MUSTANG RESOURCES LIMITED ACN 090 074 785

NOTICE OF GENERAL MEETING

TIME: 2.00PM

DATE: FRIDAY 26 FEBRUARY 2016

PLACE: GRANT THORNTON, LEVEL 17, 383 KENT STREET, SYDNEY, NSW 2000

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

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

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 3 9347 2409.

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IMPORTANT INFORMATION

Time and place of Meeting

Notice is given that the Meeting will be held at 2.00PM on Friday 26 February 2016 at:

Grant Thornton, Level 17, 383 Kent Street, Sydney, NSW 2000.

Your vote is important

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

Voting eligibility

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 7:00pm (Sydney time) on Wednesday 24 February 2016.

Voting in person

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

Voting by proxy

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

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

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

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Shareholders and their proxies should be aware that changes to the Corporations Act made in 2011 mean that:

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

Further details on these changes are set out below.

Proxy vote if appointment specifies way to vote

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

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

Transfer of non-chair proxy to chair in certain circumstances

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

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

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

BUSINESS OF THE MEETING

AGENDA

1. RESOLUTION 1 - RUBY ACQUISITION

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

"That, subject to the passing of Resolutions 2 and 3, for the purposes of ASX Listing Rules 10.1 and for all other purposes, approval is given for the Company to complete the Ruby Acquisition on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by a party to the transaction and any associate of that party (or those parties). However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, if it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report prepared for the purpose of the Shareholder approval required under ASX Listing Rule 10.1. The Independent Expert's Report comments on the fairness and reasonableness of the transactions the subject of this Resolution to the non-associated Shareholders. The Independent Expert has determined the Ruby Acquisition is not fair but reasonable to the non-associated Shareholders.

2. RESOLUTION 2 - ISSUE OF CONSIDERATION SHARES FOR RUBY ACQUISITION - RELATED PARTY VENDORS

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

"That, subject to the passing of Resolutions 1 and 3, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue up to 21,159,723 Shares to the Related Party Vendors (or their nominee(s)) in part consideration for the Ruby Acquisition on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Elba Investments Pty Ltd, Regius Resources Group Ltd (or their nominee(s)) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

3. RESOLUTION 3 – ISSUE OF CONSIDERATION SHARES FOR RUBY ACQUISITION – UNRELATED VENDORS

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

"That, subject to the passing of Resolutions 1 and 2, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 9,395,833 Shares to the Unrelated Vendors (or their nominee(s)) in part consideration for the Ruby Acquisition on the terms and conditions set out in the Explanatory Statement."

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

4. RESOLUTION 4 – GRAPHITE ACQUISITION

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

"That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue up to 1,665,000 Shares to Regius Resources Group Ltd (or its nominee(s)) in consideration for the Graphite Acquisition on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Regius Resources Group Ltd (or its nominee(s)) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

5. RESOLUTION 5 - ISSUE OF SHARES IN CONSIDERATION FOR CANCELLATION OF CASH PERFORMANCE PAYMENTS - UNRELATED PARTIES

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

"That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue 562,500 Shares in consideration for the cancellation of the portion of the Cash Performance Payments to unrelated parties on the terms and conditions set out in the Explanatory Statement."

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

6. RESOLUTION 6 – ISSUE OF SHARES IN CONSIDERATION FOR CANCELLATION OF CASH PERFORMANCE PAYMENTS – REGIUS RESOURCES GROUP LTD

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

"That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue up to 1,531,250 Shares to Regius Resources Group Ltd (or its nominee(s)) in consideration for the cancellation of its portion of the Cash Performance Payments on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Regius Resources Group Ltd (or its nominee(s)) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

7. RESOLUTION 7 – ISSUE OF SHARES IN CONSIDERATION FOR CANCELLATION OF CASH PERFORMANCE PAYMENTS – ELBA INVESTMENTS PTY LTD

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

"That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for the Company to issue up to 1,031,250 Shares to Elba Investments Pty Ltd (or its nominee(s)) in consideration for the cancellation of its portion of the Cash Performance Payments on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion Statement: The Company will disregard any votes cast on this Resolution by Elba Investments Pty Ltd (or its nominee(s)) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

8. RESOLUTION 8 – ISSUE OF SHARES AND OPTIONS – CAPITAL RAISING

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

"That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 27,570,062 Shares together with one (1) free attaching Option for every three (3) Shares issued on the terms and conditions set out in the Explanatory Statement."

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

9. RESOLUTION 9 – RATIFICATION OF PRIOR ISSUE OF SHARES (ASX LISTING RULE 7.1) – LANSTEAD

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

"That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 13,601,864 Shares on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

10. RESOLUTION 10 - RATIFICATION OF PRIOR ISSUE OF SHARES (ASX LISTING RULE 7.1A) - LANSTEAD

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

"That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 148,136 Shares on the terms and conditions set out in the Explanatory Statement."

Voting Exclusion: The Company will disregard any votes cast on this Resolution by a person who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

11. RESOLUTION 11 – ISSUE OF SHARES AND OPTIONS – LANSTEAD

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

"That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 12,500,000 Shares and up to 8,750,000 Options on the terms and conditions set out in the Explanatory Statement."

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

12. RESOLUTION 12 – ISSUE OF SHARES IN LIEU OF COMMISSION PAYABLE ON CAPITAL RAISINGS

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

"That, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to issue up to 3,150,000 Shares on the terms and conditions set out in the Explanatory Statement."

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

Dated: 22 January 2016

By order of the Board

Chris Ritchie

Company Secretary

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions.

1. BACKGROUND TO RESOLUTIONS

The Company recomplied with Chapters 1 and 2 of the ASX Listing Rules on 5 June 2015 and official quotation of its securities re-commenced on 10 June 2015.

The principal activity of the Company is the exploration and development of mineral and gemstone projects in Mozambique.

The Company currently has interests in the following projects located in Mozambique:

- (a) Save River Diamond Project; and
- (b) Balama Graphite Project;

(together, the Existing Assets).

The Company has undertaken significant work since it was re-instated which has resulted in the acceleration of expenditure on its Existing Assets.

The Company is proposing to undertake a series of measures to:

- (a) raise additional capital to fund its ongoing and expanded exploration programmes; and
- (b) complete the acquisition of rights to earn majority interests in separate, additional prospecting & exploration licences (or applications) in Mozambique prospective for graphite and in three prospecting & exploration licences prospective for rubies in Mozambique, which are in line with the Company's business objectives of developing mineral and gemstone projects.

These will be achieved by:

- (a) raising capital previously announced to ASX on 23 November 2015 resulting in up to a total of \$10,500,000 being raised (refer to Resolutions 8 to 12); and
- (b) completing the acquisition of the rights to earn majority interests in the three ruby licences and two additional graphite licences in Mozambique, the subject of the announcements dated 22 October 2015 and 1 September 2015 respectively (refer to Resolutions 1 to 4).

The Company will also seek to cancel the contractual entitlements to cash performance payments of up to US\$1,500,000 relating to the Existing Assets in consideration for a reduced number of Shares (refer to Resolutions 5 to 7).

2. DIRECTOR RECOMMENDATIONS AND VOTING INTENTIONS

The Directors (other than Cobus van Wyk in respect of Resolutions 1, 2, 4 and 6 and Frank Petruzzelli in respect of Resolutions 1, 2 and 7 who decline to give a recommendation in respect of those Resolutions due to their respective material personal interests in those Resolutions) unanimously recommend that Shareholders vote in favour of all Resolutions.

In relation to the Resolutions in which each Director gives a recommendation each Director is of the opinion that the business contemplated by those Resolutions is in the best interests of Shareholders for the reasons outlined in more detail throughout this Explanatory Statement.

Each Director intends to vote all of his (or his associates) Shares in favour of each of the Resolutions in which he (or his associate) is entitled to vote.

3. BACKGROUND TO PROPOSED ACQUISITIONS

3.1 Ruby Acquisition

As announced on 22 October 2015, the Company has entered a conditional term sheet to acquire an 80% shareholding interest in Montepuez Minerals Pty Ltd (Montepuez) which has the rights to earn majority interests in three licences in Mozambique (80% of 4143L, 70% of 4258L (with the right to acquire a further 10%) and 70% of 5030L) covering 15,800 hectares located in a proven ruby producing jurisdiction which are prospective for rubies (Ruby Acquisition). The term sheet was subsequently amended and the revised consideration terms (replacing performance rights and cash performance payments with a reduced number of Shares) announced on 11 December 2015.

The shareholders of Montepuez from which the Company will be acquiring its 80% shareholding interest are Regius Resources Group Ltd (an entity controlled by Cobus van Wyk, a director of the Company), Alimold Pty Ltd (a substantial holder of the Company) and Elba Investments Pty Ltd (an entity controlled by Mr Frank Petruzzelli, a director of the Company) and other minority shareholders who are neither related parties or substantial holders of the Company (together, **Vendors**).

The Company has agreed to transfer to Lanstead Capital LP, a UK institutional investor which has invested \$5,000,000 in the Company (as announced on 23 November 2015 and being the subject of Resolutions 9, 10 and 11), a 5% equity interest in Montepuez. The Company's equity interest in Montepuez will therefore be reduced to 75%. The transfer to Lanstead Capital LP remains subject to completion of the Ruby Acquisition.

