalised in December 2013 allowing Mungana to acquire all of Kagara's Chillagoe assets.

In August 2014 Mungana launched its new North Queensland Zinc strategy which resulted from the acquisition of the Kagara's Chillagoe assets including the high grade King Vol Zinc resource and established infrastructure. This infrastructure includes a partially constructed processing facility, buildings, offices, roads and power network.

## 1.2 Process Plant Description

The operation is currently under Care and Maintenance, having been placed in this state in 2008 when the construction of the facility was suspended. The plant was designed for a nominal production capacity of 600,000 tpa.

The plant consists of a single stage crushing circuit, ore stockpile and reclaim fed to variable speed SAG mill and fixed speed ball mill in closed circuit with hydocyclones. The cyclone overflow is fed to a flotation circuit to recover Copper, Lead and Zinc concentrates. The concentrates are thickened and stored in storage tanks before being batch filtered in a Larox pressure filter, with the filter cakes being conveyed to a covered concentrate storage shed before being loaded onto trucks via a front end loader.

## 2. CONDITION REPORT

### 2.1 General

Generally the installed process plant equipment was found to be in as new condition and the uninstalled equipment items have been stored in the Concentrate storage shed, much of which is still in its delivery packaging. The surface protection on the structural steel, platework and vendor items has stood up well to the environment and there are no signs of corrosion throughout the plant.

### 2.2 Crushing

Construction of the Crushing area appears to be at 95% complete with all of the concrete works complete, most of the structure finished, the majority of the mechanical equipment installed and the majority of the Electrical reticulation complete.

The construction items still to be completed are listed below:

- Complete the ROM Pad and loader access to the ROM Bin;
- Install the grease lubrication systems to the Crusher & Apron Feeder;
- Supply and installation of the conveyor belts;
- Install the HV Feed cable to the MCC;
- Complete lighting Installations;
- Commissioning.

## 2.3 Ore Reclaim

Construction of the Ore Reclaim area appears to be at 90% construction completion. All of the concrete works are complete, the structure is finished and the majority of the mechanical equipment is installed.

The construction items still to be completed are listed below:

- All electrical installations;
- Installation of Air & Water services;
- Supply and Installation of the conveyor belt;
- Installation of the mill feed conveyor drive;
- Installation of the belt scrapers
- Commissioning.

## 2.4 Grinding and Classification

Most equipment in the Grinding and Classification area appears installed and appears to be at 70% construction completion. All of the concrete works are complete, the structure is finished, both mills are installed (note the Care and Maintenance team have been rotating both mills on a monthly basis using the inching drive) and some of the mechanical equipment is installed.

The construction items still to be completed are listed below:

- Install three Cyclones into the cluster;
- Install the mill liners and mill discharge trommels;
- Install the mill drive guards;
- Complete the Mill Grease lubrication system;
- Install the mill discharge pumps;
- Install sump pumps;
- Install 80% of the area Hoppers and Chute work;
- All Electrical and Piping installations.

## 2.5 Flotation

Construction of the flotation area appears to be 60% complete. All of the concrete works are complete, the structure is finished (with the exemption of the OSA / regrind tower gridmesh), the float cells are installed and the majority of the mechanical equipment is installed.

The construction items still to be completed are listed below:

- Supply and installation of the Copper regrind mill and associated platework;
- Supply and installation of the Online Stream analyser;
- Supply and installation of the OSA / regrind tower gridmesh
- Installation of two pump & hopper sets;
- Installation of the copper regrind cyclone;

- Installation of the area sump pumps;
- Installation of the flotation blowers;
- All Electrical and Piping installations.


## 2.6 Concentrate Thickening

Construction of the Concentrate Thickening and Storage area appears to be 60% complete. All of the concrete works are complete, the structure is finished, the thickeners and tanks are installed and some of the mechanical equipment (i.e. Pumps) are installed.

The construction items still to be completed are listed below:

- Installation of four thickener underflow pumps;
- Installation of filter feed pumps;
- Installation of Flocculant Mixing and delivery system;
- Installation of the sump pumps;
- All Electrical and Piping installations.

## 2.7 Concentrate Filter and Storage

Construction of the concentrate filtering and storage area appears to be 30% complete. All of the concrete works are complete and storage shed is complete.

The construction items still to be completed are listed below:

- Supply and installation of the filter building structural steel including hand railing, gridmesh and cladding;
- Supply and installation of the filter discharge conveyor structure & mechanical equipment;
- Installation of all mechanical equipment including the filter;
- All Electrical and Piping installations.

## 2.8 Reagents

Construction of the reagents area appears to be 40% complete. All of the concrete works are complete, the structure is 80% finished, the dry reagents storage shed is complete, most of the reagents mixing tanks have been installed and lime silo has been erected.

The construction items still to be completed are listed below:

- Installation of the cyanide tank;
- Installation of the reagent head tanks;
- Supply and installation of the reagents pumps;
- Installation of the reagent agitators;
- Installation of the reagent hoists;
- Installation of the reagent bag breaker chutes;
- Supply and installation of the reagent head tank area gridmesh;
- Complete the Lime system with the installation of the lime silo activator, rotary valve, screw feeder, de-gritting screen and discharge arrangement;
- All electrical and piping installations.

## 2.9 Tailings Disposal

Construction of the Tailings disposal area appears to be 10% complete with only the concrete installation having been completed.

