

The Listing Committee
Australian Securities Exchange Limited
Level 40, Central park
152 St Georges Terrace
PERTH WA 6005

Attention: Ms Shannon Nicholson

Dear Madam,

PROFORMA BALANCE SHEET OF MAGNOLIA RESOURCES LIMITED TO REFLECT A MAXIMUM CAPITAL RAISING OF \$7,060,000

In July 2015, we prepared an Investigating Accountant's Report ("IAR") relating to a proposed capital raising by Magnolia Resources Limited ("Magnolia") and a pro-forma statement of financial position was included in the IAR based on a minimum capital raising of \$5,000,000 from the issue of 25,000,000 shares at 20 cents each and the issue of 12,000,000 share options to raise a gross \$60,000.

We have been advised that the maximum capital raising of \$7,000,000 (from the issue of 35,000,000 shares at 20 cents each), along with the issue of 12,000,000 share options to raise a gross \$60,000- so that in total a gross \$7,060,000 was raised.

We set out a pro-forma statement of financial position based on a maximum Capital Raising of \$7,060,000 and using the following assumptions (previously noted in the July 2015 IAR):

- (a) The raising of a gross \$7,000,000 by way of the issue of 35,000,000 shares in the Company at 20 cents per share pursuant to the Prospectus;
- (b) The incurring of capital raising costs estimated at \$586,000;
- (c) The acquisition of all of the shares in PDT and the issue of 38,576,819 Consideration Shares (and using reverse acquisition accounting principles and expensing approximately \$3,955,000 as a listing expense relating to PDT going public – the actual amount may differ on date of the acquisition of PDT). Included in the Consideration Shares are 200,000 shares to PDT Finders relating to the Acquisition at a deemed fair value of \$31,506 (CAN\$30,000) and reducing PDT liabilities;
- (d) The issue of 15,523,810 Converting Shares to the Lenders (Convertible Note Holders) of PDT and extinguishing the Note liabilities of \$1,420,000;
- (e) The issue of 4,057,547 Advisor Shares at a deemed cost of \$811,509;
- (f) The issue of 33,609,760 Performance Shares to the Vendors and to various nominees of the Vendors (some of whom are who are employees and shareholders of PDT) and the issue of 2,520,732 Performance Shares to the Advisors of PDT. We were advised that the Company believes that the probability of achieving Milestones A and B is high so the Company has attributed 20 cents (the capital raising issue price) to the Milestone A and B Performance Shares at a cost of \$3,865,122 and expensed;
- (g) The issue of 12,000,000 Options at 0.5 cents each to raise a gross \$60,000 (as part of the Capital Raising);
- (h) The issue of 666,666 ordinary shares at a deemed fair value of \$133,333, the issue of 666,666 Milestone A Performance Shares at a deemed fair value of \$133,333 and the issue of 666,668 Milestone B Performance Shares at a deemed fair value of \$133,334 and all expensed;
- (i) The lending of \$750,000 to PDT; and

- (j) The repayment of the principal of \$800,000 to the lenders of loans made to PDT in June and July 2015 (interest unpaid will also be repaid to the lenders).

UNAUDITED PRO-FORMA CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION WITH MAXIMUM CAPITAL RAISING

	Magnolia Pro-forma Unaudited Consolidated 31 March 2015 \$000's
Current Assets	
Cash assets	8,553
Receivables and prepayments	107
Tenements, held for resale	5
Other assets	3
Total Current Assets	<u>8,668</u>
Non-Current Assets	
Fixed assets	326
Exploration expenditure	-
Investment in subsidiaries	-
Total Non Current Assets	<u>326</u>
Total Assets	<u>8,994</u>
Current Liabilities	
Trade and other payables	592
Convertible notes	-
Total Current Liabilities	<u>592</u>
Total Liabilities	<u>592</u>
Net Assets	<u>8,402</u>
Equity	
Issued capital	20,954
Share based payment reserve	60
Accumulated losses	(12,612)
Total Equity	<u>8,402</u>

As the maximum capital raising was achieved, the number of ordinary shares on issue increases to 129,825,842, issued capital increased to approximately \$20,954,000 (after allowing for capital raising costs of approximately \$586,000) and cash at bank increased to approximately \$8,553,000.

The number of Performance Shares that will be on issue is 37,463,826. This is made up of 9,699,289 Milestone A Performance Shares, 9,699,291 Milestone B Performance Shares, 9,032,623 Milestone C Performance Shares and 9,032,623 Milestone D Performance Shares.

Yours faithfully

STANTONS INTERNATIONAL SECURITIES PTY LTD



**John Van Dieren – FCA
Director**