The material terms of the Ruby Acquisition are as follows:

- (a) (Conditions Precedent) the conditions precedent which must be satisfied (or waived) prior to the Company completing the Ruby Acquisition include:
 - (i) (**Due diligence**): mutual due diligence by the parties on each other and their respective assets;
 - (ii) (Approvals): the Company obtaining all necessary regulatory, shareholder and third party approvals in Australia and Mozambique to allow the Company to lawfully complete the Ruby Acquisition;

- (iii) (No material adverse change): there being no event, occurrence or change after the date of the term sheet that has or is reasonably likely to have a material adverse effect on the financial condition, assets, liabilities, results of operations, profitability or prospects of Montepuez or its assets in the reasonable opinion of the Company or of the Company in the reasonable opinion of the shareholders of Montepuez;
- (iv) (Reimbursement): the Company paying the amount of US\$150,000 to Regius Resources Group Ltd as recovery of back costs in developing the assets of Montepuez;
- (v) (Third party consents): each party obtaining all third party consents, approvals or waivers required to effect the transaction, each of which is unconditional or subject only to conditions reasonably acceptable to the parties;
- (vi) (Capital raising): subject to the Company having the power to issue such securities, the Company raising a minimum amount of \$6,100,000 in the capital of the Company (less any costs and expenses); and
- (vii) (Independent expert's report): an independent expert opining that the Ruby Acquisition is fair and reasonable or not fair but reasonable for the Company's shareholders not associated with the shareholders of Montepuez,

on or before 29 February 2016;

- (b) (Consideration): the consideration payable by the Company is 30.555.556 Shares:
- (c) (**Loan**): the Company has agreed to provide a secured loan of up to \$5,700,000 to Montepuez on and from settlement unless permitted earlier by the ASX Listing Rules to finance a bulk sampling program on the licences; and
- (d) (**Board changes**): the Company will appoint one representative of the Vendors as a director of the Company. As announced on 10 December 2015 this will be satisfied by the appointment of Mr Christiaan Jordaan as Managing Director effective from 1 February 2016.

Loan to Montepuez

The loan facility is to be drawn down in accordance with the project budget as approved by the Board of the Company from time to time. The Company undertakes to transfer the funds specified in the budget/work program on 5 business day's written notice by the Project Operator.

The loan is to be secured against the shares in Montepuez Minerals Pty Ltd that the Company does not own and 100% of the net revenue received from the sale of the rubies and other minerals recovered from the assets in which Montepuez Minerals Pty Ltd has an interest.

The loan will bear interest of 2.5% above LIBOR. All repayments received by the Company will first be applied against accrued interest and then applied to the principal outstanding.

Any rubies recovered during the bulk sampling or commercial mining phases will be sold on the international market, by open tender and in compliance with Mozambican law and international best practice guidelines.

During the bulk sampling program, the Company will be entitled to 100% of the revenue received and generated from the net sales of rubies, until such time as the loan plus interest has been fully repaid. Any unpaid balance of the loan plus interest remaining after the completion of the bulk sampling program will be carried over to any subsequent project phases and repaid in priority to any amounts being paid to other shareholders of Montepuez.

Subject to the Company agreeing to proceed to commercial mining, the Company will use its best endeavours to provide an additional loan facility of up to US\$15 million for the establishment of commercial mining on any of the assets of Montepuez.

For the commercial mining loan, the Company will be entitled to 50% of the revenue generated from the net sales of rubies (attributed to the assets), until such time as the mining loan plus interest have been fully repaid, with the remaining 50% distributed to shareholders in accordance with their percentage ownership of Montepuez Minerals Pty Ltd.

3.2 Graphite Acquisition

As announced on 1 September 2015, the Company has entered a conditional term sheet to acquire an option to acquire majority interests in an additional two graphite licences from a selection of four licences in Mozambique (**Graphite Acquisition**). The vendor in this transaction is Regius Resources Group Ltd, an entity controlled by Cobus van Wyk a director of the Company. It is proposed that the Graphite Acquisition will be made by Balama Resources Pty Ltd, a wholly owned subsidiary of the Company which holds the rights to earn majority interests in other graphite licences located in Mozambique. The option relates to the Graphite Licences. The term sheet was subsequently amended and the revised consideration terms (replacing performance rights with a reduced number of Shares) announced on 11 December 2015.

The material terms of the Graphite Acquisition are as follows:

- (a) (Conditions Precedent) the conditions precedent which must be satisfied (or waived) prior to the Company completing the Graphite Acquisition include:
 - (i) (**Due diligence**): mutual due diligence by the parties on each other and/or their respective assets as the context requires;
 - (ii) (Approvals): the Company obtaining all necessary regulatory, shareholder and third party approvals in Australia and Mozambique to allow the Company to lawfully complete the Graphite Acquisition;
 - (iii) (No material adverse change): there being no event, occurrence or change after the date of the term sheet that has or is reasonably likely to have a material adverse effect on the financial condition, assets, liabilities, results of operations, profitability or prospects of the Graphite Licences in the reasonable opinion of the Company or of the Company in the reasonable opinion of Regius Resources Group Ltd; and

(iv) (**Third party consents**): each party obtaining all third party consents, approvals or waivers required to effect the transaction, each of which is unconditional or subject only to conditions reasonably acceptable to the parties,

on or before 29 February 2016.

- (b) (Reimbursement): the Company paying the amount of \$50,000 to Regius Resources Group Limited as recovery of back costs of the acquisition of licences:
- (c) (Consideration) the consideration payable by the Company is 1,665,000 Shares.

3.3 Details of Ruby Licences

Geology

A helicopter borne survey over the Ruby Licences has been completed together with follow-up ground-proofing and initial exploration conducted by the local project geologist (August – September 2015). The airborne survey has resulted in the identification of several ruby exploration pits conducted by artisanal miners. Initial fieldwork by the Company's local site geologist has also identified areas of significantly Fe enriched soil which may relate to the presence of underlying amphibolite as well as areas of potential for the recent accumulation of alluvial sediments.

The Board considers the potential for significant ruby mineralisation over the Ruby Licences is very high. In particular the Board notes:

- (a) The Ruby Licences are covered by the same lithologies as those found over the adjacent ruby deposit currently being developed by the AlM-listed company Gemfields PLC (**Gemfields**) and the potential thus exists for similar ruby mineralisation, both primary and secondary. However, the Directors note that further work is required to be undertaken on the Ruby Licences to determine the existence and quality of rubies within the Ruby Licences.
- (b) The Ruby Licences lie along strike between the Gemfields ruby occurrence and the Namahaka ruby occurrence indicated on the 1:250,000 geological map.
- (c) It is also noteworthy that the source of the higher quality secondary rubies over the Gemfields licence remain to be discovered.
- (d) The high resolution Aeromagnetic Image of the area shows several NE trending lineaments which transect the Ruby Licences as well as the Gemfields licence area. These lineaments / faults may have played a role in the localisation of ruby associated magmas or fluids or the remobilisation thereof.
- (e) The geological map of the Ruby Licences includes a similar roughly ESE trending fold axis to that marked on the same map over the Gemfields licence areas (and to the east of the Gemfields licence areas where other ruby occurrences are known). It may be that the intersection of these fold axes with the above mentioned NE trending geophysical lineaments may be associated with ruby forming fluids, whether magmatic, metamorphic, or remobilised.

(f) Artisanal activity was identified from an initial heliborne inspection of the area during August - September 2015, several of which occur over the licence areas. The presence of active artisanal ruby mining activity on these licence areas together with the underlying geology makes them highly prospective and warrants further exploration including the undertaking of bulk sampling activities.

In addition to the above the international market for Mozambican Ruby is very significant and increasing largely due to the marketing efforts by Gemfields. The prices for Mozambican Ruby published by Gemfields are significant and even a modestly sized primary or secondary ruby discovery has a good potential to be economically viable for the foreseeable future.

Rubies from the Montepuez region of Mozambique are very important to the trade because of the large quantities and the wide range of qualities and sizes produced. Their colours bridge the gap between those from the classic sources of Burma (highly fluorescent, with low iron content) and Thailand/Cambodia (weakly fluorescent, with high iron content). While rubies owe their red colour to chromium, their colour is modified by the presence of iron, which reduces the chromium-caused fluorescence. An interesting aspect of rubies from the amphibole-related deposit near the Montepuez region of Mozambique is their range of iron content, from nearly as low as Burmese marble-type rubies to as high as rubies found in basalt-related deposits along the Thai-Cambodian border. This means they can potentially suit the tastes of a range of different markets.

Further details of the Ruby Licences are set out in Appendix 4 to the Independent Expert's Report.

Material contracts

Regius Resources Group Ltd is party to joint venture agreements with the current registered holders of the Ruby Licences. These joint venture agreements set out the obligations to be satisfied to earn an interest in these licences. Regius has assigned its rights and obligations under these joint venture agreements to Montepuez. The Company, on completion of the Ruby Acquisition, will acquire a controlling interest in Montepuez. The material terms of these joint venture agreements are set out below.

Each joint venture agreement contemplates a new company being incorporated in Mozambique and the relevant licence being transferred to that new entity with Montepuez to have the shareholding noted below.

All work programs require the agreement with the minority holder and in the absence of agreement the matter can be referred to an expert for arbitration.

4143L (80%)

Montepuez is required to sole fund all expenditure on the licence.

Funding will be in the form of a shareholder loan which will bear interest at the rate of 12 month LIBOR (London Interbank Offered Rate) plus 2.5%. The loan will be repaid from the net proceeds received from the sale of rubies recovered during the bulk sampling phase (to be sold on the international market by open tender and in compliance with Mozambican law and international best practice guidelines). Montepuez will be entitled to 100% of the net proceeds received from sale of rubies, until such time as loans plus interest relating to the bulk sampling phase have been fully repaid. Any unpaid balance of the loan plus

interest remaining after the completion of the bulk sampling program will be carried over to any subsequent project phases.

Montepuez will be entitled to 50% of the net proceeds received from sale of rubies, until such time as loans plus interest relating to phases subsequent to the bulk sampling programme have been fully repaid with the remaining 50% paid as dividends to shareholders.

The licence holder has a put option to sell a 20% shareholding in the entity to be established to hold the licence at any time after identification of a mineable resource. The consideration can be satisfied in cash or Shares at an amount to be determined by an independent expert.

In the event Montepuez elects not to proceed with the joint venture for any reason it is required to transfer its shareholding in the entity established to hold the licence for a nominal sum and to write off all loans made to that entity.

4258L (70% with a call option for a further 10%)

Montepuez is required to sole fund all expenditure on the licence.

Funding will be in the form of a shareholder loan which will bear interest at the rate of 12 month LIBOR (London Interbank Offered Rate) plus 2.5%. The loan will be repaid from the net proceeds received from the sale of rubies recovered during the bulk sampling phase (to be sold on the international market by open tender and in compliance with Mozambican law and international best practice guidelines). Montepuez will be entitled to 100% of the net proceeds received from sale of rubies, until such time as loans plus interest relating to the bulk sampling phase have been fully repaid. Any unpaid balance of the loan plus interest remaining after the completion of the bulk sampling program will be carried over to any subsequent project phases. Montepuez will be entitled to 50% of the net proceeds received from sale of rubies, until such time as loans plus interest relating to phases subsequent to the bulk sampling programme have been fully repaid with the remaining 50% paid as dividends to shareholders.