The construction items still to be completed are listed below:

- Install the tailings hopper and staged pumps;
- Supply and install the tailings pipeline from the plant to the tailings dam and discharge spigots on the dam wall;
- All electrical and piping installations.

## 2.10 Tailings Storage Facility

A gravel access road exists to the tailings dam and the dam walls appear to be 95% complete. A review from the tailings storage facility designer will be required on the sealing of the dam and the spillway still requires construction.

## 2.11 Tailings Return Water

To our knowledge this has not been designed and nothing has been supplied or installed.

## 2.12 Raw Water

The Raw water dam exists from past operations however no pumps or piping has been supplied or installed.

## 2.13 Process Water

The process water dam has been constructed and lined, the pump foundations are complete and the process water pumps have been positioned.

The construction items still to be completed are listed below:

- Piping and Electrical connections are required.

## 2.14 Heavy Vehicle Workshop and Fuel storage

A fully functional heavy vehicle workshop comprising three covered workshop bays and a number of sea containers for tool and spare part storage exists on site. Two 40,000L self bunded diesel fuel storage tanks complete with refuelling pumps and a concrete refuelling apron are installed and operational adjacent to the Heavy vehicle workshop.

## 2.15 Plant Air

The concrete for the Plant Air area is complete, the air compressors, flotation blowers and air receivers are on site ready for installation. All electrical and piping installations are still required.

## 2.16 Power Supply

A 4.5km 66KV overhead power line (connected to Grid Power) from the old Red Dome plant exists as does the HV Transformer and Switchroom. The power line and transformer are energized and currently feed power to the areas of the plant that are energised.

## 2.17 Administration, Workshop and Stores Facility's

The transportable style administration, ablution, crib and training buildings are all installed on site and are fully functional with power and water connections complete. Steel framed and clad workshop and stores facilities have been established on site complete with transportable building style offices and ablution facilities.

## 2.18 Airstrip

There is a 1,100 m airstrip on site suitable for light aircraft should fly in fly out operations be required. The runway is predominantly gravel construction however 350m of it has been bitumen sealed. There are no runway lights installed and no refuelling facility exists.

## 2.19 Accommodation Village

Most of the accommodation village has been demobilized including offices, kitchen and missing facilities, recreation facilities and most of the accommodation rooms.

Only 44 ensuited rooms remain on site and operational. The entire base infrastructure for a 232 person camp still exists including building foundations, concrete paths, potable and waste water facilities, all of the sewer piping and electrics along with the carpark facilities and fencing. There is also room to expand the camp should the need arise in the future.

# 3. VALUATION ASSESSMENT

## 3.1 Fire Sale

In general second hand equipment sold at auction, to used equipment vendors, would be valued at 10% of the new cost. However as most of the equipment on this site has not be used and is in an almost new condition, most equipment could be sold at 30% of new cost, as very little refurbishment would be required before it could be reused.

There are a number of exemptions to this rule being:

- The Mills (already second hand) 10% of new value
- Apron Feeders and Crusher (due to Demand) 35% of new value
- Larox Filter (still in delivery boxes) 50% of new value

Using these allowances GRES believe the plant equipment could be valued at $3,900,000, if sold to second hand equipment dealers (in an as is / where is condition). This includes all of the mechanical plant equipment, transformers, steel framed sheds and the transportable buildings.

## 3.2 Fair Value

Should an end user wish to purchase the entire plant (i.e. all equipment, structures, motor control centres, and buildings from the foundations up) for relocation, GRES would suggest that the fair value of the whole plant, in the current market, is $8,000,000 to $10,000,000.

## 3.3 Ongoing Concern Value (to Mungana Goldmines Ltd)

For the ongoing concern valuation to Mungana of the plant, GRES has considered all of the plant and infrastructure currently on site and what it would cost to develop the project to the current level from a Greenfields condition. The estimate does not include ownership of any land held by Mungana Goldmines, only the infrastructure placed on the land.

Table 1 below separates the plant into areas and provides an estimated cost per area including allowances for engineering and construction equipment to build the plant from a greenfields condition to where is stands at the time of the inspection, being the 18th of May 2015.

| Item | Valuation AUD |
|---|---|
| PLANT SITE BULK EARTHWORKS | 1,200,000 |
| CRUSHING & SCREENING | 4,300,000 |
| FINE ORE STORAGE & HANDLING | 1,860,000 |
| GRINDING AND CLASSIFICATION | 8,200,000 |
| FLOTATION | 10,600,000 |

| | |
|---|---|
| CONCENTRATE THICKENING | 3,300,000 |
| CONCENTRATE  FILTERING & STORAGE | 5,000,000 |
| REAGENTS | 1,850,000 |
| POWER AND RETICULATION | 4,750,000 |
| HV POWER | 640,000 |
| WATER SUPPLY | 600,000 |
| RAW WATER DAM | 1,500,000 |
| COMPRESSED AIR | 500,000 |
| ADMINISTRATION BUILDINGS | 640,000 |
| PLANT WORKSHOP / STORES | 1,000,000 |
| LABORATORY | 150,000 |
| PLANT PIPING | 400,000 |
| TAILINGS STORAGE DAM | 2,500,000 |
| HEAVY VEHICLE WORKSHOP & FUEL STORE | 800,000 |
| HV POWER LINE | 550,000 |
| AIR STRIP | 500,000 |
| ACCOMMODATION VILLAGE | 580,000 |
| **CURRENT VALUATION** | **$ 51,420,000** |

***Table 1 Plant Valuation by Area***