Proceeds remaining after repayment of the loans and accrued interest relating to the bulk sampling program will be distributed in the following manner: 30% to shareholders in proportion to their respective shareholdings and 70% retained and attributed to subsequent phases (e.g. commercial scale mining operations).

Montepuez has a call option for a further 10% shareholding in the entity to be established to hold the licence. The call option can be exercised following completion of the bulk sampling program. The consideration payable is U\$\$1,000,000.

The licence holder has a put option to sell a 20% shareholding in the entity to be established to hold the licence at any time after identification of a mineable resource. The consideration can be satisfied in cash or Shares at an amount to be determined by an independent expert.

In the event Montepuez elects not to proceed with the joint venture for any reason it is required to transfer its shareholding in the entity established to hold the licence for a nominal sum and to write off all loans made to that entity.

5030L (70%)

Montepuez is required to sole fund all expenditure on the licence.

Funding will be in the form of a shareholder loan which will bear interest at the rate of 12 month LIBOR (London Interbank Offered Rate) plus 3%. The loan will be repaid from the net proceeds received from the sale of rubies recovered during the bulk sampling phase (to be sold on the international market by open tender and in compliance with Mozambican law and international best practice guidelines). Montepuez will be entitled to 100% of the net proceeds received from sale of rubies, until such time as loans plus interest relating to the bulk sampling phase have been fully repaid. Any unpaid balance of the loan plus interest remaining after the completion of the bulk sampling program will be carried over to any subsequent project phases. Montepuez will be entitled to 50% of the net proceeds received from sale of rubies, until such time as loans plus interest relating to phases subsequent to the bulk sampling programme have been fully repaid with the remaining 50% paid as dividends to shareholders.

Proceeds remaining after repayment of the loans and accrued interest relating to the bulk sampling program will be distributed in the following manner: 30% to shareholders in proportion to their respective shareholdings and 70% retained and attributed to subsequent phases (e.g. commercial scale mining operations).

Montepuez is obligated to pay the licence holder US\$750,000 within 6 months of the commissioning/start up of the bulk sampling plant and a further US\$750,000 within 12 months of the commissioning/start up of the bulk sampling plant.

In the event Montepuez elects not to proceed with the joint venture for any reason it is required to transfer its shareholding in the entity established to hold the licence for a nominal sum and to write off all loans made to that entity.

Management and Technical Services Agreement

Montepuez intends to engage Regius Resources Group Ltd to provide technical and management skills related to the exploration, bulk sampling, construction, development, operation, maintenance and administrative requirements of the Ruby Licences for a period of 24 months from the date the Company concludes financing for the Ruby Acquisition and makes the loan available to Montepuez.

Regius will charge the following fees for its services provided under this agreement:

SERVICE TYPE	REGIUS COST	UNITS REQUIRED	BUDGETED COST
Exploration Management Fee	\$ 870.00	Day	\$1,000.00
Competent Persons Involvement	\$ 1,305.00	Day	\$1,500.00
QAQC	\$ 870.00	Day	\$1,000.00
Environmental & Community	\$ 870.00	Day	\$1,000.00
Consulting & Approvals			
Administration & Support Staff	\$ 435.00	Day	\$ 500.00
Company & Progress Reporting	\$ 435.00	Day	\$ 500.00
Senior Geologist	\$ 870.00	Day	\$1,000.00
Junior Geologist	\$ 522.00	Day	\$ 600.00

Details of title

The Ruby Licences were granted to their respective holders with the following applicable dates:

- Licence 4143L: issued to Ibrahima Bã on 14/12/2011 and expires on 14/12/2016 (First term, further 3-year extension available)
- Licence 4258L: issued to CRL Investimentos Lda on 21/07/2011 and expires on 21/07/2016 (First term, further 3-year extension available)
- Licence 5030L: issued to Abdurremane Lino de Almedia on 03/09/2013 and expires on 03/09/2018 (First term, further 3-year extension available)

The Directors are of the view that all material risks relating to tenure have been addressed and that the licences (and licence applications) are in good standing.

3.4 Details of potential new Graphite Licences

Material contracts

Regius Resources Group Ltd is party to joint venture agreements with the current registered holders of 6363L and 6526L and is a shareholder of the licence holder of 7486L and 7560L. The joint venture agreements set out the obligations to be satisfied to earn an interest in these licences.

Regius has agreed to assign its rights and obligations in respect of two of the new Graphite Licences subject to the election of the Company. The Company has not yet made a decision on which interests in the new Graphite Licences it will acquire.

The material terms of the joint venture agreements are set out below.

All work programs require the agreement with the minority holder and in the absence of agreement the matter can be referred to an expert for arbitration.

The Company (through its wholly owned subsidiary Balama Resources Pty Ltd) is required to sole fund all expenditure on the licence during the exploration phase.

Funding will be in the form of a shareholder loan which will bear interest at the rate of 12 month LIBOR (London Interbank Offered Rate) plus 3%.

The Company is obligated to pay the minority shareholder US\$50,000 for the recovery of back costs if the Company elects to proceed with the acquisition of the interest in this licence.

The Company is obligated to pay the minority shareholder US\$1,000,000 (US\$200,000 in cash and US\$800,000 in Shares) in the event a JORC compliance reserve of not less than 200 million tons of graphite with an average grade exceeding 7.5% total graphite content is delineated on the licence.

The minority shareholder has a put option to sell its 10% shareholding in the licence holder at any time after identification of a mineable resource. The consideration can be satisfied in cash or Shares at an amount to be determined by an independent expert.

In the event the Company elects not to proceed with the joint venture for any reason it is required to transfer its shareholding in the licence holder for a nominal sum and to write off all loans made to that entity.

6526L (75%)

This joint venture contemplates a new company being incorporated in Mozambique and the relevant licence being transferred to that new entity with Balama to have a 75% shareholding.

The Company (through its wholly owned subsidiary Balama Resources Pty Ltd) is required to sole fund all expenditure on the licence during the exploration phase.

Funding will be in the form of a shareholder loan which will bear interest at the rate of 12 month LIBOR (London Interbank Offered Rate) plus 3%.

The minority shareholder has a put option to sell its 25% shareholding in the licence holder at any time after identification of a mineable resource. The consideration can be satisfied in cash or Shares at an amount to be determined by an independent expert.

In the event the Company elects not to proceed with the joint venture for any reason it is required to transfer its shareholding in the licence holder for a nominal sum and to write off all loans made to that entity.

If any mineral other than graphite or vanadium is discovered on the licence it is for the benefit of the minority shareholder but the Company has the first right to extend the joint venture to include the prospecting and mining of such minerals on terms to be agreed between the parties. Balama Resources Pty Ltd (**Balama**) will acquire 95% of the issued capital of RQL Graphite Resources S.A. (**RQL**) which has applied for the exploration and prospection licence. Balama will enter into a shareholders agreement with the minority partner, including specifying that Balama is required to fund all expenditure on the licence.

7560L (95%)

Balama Resources Pty Ltd (**Balama**) will acquire 95% of the issued capital of RQL Graphite Resources S.A. (RQL) which has applied for the exploration and prospection licence. Balama will enter into a shareholders agreement with the minority partner, including specifying that Balama is required to fund all expenditure on the licence.

Management and Technical Services Agreement

Balama intends to amend its existing engagement with Regius Resources Group Ltd to extend the provision of technical and management skills related to the exploration, bulk sampling, construction, development, operation, maintenance and administrative requirements of its existing graphite assets to the new majority interests in the Graphite Licences acquired under the Graphite Acquisition.

Regius will charge the same fees for these services as provided under the management and technical services agreement relating to the Ruby Licences.

Details of title

The Graphite Licences were granted to their respective holders with the following applicable dates:

- Licence 6526L was issued to Green Energy & Minerals Lda on 27/05/2014, expiring on 27/05/2019.
- Licence 6363L was granted to Montepuez Mineral Resource S.A on 18/11/2015 and expires on 18/11/2020 (First Term, further 3 year extension available. Note licence granted by issuance of licence document pending signature of Minister of Minerals Resources & Energy).
- Licence 7486L was applied for by RQL Graphite Resources S.A on 13/03/2015 and is yet to be granted & issued.
- Licence 7560L was applied for by RQL Graphite Resources S.A on 22/04/2015 and is yet to be granted & issued.

The Directors are of the view that all material risks relating to tenure have been addressed and that the licences (and licence applications) are in good standing.

3.5 Advantages and disadvantages of the Acquisitions

The Directors consider the Acquisitions have the advantage of further expanding on the Company's interests in Mozambique, a country on which it is strategically focused and where a member of its key personnel has a long standing track record (Cobus van Wyk and Regius Resources Group Ltd). Further, the Directors consider that the Ruby Acquisition will provide the Company with a further opportunity for early stage cash flow with limited capital expenditure and low operating costs. Also, the Ruby Licences are located in a world-class geological setting adjacent to and in the same geology as the world's largest known ruby deposit currently being developed by the AIM- listed company Gemfields PLC.

The acquisition of the additional graphite assets from Regius further enhances the Company's already strong Mozambique graphite portfolio in areas covered by the same local geology as those known to host large scale, high grade graphite deposits (cf. ASX:SYR and ASX:TON).

However, although the Acquisitions fall within the Board's growth plans for the Company disclosed in the Company's prospectus lodged in April 2015, the Acquisitions increase the Company's country risk exposure to Mozambique. However, the Board considers that Mozambique is still a good investment destination within Africa and intends to mitigate any country risk exposure through continued good relationships with the local and national governments of Mozambique and to continued prudent good management of its projects.

3.6 Effect if Acquisitions do not proceed

Should the Acquisitions not proceed the second \$2,500,000 committed by Lanstead Capital LP (the subject of Resolution 11) will not be payable and the Company will have significant difficulty in raising capital from other sources to continue to develop its Save River Diamond Project and its existing graphite assets under the Balama Graphite Project. The acquisition of the Ruby Project is critical in ensuring that the Company can raise additional capital on reasonable terms to progress the existing projects and the new Ruby Project.

4. RESOLUTION 1 – RUBY ACQUISITION

4.1 General

As outlined in Section 3.1, the Company has entered into a binding term sheet in relation to the Ruby Acquisition.

Pursuant to ASX Listing Rule 10.1, for the Company to complete the Ruby Acquisition, Shareholder approval must be obtained. Resolution 1 seeks this Shareholder approval.

4.2 ASX Listing Rule 10.1

ASX Listing Rule 10.1 provides that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, amongst other persons, a related party of the entity, a substantial holder or one of its associates, without the prior approval of holders of the entity's ordinary shareholders.

Substantial asset

For the purposes of ASX Listing Rule 10.1, an asset is substantial if its value, or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to ASX under the ASX Listing Rules.

The equity interests of the Company as defined by the ASX Listing Rules and as set out in the latest accounts given to ASX under the ASX Listing Rules (being for the financial year ending 30 June 2015) were \$22,238,977. 5% of this amount is \$1,111,948.85 (or 5,559,744 Shares based on a Share price of \$0.20 which is equal to the issue price under the capital raisings conducted by the Company in conjunction with the Ruby Acquisition and equal to the conversion price under the Loan Conversion).

As the value of the consideration being issued by the Company to each of Regius Resources Group Ltd, Elba Investments Pty Ltd and Alimold Pty Ltd is more than 5% of the equity interests of the Company as set out in the latest accounts given to ASX under the ASX Listing Rules, the Ruby Acquisition will result in the acquisition of a substantial asset from each of these Vendors.

Related Party

For the purposes of ASX Listing Rule 10.1, a related party of an entity includes, amongst other persons, directors of a public company and an entity controlled by directors of a public company (unless that entity is also controlled by the public company).

Regius Resources Group Ltd and Elba Investments Pty Ltd are related parties of the Company as they are entities controlled by Cobus van Wyk and Mr Frank Petruzzelli respectively, each of whom is a Director.

Substantial shareholder

For the purposes of ASX Listing Rule 10.1, a substantial shareholder is a person who has a relevant interest (either directly or through its associates), or had at any time in the 6 months before the transaction, in at least 10% of the total votes attaching to the voting securities.

Alimold Pty Ltd, by virtue of its relevant interest in 11.75% of the voting shares of the Company is a substantial holder of the Company for the purposes of ASX Listing Rule 10.1.

Requirement for shareholder approval

As a result of the above conclusions, the completion of the Ruby Acquisition will result in the acquisition of a substantial asset from related parties and substantial holders of the Company and the Company is therefore required to seek Shareholder approval under ASX Listing Rule 10.1.

4.3 Independent Expert's Report

ASX Listing Rule 10.10.2 requires a notice of meeting containing a resolution under ASX Listing Rule 10.1 to include a report on the transaction from an independent expert.

The Independent Expert's Report set out in Annexure A sets out a detailed independent examination of the Ruby Acquisition to enable non-associated Shareholders to assess the merits and decide whether to approve the Acquisition.

To the extent that it is appropriate, the Independent Expert's Report enclosed with this Notice of Meeting sets out further information with respect to the Ruby Acquisition and concludes that it is not fair but reasonable to the non-associated Shareholders.

Shareholders are urged to carefully read the Independent Expert's Report to understand its scope, the methodology of the valuation and the sources of information and assumptions made.

5. RESOLUTION 2 – ISSUE OF CONSIDERATION SHARES FOR THE RUBY ACQUISITION – RELATED PARTY VENDORS

5.1 General

The Company has agreed, subject to obtaining Shareholder approval, to issue 21,159,723 Shares to the Related Party Vendors (or their nominee(s)) in part consideration for the Ruby Acquisition.

Resolution 2 seeks Shareholder approval for the issue of Shares to the Related Party Vendors (or their nominee(s)).

5.2 Chapter 2E of the Corporations Act

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

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

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

The issue of Shares to the Related Party Vendors constitutes giving a financial benefit and the Related Party Vendors are related party of the Company by virtue of being entities controlled respectively by Cobus van Wyk and Frank Petruzzelli. Directors.

The Directors (other than Cobus van Wyk and Frank Petruzzelli who have a material personal interest in the Resolution) consider that Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required in respect of the issue of the Shares to the Related Party Vendors because the term sheet pursuant to which it was agreed that the Shares would be issued to the Related Party Vendors was negotiated on an arm's length basis.

5.3 ASX Listing Rule 10.11

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

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

5.4 Technical Information required by ASX Listing Rule 10.13

Pursuant to and in accordance with ASX Listing Rule 10.13, the following information is provided in relation to Resolution 2:

- (a) the Shares will be issued to each of Regius Resources Group Ltd and Elba Investments Pty Ltd (or their nominee(s));
- (b) the number of Shares to be issued to each Related Party Vendor is:
 - (i) 5,881,945 Shares to Elba Investments Pty Ltd (or its nominee(s)) in consideration for the sale of a 15.4% legal and beneficial holding in Montepuez; and
 - (ii) 15,277,778 Shares to Reguis Resources Group Ltd (or its nominee(s)) in consideration for the sale of a 40% legal and beneficial holding in Montepuez;
- (c) the Shares will be issued no later than 1 month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the Shares will occur on the same date;
- (d) the Shares to be issued to the Related Party Vendors will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares other than for escrow imposed in accordance with the ASX Listing Rules; and
- (e) the Shares will be issued for nil cash consideration, accordingly no funds will be raised; and

Approval pursuant to ASX Listing Rule 7.1 is not required for the issue of Shares to the Related Party Vendors as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of Shares to the Related Party Vendors (or their nominee(s)) will not be included in the use of the Company's 15% annual placement capacity pursuant to ASX Listing Rule 7.1.

6. RESOLUTION 3 – ISSUE OF CONSIDERATION SHARES FOR RUBY ACQUISITION – UNRELATED VENDORS

Resolution 3 seeks Shareholder approval for the issue of 9,395,833 Shares to the Unrelated Vendors (or their nominee(s)) in consideration for the acquisition of a 20.75% legal and beneficial interest in Montepuez.

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

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

6.1 Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to Resolution 3:

- (a) the maximum number of Shares to be issued is 9,395,833 Shares;
- (b) the Shares to be issued pursuant to Resolution 3 will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of all Shares will occur on the same date;
- (c) the Shares will be issued for nil cash consideration;
- (d) it is proposed that the Shares will be issued to the Unrelated Vendors (or their nominee(s)), each of which are not related parties of the Company, in the following proportions:

Recipient	Quantity
Alimold Pty Ltd	5,881,945
R.W. Associates Pty Limited	2,193,888
Iresertoan Pty Ltd	880,000
MAPD Nominees Pty. Ltd.	440,000
TOTAL	9,395,833

- (e) the Shares to be issued to the Unrelated Vendors (or their nominee(s)) will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares other than for escrow imposed in accordance with the ASX Listing Rules; and
- (f) no funds will be raised from the proposed issue of the Shares as the Shares are proposed to be issued in part consideration for the Ruby Acquisition.

7. RESOLUTION 4 – GRAPHITE ACQUISITION

7.1 General

The Company has agreed, subject to obtaining Shareholder approval, to issue 1,665,000 Shares to Regius Resources Group Ltd (or its nominee(s)) in consideration for the acquisition of the rights to earn majority interests in the Graphite Licences from Regius Resources Group Ltd.

Resolution 4 seeks Shareholder approval for the issue of Shares to Regius Resources Group Ltd (or its nominee(s)).

7.2 Chapter 2E of the Corporations Act

A summary of Chapter 2E of the Corporations Act is set out in Section 5.2.

The issue of Shares to Regius Resources Group Ltd constitutes giving a financial benefit and Regius Resources Group Ltd is a related party of the Company by virtue of being an entity controlled by Cobus van Wyk, a Director.

The Directors (other than Cobus van Wyk who has a material personal interest in the Resolution) consider that Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required in respect of the issue of the Shares to Regius Resources Group Ltd because the term sheet pursuant to which it was agreed that the Shares would be issued to Regius Resources Group Ltd was negotiated on an arm's length basis.

7.3 ASX Listing Rule 10.11

A summary of ASX Listing Rule 10.11 is set out in Section 5.3.

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

7.4 Technical Information required by ASX Listing Rule 10.13

Pursuant to and in accordance with ASX Listing Rule 10.13, the following information is provided in relation to Resolution 4:

- (a) the Shares will be issued to Regius Resources Group Ltd (or its nominee(s));
- (b) the number of Shares to be issued is 1,665,000 Shares;
- (c) the Shares will be issued no later than 1 month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the Shares will occur on the same date;
- (d) the Shares will be issued for nil cash consideration;
- (e) the Shares to be issued to Regius Resources Group Ltd (or its nominee(s)) will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and

(f) no funds will be raised from the proposed issue of the Shares as the Shares are proposed to be issued in consideration for the Graphite Acquisition.

Approval pursuant to ASX Listing Rule 7.1 is not required for the issue of Shares to Regius Resources Group Ltd as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of Shares to Regius Resources Group Ltd (or its nominee(s)) will not be included in the use of the Company's 15% annual placement capacity pursuant to ASX Listing Rule 7.1.

8. RESOLUTIONS 5 TO 7 - ISSUE OF SHARES IN CONSIDERATION FOR THE CANCELLATION OF CASH PERFORMANCE PAYMENTS

8.1 General

The Company has entered agreements with each of the entities contractually entitled to cash performance payments of up to US\$1,500,000 as agreed at the time the Company acquired the Existing Assets in June 2015 to cancel the entitlement to cash performance payments (**Cancellation**).

These agreements remain subject to shareholder and regulatory requirements.

A total of 3,125,000 Shares is to be issued in consideration for the cancellation of the contractual obligation to make cash performance payments of up to US\$1,500,000.

Resolutions 5 to 7 seek Shareholder approval to issue Shares in consideration for the Cancellation. Resolution 5 relates to issues of Shares to parties who are not related parties of the Company. Resolutions 6 and 7 relate to issues of Shares to parties who are related parties of the Company.

8.2 Resolution 5

ASX Listing Rule 7.1

A summary of ASX Listing Rule 7.1 is set out in Section 4.

The effect of Resolution 5 will be to allow the Company to issue the Shares pursuant to Resolution 5 during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to Resolution 5:

- (a) the maximum number of Shares to be issued is 562,500;
- (b) the Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the Shares will occur on the same date;
- (c) the Shares will be issued for nil cash consideration as they are being issued in consideration for the Cancellation;

- (d) the Shares will be issued in the following quantities to the following parties who are not related parties of the Company:
 - (i) 281,250 to Keras Capital Pty Ltd (or its nominee(s)); and
 - (ii) 281,250 to Alimold Pty Ltd (or its nominee(s));
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares other than for any escrow imposed in accordance with the ASX Listing Rules;
- (f) no funds will be raised from the issue of the Shares the subject of Resolution 5 as they are being issued in consideration for the Cancellation.

8.3 Resolutions 6 and 7

Chapter 2E of the Corporations Act

A summary of Chapter 2E of the Corporations Act is set out in Section 5.2.

The issue of Shares to Regius Resources Group Ltd (Resolution 6) and Elba Investments Pty Ltd (Resolution 7) constitutes giving a financial benefit and Regius Resources Group Ltd and Elba Investments Pty Ltd are each a related party of the Company by virtue of being an entity controlled by a Director (Cobus van Wyk for Regius Resources Group Ltd and Frank Petruzzelli for Elba Investments Pty Ltd).

The Directors (other than Cobus van Wyk and Frank Petruzzelli in respect of the Resolution in which they have a material personal interest) consider that Shareholder approval pursuant to Chapter 2E of the Corporations Act is not required in respect of the issue of the Shares under Resolutions 6 and 7 because the Shares are being issued on the same terms as other recipients of Shares under the Cancellation who are not related parties of the Company and the issue is considered to be on arm's length terms.

ASX Listing Rule 10.11

A summary of ASX Listing Rule 10.11 is set out in Section 5.3.

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

The effect of Resolutions 6 to 7 will be to allow the Company to issue the Shares pursuant to Resolutions 6 to 7 during the period of 1 month after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

Technical Information required by ASX Listing Rule 10.13

Pursuant to and in accordance with ASX Listing Rule 10.13, the following information is provided in relation to Resolutions 6 and 7:

- (a) the Shares will be issued to Regius Resources Group Ltd (or its nominee(s)) pursuant to Resolution 6 and Elba Investments Pty Ltd (or its nominee(s)) pursuant to Resolution 7;
- (b) the number of Shares to be issued is 2,562,500 Shares comprised of:
 - (i) 1,531,250 Shares to Regius Resources Group Ltd (or its nominee(s)); and
 - (ii) 1,031,250 Shares to Elba Investments Pty Ltd (or its nominee(s));
- (c) the Shares will be issued no later than 1 month after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules);
- (d) the Shares will be issued for nil cash consideration;
- (e) the Shares will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares other than for any escrow imposed in accordance with the ASX Listing Rules; and
- (f) no funds will be raised from the proposed issue of the Shares as the Shares are proposed to be issued in consideration for the Cancellation.

Approval pursuant to ASX Listing Rule 7.1 is not required for the issue of Shares pursuant to Resolutions 6 and 7 as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of Shares pursuant to Resolutions 6 and 7 will not be included in the use of the Company's 15% annual placement capacity pursuant to ASX Listing Rule 7.1.

9. RESOLUTION 8 – ISSUE OF SHARES AND OPTIONS – CAPITAL RAISING

9.1 General

On 23 November 2015, the Company announced to ASX that it has raised \$750,000 through loans which will automatically convert, together with accrued interest, into Shares at \$0.20 per Share on completion of the Ruby Acquisition. In addition, the Company proposes to raise a further \$4,750,000 through either additional loans (together with the existing loans, the **Loans**) converting on the same terms or through the issue of Shares (together the **Capital Raising**).

The Company also proposes to issue one (1) Option for every three (3) Shares issued pursuant to the Capital Raising.

The Loans accrue interest at a rate of 10% per annum.

Resolution 8 seeks Shareholder approval for the issue of up to 27,570,062 Shares together with one (1) Option for every three (3) Shares issued either in consideration for the satisfaction of the Loans and accrued interest up to the date of conversion (Loan Conversion) or at an issue price of \$0.20 per Share.

Where the Loan Conversion occurs prior to 26 February 2016, less than the maximum number of Shares (and therefore Options) will be issued as the interest will only accrue up to the date of the Loan Conversion. Where the Loan Conversion occurs later than 26 February 2016, any additional Shares required to be issued to satisfy the conversion of further accrued interest will be made out of the Company's annual placement capacity available at that time or satisfied in cash.

In the event Shareholder approval is not obtained by 29 February 2016, or such other date as agreed between the Company and the lenders, the Loans may still be converted at the election of the lenders subject to the Company complying with the requirements of the ASX Listing Rules and Corporations Act at that time.

A summary of ASX Listing Rule 7.1 is set out in Section 4.

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

9.2 Technical information required by ASX Listing Rule 7.1

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

- (a) the maximum number of Shares to be issued is 27,570,062 and the maximum number of Options to be issued is 9,190,021 Options;
- (b) the Shares and Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the Shares and Options will occur progressively;
- (c) the deemed issue price of the Shares issued in satisfaction of the Loan Conversion will be \$0.20 per Share and the issue price where the issue occurs as a subscription will be \$0.20 per Share;
- (d) the Options will be free attaching to the Shares on the basis of one Option for every three Shares issued with fractional entitlements of Options rounded down to the nearest whole number;
- (e) the Shares and Options will be issued to sophisticated and professional investors as determined by the Directors. None of these parties are a related party of the Company;
- (f) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (g) the Options will be issued on the terms and conditions set out in Schedule 1; and

(h) no funds will be raised from the Loan Conversion as the Shares and Options are being issued in satisfaction of repayment of the Loans and accrued interest to the date of completion of the Ruby Acquisition, however, the funds advanced to the Company pursuant to the Loans will be aggregated with the funds received where Shares are subscribed for under Resolution 8, as well as funds received under the placement that is sought to be ratified pursuant to Resolution 9 and to be received under the further placement to be made subject to approval of Resolution 11 and be used as follows:

Category	Amount
Expenditure on development of the Company's existing assets (the Save River Diamond Project and the Balama Graphite Project)	\$2,000,000
Expending on development of the Montepuez Ruby Project including costs of acquiring equipment and completing the bulk sampling program)	\$5,700,000
General working capital including corporate administration costs	\$2,800,000
TOTAL	\$10,500,000

10. RESOLUTIONS 9 AND 10 - RATIFICATION OF PRIOR ISSUE OF SHARES - LANSTEAD

10.1 General

On 24 November 2015, the Company issued 12,500,000 Shares at an issue price of \$0.20 per Share to raise \$2,500,000 together with a fee of 1,250,000 Shares pursuant to the Company's combined placement capacity under ASX Listing Rules 7.1 and 7.1A.

Resolutions 9 and 10 seek Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of those Shares (**Ratifications**).

10.2 Material terms of Lanstead agreements

In addition to the subscription for Shares the subject of Resolutions 9, 10 and 11, the Company has entered into a sharing agreement with Lanstead Capital LP (**Lanstead**) which enables the Company to secure much of the upside in the event there is an appreciation in the Share price over the 18 month period in which cash payments are made by Lanstead to the Company.

In respect of the first tranche of Shares issued to Lanstead, the Company received \$375,000 from the aggregate \$2,500,000 subscription upfront with the remainder to be invested on the terms of the sharing agreement.

The sharing agreement provides that the Company will receive monthly cash payments with the amount determined by the Company's share price performance measured against a benchmark price of \$0.2667 per Share (**Benchmark Price**) each month over 18 months from 60 days after the date of issue of the Shares.

In respect of the second tranche of Shares issued to Lanstead (which remains subject to the Company raising not less than \$1,500,000 at a price of at least 20 cents per Share from other investors), the Company will receive \$375,000 from the aggregate \$2,500,000 subscription upfront and the remainder will be invested on the terms of the sharing agreement over 18 months from 60 days after the date of issue of the Shares.

If the Share price exceeds the Benchmark Price for that month the Company will receive more than 100% of the monthly settlement due on a pro rata basis. Importantly, there is no upper limit placed on the additional funds receivable by the Company as part of the monthly settlements therefore giving the Company the opportunity to reduce the overall cost of capital and realising more funds as it meets key operational milestones on its projects over the next 18 months.

An example of potential monthly amounts payable based on changes in the Share price is set out in the table below:

Date:	Price:		Monthly Release (Assuming BMP):	Percentage of Benchmark:	Additional Monthly Cash:	Monthly Total:	Total Investment:	Shares Issued:
Jan-16	\$ 0.2	200	\$ 236,111	75%	\$ (69,444)	\$ 166,667	\$ 3,750,000	25,000,000
Feb-16	\$ 0.2	240	\$ 236,111	90%	\$ (27,778)	\$ 208,333	\$ 4,500,000	25,000,000
Mar-16	\$ 0.2	265	\$ 236,111	99%	\$ (1,736)	\$ 234,375	\$ 4,968,750	25,000,000
Apr-16	\$ 0.3	300	\$ 236,111	113%	\$ 34,722	\$ 270,833	\$ 5,625,000	25,000,000
May-16	\$ 0.4	100	\$ 236,111	150%	\$ 138,889	\$ 375,000	\$ 7,500,000	25,000,000
Jun-16	\$ 0.4	120	\$ 236,111	158%	\$ 159,722	\$ 395,833	\$ 7,875,000	25,000,000
Jul-16	\$ 0.4	120	\$ 236,111	158%	\$ 159,722	\$ 395,833	\$ 7,875,000	25,000,000
Aug-16	\$ 0.4	170	\$ 236,111	176%	\$ 211,806	\$ 447,917	\$ 8,812,500	25,000,000
Sep-16	\$ 0.5	510	\$ 236,111	191%	\$ 253,472	\$ 489,583	\$ 9,562,500	25,000,000
Oct-16	\$ 0.5	540	\$ 236,111	203%	\$ 284,722	\$ 520,833	\$ 10,125,000	25,000,000
Nov-16	\$ 0.5	550	\$ 236,111	206%	\$ 295,139	\$ 531,250	\$ 10,312,500	25,000,000
Dec-16	\$ 0.5	550	\$ 236,111	206%	\$ 295,139	\$ 531,250	\$ 10,312,500	25,000,000
Jan-17	\$ 0.5	550	\$ 236,111	206%	\$ 295,139	\$ 531,250	\$ 10,312,500	25,000,000
Dec-16	\$ 0.6	500	\$ 236,111	225%	\$ 347,222	\$ 583,333	\$ 11,250,000	25,000,000
Jan-17	\$ 0.6	520	\$ 236,111	233%	\$ 368,056	\$ 604,167	\$ 11,625,000	25,000,000
Feb-17	\$ 0.6	510	\$ 236,111	229%	\$ 357,639	\$ 593,750	\$ 11,437,500	25,000,000
Mar-17	\$ 0.7	720	\$ 236,111	270%	\$ 472,222	\$ 708,333	\$ 13,500,000	25,000,000
Apr-17	\$ 0.7	750	\$ 236,111	281%	\$ 503,472	\$ 739,583	\$ 14,062,500	25,000,000

Should the Share price be below the Benchmark Price for that month the Company will receive less than 100% of the monthly settlement on a pro rata basis.

In no event would a decline in the Share price result in any increase in the number of Shares to be issued to Lanstead or any other advantage accruing to Lanstead.

10.3 Resolution 9

Resolution 9 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of 13,601,864 Shares issued without Shareholder approval pursuant to the Company's placement capacity under ASX Listing Rule 7.1.

A summary of ASX Listing Rule 7.1 is set out in Section 4.

ASX Listing Rule 7.4 sets out an exception to ASX Listing Rule 7.1. It provides that where a company in general meeting ratifies the previous issue of securities made pursuant to ASX Listing Rule 7.1 (and provided that the previous issue did not breach ASX Listing Rule 7.1) those securities will be deemed to have been made with shareholder approval for the purpose of ASX Listing Rule 7.1.

By ratifying the issue the subject of Resolution 9, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior Shareholder approval.

10.4 Resolution 10

Resolution 10 seeks Shareholder ratification pursuant to ASX Listing Rule 7.4 for the issue of the 148,136 Shares issued with Shareholder approval pursuant to the Company's placement capacity under ASX Listing Rule 7.1A which was approved by Shareholders at the Company's previous annual general meeting held on 20 November 2015.

ASX Listing Rule 7.1A provides that in addition to issues permitted without prior shareholder approval under ASX Listing Rule 7.1, an entity that is eligible and obtains shareholder approval under ASX Listing Rule 7.1A may issue or agree to issue during the period the approval is valid a number of equity securities which represents 10% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period as adjusted in accordance with the formula in ASX Listing Rule 7.1.

Where an eligible entity obtains shareholder approval to increase its placement capacity under ASX Listing Rule 7.1A then any ordinary securities issued under that additional placement capacity:

- (a) will not be counted in variable "A" in the formula in ASX Listing Rule 7.1A; and
- (b) are counted in variable "E",

until their issue has been ratified under ASX Listing Rule 7.4 or 12 months has passed since their issue.

By ratifying the issue the subject of Resolution 10, the base figure (i.e. variable 'A') in which the Company's 15% and 10% annual placement capacities are calculated will be a higher number and the 10% annual placement capacity remaining available will not be reduced by the quantity of securities referred to in Resolution 10 which in turn will allow a higher number of securities to be issued without prior Shareholder approval.

10.5 Technical information required by ASX Listing Rule 7.4

Pursuant to and in accordance with ASX Listing Rule 7.5, the following information is provided in relation to the Ratifications:

- (a) 13,750,000 Shares were issued on the following basis:
 - (i) 13,601,864 Shares issued pursuant to ASX Listing Rule 7.1; and
 - (ii) 148,136 Shares issued pursuant to ASX Listing Rule 7.1A;
- (b) the issue price per Share in respect of 12,500,000 Shares was \$0.20 and there was a nil issue price in respect of 1,250,000 Shares that were issued as a fee for the subscription for the 12,500,000 Shares. It is noted that the 1,250,000 Shares issued for nil cash consideration were issued pursuant to ASX Listing Rule 7.1;
- (c) the Shares issued were all fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (d) the Shares were issued to Lanstead Capital LP, who is not a related party of the Company; and
- (e) the funds raised from this issue were used as set out in Section 9.2(h).

11. RESOLUTION 11 – ISSUE OF SHARES AND OPTIONS – LANSTEAD

11.1 General

Resolution 11 seeks Shareholder approval for the issue of up to 12,500,000 Shares at an issue price of \$0.20 per Share and 8,750,000 Options for nil cash consideration in connection with the \$5,000,000 that was raised by the Company (as announced on 23 November 2015). Of the \$5,000,000 raised, the Company has issued a portion of the Shares (being 13,750,000 Shares) in respect of the first \$2,500,000 raised, and now proposes to issue an additional 12,500,000 Shares and 8,750,000 Options (**Placement**). The number of Options to be issued pursuant to the Placement is calculated on the basis of one (1) Option for every three (3) Shares proposed to be issued pursuant to this Resolution and including the Shares that are sought to be ratified pursuant to Resolutions 9 and 10.

A summary of ASX Listing Rule 7.1 is set out in Section 4.

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

11.2 Technical information required by ASX Listing Rule 7.1

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

- (a) the maximum number of Shares to be issued is 12,500,000 Shares and the maximum number of Options to be issued is 8,750,000 Options;
- (b) the Shares and Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the Shares and Options will occur on the same date;
- (c) the issue price of the Shares will be \$0.20 per Share;
- (d) the Options will be issued for nil cash consideration on the basis of one (1) Option for every three (3) Shares issued pursuant to this Resolution and the Shares the subject of Resolutions 9 and 10;
- (e) the Shares and Options will be issued to Lanstead Capital LP who is not a related party of the Company;
- (f) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (g) the Options will be issued on the terms and conditions set out in Schedule 1; and
- (h) the Company has already raised funds from the Placement and used these funds as set out in Section 9.2(h).

12. RESOLUTION 12 - ISSUE OF SHARES IN LIEU OF COMMISSIONS PAYABLE ON CAPITAL RAISINGS

12.1 General

Resolution 12 seeks Shareholder approval for the issue of up to 3,150,000 Shares in lieu of commissions payable with respect the recent and proposed capital raisings conducted by the Company (i.e. the subject of Resolutions 8, 9, 10 and 11).

The Company has agreed to pay commission of 6% on all funds raised pursuant to the issues contemplated by Resolutions 8, 9, 10 and 11.

The maximum amount to be raised is \$10,500,000 and therefore the maximum cash commission payable is \$630,000 (**Commissions**). The commission is able to be satisfied through the issue of Shares at a deemed issue price of \$0.20 per Share which would result in a maximum of 3,150,000 Shares being issued.

A summary of ASX Listing Rule 7.1 is set out in Section 4.

The effect of Resolution 12 will be to allow the Company to issue the Shares in lieu of the Commissions during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

12.2 Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to Resolution 12:

- (a) the maximum number of Shares to be issued is 3,150,000;
- (b) the Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that issue of the Shares will occur on the same date;
- (c) the deemed issue price will be \$0.20 per Share;
- (d) the Shares will be issued to providers of capital as contemplated by Resolutions 8, 9, 10 and 11. None of whom are a related party of the Company;
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (f) no funds will be raised from the issue of Shares under Resolution 12 as the issue will be made in lieu of cash payment of the Commissions.

GLOSSARY

\$ means Australian dollars.

Acquisitions means the Ruby Acquisition and the Graphite Acquisition.

ASIC means the Australian Securities & Investments Commission.

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

ASX Listing Rules means the Listing Rules of ASX.

Board means the current board of directors of the Company.

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

Chair means the chair of the Meeting.

Closely Related Party of a member of the Key Management Personnel means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependent of the member or the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
- (e) a company the member controls; or
- (f) a person prescribed by the Corporations Regulations 2001 (Cth) for the purposes of the definition of 'closely related party' in the Corporations Act.

Company means Mustang Resources Limited (ACN 090 074 785).

Constitution means the Company's constitution.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the current directors of the Company.

Explanatory Statement means the explanatory statement accompanying the Notice.

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

Graphite Acquisition has the meaning given in Section 3.2.

Graphite Licences means any two of the following graphite licences located in Mozambique:

- (a) 75% of 6526:
- (b) 90% of 6363L;
- (c) 95% of 7486L; and
- (d) 95% of 7506L.

Independent Expert's Report means the report set out in Annexure A to this Notice.

Key Management Personnel has the same meaning as in the accounting standards issued by the Australian Accounting Standards Board and means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, or if the Company is part of a consolidated entity, of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the Company, or if the Company is part of a consolidated entity, of an entity within the consolidated group.

Loans has the meaning given in Section 9.1.

Loan Conversion has the meaning given in Section 9.1.

Montepuez has the meaning given in Section 3.1.

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

Option means an option to acquire a Share with the terms and conditions set out in Schedule 1.

Optionholder means a holder of an Option.

Placement has the meaning given in Section 11.1.

Proxy Form means the proxy form accompanying the Notice.

Ratification has the meaning given in Section 10.1.

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

Related Party Vendors means Elba Investments Pty Ltd and Regius Resources Group Ltd.

Ruby Acquisition has the meaning given in Section 3.1.

Section means a section of the Explanatory Statement.

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

Shareholder means a registered holder of a Share.

Unrelated Vendors means all Vendors other than the Related Party Vendors.

Vendors means Elba Investments Pty Ltd, Regius Resources Group Ltd, Alimold Pty Ltd and other minority shareholders of Montepuez who are neither related parties or substantial holders of the Company .
WST means Western Standard Time as observed in Perth, Western Australia.

SCHEDULE 1 - TERMS AND CONDITIONS OF OPTIONS

(a) Entitlement

Subject to paragraph (m), each Option entitles the holder to subscribe for one Share upon exercise of the Option.

(b) Exercise Price

Subject to paragraph (j) and (l), the amount payable upon exercise of each Option will be \$0.25 (**Exercise Price**).

(c) Expiry Date

Each Option will expire at 5:00 pm (WST) on 30 June 2017 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) Exercise Period

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

(e) Notice of Exercise

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

(f) Exercise Date

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

(g) Timing of issue of Shares on exercise

Within 15 Business Days after the later of the following:

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

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

- (iii) allot and issue the number of Shares required under these terms and conditions in respect of the number of Options specified in the Notice of Exercise and for which cleared funds have been received by the Company;
- (iv) if required, give ASX a notice that complies with section 708A(5)(e) of the Corporations Act, or, if the Company is unable to issue such a notice, lodge with ASIC a prospectus prepared in accordance with the

Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors; and

(v) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of the Options.

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

(h) Shares issued on exercise

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

(i) Quotation of Shares issued on exercise

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

(i) Reconstruction of capital

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

(k) Participation in new issues

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

(I) Adjustment for rights issue

In the event the Company proceeds with a pro rata issue (except a bonus issue) of securities to Shareholders after the date of issue of the Options, the Exercise Price may be reduced in accordance with the formula set out in ASX Listing Rule 6.22.2.

(m) Adjustment for bonus issue of Shares

If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu or in satisfaction of dividends by way of dividend reinvestment):

- (i) the number of Shares which must be issued on exercise of an Option will be increased by the number of Shares which the Optionholder would have received if the Optionholder had exercised the Options before the record date for the bonus issue; and
- (ii) no change will be made to the Exercise Price.

(n) **Transferability**

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

PROXY FORM

MUSTANG RESOURCES LIMITED ACN 090 074 785

GENERAL MEETING

I/We							
of:							
being a Shar	eholder entitled to c	attend and vote at	the Meeting, hereb	/ appoin	t:		
Name:				, - 1-1			
Name.							
OR:	the Chair of the	Meeting as my/our	proxy.				
accordance vaws as the pro 2000, on Friday CHAIR'S VOTING The Chair inte	with the following dispaysees fit, at the May 26 February 2016 of INTENTION IN RELIANCE to vote undirecting his/her voting it	rections, or, if no deeting to be held of the control of the contr	our of all Resolutions solution. In the ever	n given, evel 17,3 eof. . In exc	and subj 383 Kent S eptional	ect to the re Street, Sydne circumstan	elevant ey NSW ces the
	mmediately disclosi		the change.			4.0.4.11.107	
Resolution 1	siness of the Meeting	9			FOR □	AGAINST	ABSTAIN
Resolution 1	Ruby Acquisition	un Shares for Puby Ac	quisition – Related Part	.,		_	
Resolution 2	Vendors	in shales for Roby Ac	quisilion – Relatea Fair	у			
Resolution 3	Issue of Consideration	n Shares for Ruby Ac	quisition – Other Vendo	ors			
Resolution 4	Graphite Acquisition						
Resolution 5	Issue of Shares in cor payments – unrelate		llation of cash perform	ance			
Resolution 6	Issue of Shares in cor payments – Regius R		llation of cash perform	ance			
Resolution 7	Issue of Shares in cor payments – Elba Inve		llation of cash perform	ance			
Resolution 8	Issue of Shares and C	Options – Capital Rais	ing				
Resolution 9	Ratification of Prior Is	ssue of Shares (7.1) – L	.anstead				
Resolution 10	Ratification of Prior Is	ssue of Shares (7.1A) -	- Lanstead				
Resolution 11	Issue of Shares and C	Options – Lanstead					
Resolution 12	Issue of Shares in lieu	of commission paya	ble on capital raisings				
			Resolution, you are a s will not be counted				
f two proxies ar	e being appointed, the	e proportion of voting	rights this proxy repres	ents is:			%
Signature of Sh		у разролион он тошид	g p.ox, ropros				
ndividual or S	` '	Shareholder 2		Shareho	ldor 3		
naiviauai oi s	narenolaer i			Sharenc	nuel 3		
Sole Director/Co	ompany Secretary	Director		Director/	Company	Secretary	
Date:	, , ,				, ,	,	
Contact name	•:		 Contact ph (dayti 	me):			
E-mail address			Consent for conta	ct by e-i		ES NO]

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Instructions for completing Proxy Form

- 1. (Appointing a proxy): A Shareholder entitled to attend and cast a vote at the Meeting is entitled to appoint a proxy to attend and vote on their behalf at the Meeting. If a Shareholder is entitled to cast 2 or more votes at the Meeting, the Shareholder may appoint a second proxy to attend and vote on their behalf at the Meeting. However, where both proxies attend the Meeting, voting may only be exercised on a poll. The appointment of a second proxy must be done on a separate copy of the Proxy Form. A Shareholder who appoints 2 proxies may specify the proportion or number of votes each proxy is appointed to exercise. If a Shareholder appoints 2 proxies and the appointments do not specify the proportion or number of the Shareholder's votes each proxy is appointed to exercise, each proxy may exercise one-half of the votes. Any fractions of votes resulting from the application of these principles will be disregarded. A duly appointed proxy need not be a Shareholder.
- 2. (Direction to vote): A Shareholder may direct a proxy how to vote by marking one of the boxes opposite each item of business. The direction may specify the proportion or number of votes that the proxy may exercise by writing the percentage or number of Shares next to the box marked for the relevant item of business. Where a box is not marked the proxy may vote as they choose subject to the relevant laws. Where more than one box is marked on an item the vote will be invalid on that item.

3. (Signing instructions):

- (Individual): Where the holding is in one name, the Shareholder must sign.
- (Joint holding): Where the holding is in more than one name, all of the Shareholders should sign.
- (**Power of attorney**): If you have not already provided the power of attorney with the registry, please attach a certified photocopy of the power of attorney to this Proxy Form when you return it.
- (Companies): Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held. In addition, if a representative of a company is appointed pursuant to Section 250D of the Corporations Act to attend the Meeting, the documentation evidencing such appointment should be produced prior to admission to the Meeting. A form of a certificate evidencing the appointment may be obtained from the Company.
- 4. (Attending the Meeting): Completion of a Proxy Form will not prevent individual Shareholders from attending the Meeting in person if they wish. Where a Shareholder completes and lodges a valid Proxy Form and attends the Meeting in person, then the proxy's authority to speak and vote for that Shareholder is suspended while the Shareholder is present at the Meeting.
- 5. (**Return of Proxy Form**): To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - (a) post to Mustang Resources Limited, Level 1, 566 Elizabeth Street, Melbourne, Victoria, 3000; or; or
 - (b) facsimile to the Company on facsimile number +61 3 9349 1186 or
 - (c) email to the Company at chrisr@mustangresources.com.au,

so that it is received not less than 48 hours prior to commencement of the Meeting.

Proxy Forms received later than this time will be invalid.

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ANNEXURE A -	INDEPENDENT	EXPERT'S	REPORT	







Financial Services Guide

7 January 2016

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by Mustang Resources Limited ('Mustang') to provide an independent expert's report on the proposal to acquire the following:

• 80% of the shares in Montepuez Minerals Pty Ltd ('Montepuez Minerals'), majority owned by Regius Resources, which will provide Mustang with majority interests in three prospective ruby prospecting and exploration licences in the Montepuez area of Mozambique.

You will be provided with a copy of our report as a retail client because you are a shareholder of Mustang.

Financial Services Guide

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

This FSG includes information about:

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

Information about us

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

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

Financial services we are licensed to provide

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

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

General Financial Product Advice

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



Financial Services Guide

Page 2

Fees, commissions and other benefits that we may receive

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

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

BDO has previously prepared an independent expert's report for OGI which was renamed Mustang for which a fee of \$18,000 was charged. BDO also prepared an investigating accountant's report for which \$8,000 was received.

Remuneration or other benefits received by our employees

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

Referrals

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

Complaints resolution

Internal complaints resolution process

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

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

Referral to External Dispute Resolution Scheme

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

Financial Ombudsman Service GPO Box 3 Melbourne VIC 3001

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

Email: info@fos.org.au

Contact details

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



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Appendix 1 - Glossary and copyright notice

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 $\ensuremath{\text{@}}$ 2015 BDO Corporate Finance (WA) Pty Ltd



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

The Directors Mustang Resources Limited 566 Elizabeth Street Melbourne VIC 3000

7 January 2015

Dear Directors

INDEPENDENT EXPERT'S REPORT

Introduction

In October 2015 Mustang Resources Limited ('Mustang or the Company') made the following announcements:

On 22 October 2015 Mustang announced that it had agreed to acquire 80% of the shares and performance rights in Montepuez Minerals Pty Ltd ('Montepuez Minerals'), majority owned by Regius Resources, which will provide Mustang with majority interests in three prospective ruby prospecting and exploration licences in the Montepuez area of Mozambique. (the 'Proposed Transaction').

BDO has been appointed by the Directors of Mustang to prepare an IER expressing our opinion as to whether or not the Proposed Transaction is fair and reasonable to the non-associated shareholders of Mustang ('Shareholders') under Australian Securities Exchange ('ASX') Listing Rule 10.1.

The IER is required under ASX Listing Rule 10.1 because the companies from which Mustang is acquiring the shares in Montepuez Minerals are entities associated with Cobus van Wyk, and Frank Petruzzelli who are directors of Mustang and Alimold Pty Ltd a substantial shareholder of the Company. ASX Listing Rule 10.1 requires that the acquisition of a substantial asset from a director of a public company must be approved by the holders of the entity's ordinary securities.

In addition on 1 September 2015 Mustang announced that it had entered into a binding term sheet to acquire an option to acquire majority interests in two graphite licences in the Cabo Delgado province of Mozambique from Regius Resources Group Limited ('Regius Resources') an entity associated with Cobus van Wyk. There are also a number of additional resolutions contained in the notice of meeting however these are not subject to the requirement of an independent expert's report. As none of the resolutions are inter-conditional on the Proposed Transaction we have not incorporated them into our analysis.

Summary and Opinion

2.1 Purpose of the report

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



Our Report is prepared pursuant to ASX listing rule 10.1 and is to be included in the Explanatory Memorandum for Mustang in order to assist the Shareholders in their decision whether to approve the Proposed Transaction.

2.2 Approach

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

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

- How the value of the consideration provided compares to the value of the assets acquired;
- The likelihood of a superior alternative offer being available to Mustang;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Proposed Transaction; and
- The position of Shareholders should the Proposed Transaction not proceed.

2.3 Opinion

We have considered the terms of the Proposed Transaction as outlined in the body of this report and have concluded that, in the absence of a superior offer, the Proposed Transaction is not fair but reasonable to Shareholders. In our opinion, the Proposed Transaction is not fair because the value of the consideration paid exceeds the value of the asset acquired. However, we consider the Proposed Transaction to be reasonable because the advantages of the Proposed Transaction to Shareholders are greater than the disadvantages. In particular, the ability of the Company to raise capital which will enable work programs to be undertaken on the Company's assets. This may enable the Company to continue to trade in excess of it's net asset value. We also note that on a net asset valuation basis there is an overlap of the range of consideration provided and the value of the asset acquired.

2.4 Fairness

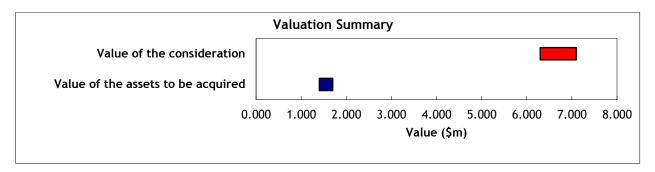
In section 12 we determined that the Proposed Transaction consideration compares to the value of the assets acquired, as detailed below.

	Ref	Low \$m	Preferred \$m	High \$m
Value of consideration	10.4	6.3	6.7	7.1
Value of the assets acquired	11	1.4	1.7	1.9

Source: BDO analysis

The above valuation ranges are graphically presented below:





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

2.5 Reasonableness

We have considered the analysis in section 13 of this report, in terms of both

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

In our opinion, the position of Shareholders if the Proposed Transaction is approved is more advantageous than the position if the Proposed Transaction is not approved. Accordingly, in the absence of any other relevant information and/or a superior proposal we believe that the Proposed Transaction is reasonable for Shareholders. In particular, the ability of the Company to raise capital which will enable work programs to be undertaken on the Company's assets. This may enable the Company to continue to trade in excess of it's net asset value. We also note that on a net asset valuation basis there is an overlap of the range of consideration provided and the value of the asset acquired.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES						
Section	Advantages	Section	Disadvantages			
13.3	Potential upside from the ruby assets acquired	13.4	The Proposed Transaction is not fair			
13.3	Capital raising potential	13.4	Dilution of existing shareholders			
13.4	Ability to trade above net asset value					

Other key matters we have considered include:

Section	Description
13.1	Alternative proposal
13.2	Consequences of not approving the Proposed Transaction



3. Scope of the Report

3.1 Purpose of the Report

ASX Listing Rule 10.1 requires that a listed entity must obtain shareholders' approval before it acquires or disposes of a substantial asset, when the consideration to be paid for the asset or the value of the asset being disposed constitutes more than 5% of the equity interest of that entity at the date of the last audited accounts. Based on the audited accounts as at 30 June 2015, the value of the consideration to be paid for assets is greater than 5% of the equity interest of Mustang.

Listing Rule 10.1 applies where the vendor or acquirer of the relevant assets is a related party or substantial shareholder of the listed entity.

Regius Resources, and Elba Investments the companies from which Mustang is acquiring shares in Montepuez Minerals, is a related party of Mustang because Regius Resources is an entity associated with Cobus van Wyk, and Elba Investments is an entity associated with Frank Petruzzelli, who are directors of Mustang. Alimold Pty Ltd is also a vendor of shares in Montepuez Minerals and is a substantial shareholder of Mustang.

Listing Rule 10.10.2 requires the Notice of Meeting for shareholders' approval to be accompanied by a report by an independent expert expressing their opinion as to whether the transaction is fair and reasonable to the shareholders whose votes are not to be disregarded in respect of the transaction, being the non-associated shareholders.

Accordingly, an independent experts' report is required for the Proposed Transaction. The report should provide an opinion by the expert stating whether or not the terms and conditions in relation thereto are fair and reasonable to non-associated shareholders of Mustang.

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

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

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

3.2 Regulatory guidance

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

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

In our opinion, the Proposed Transaction is not a control transaction as defined by RG 111 and we have therefore assessed the Proposed Transaction as a non control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders.



3.3 Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities which are the subject of the offer in a control transaction, the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if the expert believes that, despite being 'not fair', there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

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

- A comparison between the value the consideration provided and the value of the assets acquired (fairness see Section 11 'Is the Proposed Transaction Fair?'); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness see Section 12 'Is the Proposed Transaction Reasonable?').

3.4 APES 225 requirements

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('APES 225').

A Valuation Engagement is defined by APES 225 as follows:

'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.



4. Outline of the Proposed Transaction

As announced on 22 October 2015, the Company has entered a conditional term sheet to acquire an 80% shareholding interest in Montepuez Minerals which has the rights to earn majority interests in three licences in Mozambique (80% of 4143L, 70% of 4258L (with the right to acquire a further 10%) and 70% of 5030L) covering 15,800 hectares located in a proven ruby producing jurisdiction which are prospective for rubies (Ruby Acquisition).

The shareholders of Montepuez from which the Company will be acquiring its 80% shareholding interest are Regius Resources Group Ltd (an entity controlled by Cobus van Wyk, a director of the Company), Alimold Pty Ltd (a substantial holder of the Company) and Elba Investments Pty Ltd (an entity controlled by Mr Frank Petruzzelli, a director of the Company) and other minority shareholders who are neither related parties or substantial holders of the Company (together, Vendors). On 11 December the Company announced an amendment to the consideration payable.

In addition The Company has agreed to transfer to Lanstead Capital LP, a UK institutional investor which has invested \$5,000,000 in the Company (as announced on 23 November 2015 and being the subject of Resolutions 8, 9 and 10), a 5% equity interest in Montepuez. The Company's equity interest in Montepuez will therefore be reduced to 75%. The transfer to Lanstead Capital LP remains subject to completion of the Ruby Acquisition.

The key terms of the Ruby Acquisition are as follows:

- The Company paying the amount of US\$150,000 to Regius Resources Group Ltd as recovery of back costs in developing the assets of Montepuez;
- Subject to the Company having the power to issue such securities, the Company raising a minimum amount of \$6,100,000 in the capital of the Company (less any costs and expenses);
- The consideration payable by the Company is 30,555,556 Shares in Mustang;
- The Company has agreed to provide a secured loan of up to \$5,700,000 to Montepuez on and from settlement unless permitted earlier by the ASX Listing Rules to finance a bulk sampling program on the licences; and
- The Company will appoint one representative of the Vendors as a director of the Company.



5. Profile of Mustang Resources Limited

5.1 History

Mustang Resources Limited engages in the exploration and mining of diamond and graphite projects in Mozambique. It holds interests in the Save River diamond project; and Balama graphite project. The company was formerly known as OGI Group Ltd and changed its name to Mustang Resources Limited in January 2015. Mustang Resources Limited is based in Melbourne, Australia.

Prior to the 2015 financial year Mustang was focused on US oil and gas exploration but during the year to 30 June 2015 the Company's US oil and gas interests were disposed of and associated debts and other liabilities were settled or satisfied. The Company focused its attention on graphite and diamond exploration and prospecting in Mozambique.

Mustang voluntarily suspended its listing on the ASX in January 2015 but after a successful capital raising it was relisted in June 2015.

5.2 Projects

Save River Project

The Save River Diamond Project is the collective name for the two concessions in the Gaza Province alongside the Save River in Mozambique near the Zimbabwe border. The two concessions are:

Licence	Area km²	Valid until	Right to earn interest	Licence holder
4525L	23.84	21 Nov 2016	70%	Mozvest Mining Limitada
4969L	216.6	26 April 2017	65%	Save River Diamonds Pty Ltd & Manuel Renato Matusse

The project area comprises 24,000 hectares and is situated in the Save River Valley, downstream from the Murowa and Marange diamond fields in Zimbabwe.

Mustang currently holds 78% of Save River Diamonds Pty Ltd which in turn holds the rights to acquire a 65% interest in prospecting and exploration licence 4969L. Mustang also holds 74% of Sese Diamonds Pty Ltd which in turn owns 70% of Mozvest Mining Limitada, the holder of licence 4525L. So overall Mustang owns a right to 50.7% of licence 4969L and 51.85% of licence 4525L.

Current progress on the project is as follows:

- Mustang has commenced digging of lower level gravels with some gem quality diamonds recovered
- The diamond recovery plant has been successfully upgraded from 50m³ per day to 1,000m³ per day
- Reverse circulation drilling has commenced to define high priority target areas

Balama Graphite Project

The Balama Graphite Project is in the Cabo Delgado province in northern Mozambique located directly along strike from the Syrah Resources' Balama graphite deposit and Triton Minerals' Nicanda Hill deposit and approximately 200 kilometres from the port of Pemba.



In August 2015, Mustang commissioned SkyTEM Australia Pty Ltd to complete a highly detailed airborne electromagnetic survey across all six of the Company's graphite prospecting licences in Northern Mozambique. The initial 2,400km line survey was focused on the lithology which has been regionally mapped as quartz mica gneiss and schist which is known to be graphite bearing.

Mustang has commenced a maiden drilling program across its Balama Graphite Project tenements focused on evaluating a number of promising electromagnetic anomalies located along strike lines from known graphite deposits and/or anomalies, aiming to target shallow graphite mineralisation identified by initial scout drilling and rock chip sampling carried out in 2014.



5.3 Historical Balance Sheet

	Audited as at	Audited as at
Statement of Financial Position	30-Jun-15	30-Jun-14
	\$	\$
CURRENT ASSETS		
Cash and cash equivalents	3,711,787	1,477,814
Trade and other receivables	670,702	1,231,921
Prepayments	116,609	25,732
TOTAL CURRENT ASSETS	4,499,098	2,735,467
NON-CURRENT ASSETS		
Trade and other receivables	1,014	249,598
Plant and equipment	1,676,172	6,282
Exploration and evaluation assets	21,307,109	-
Other assets	-	777,076
TOTAL NON-CURRENT ASSETS	22,984,295	1,032,956
TOTAL ASSETS	27,483,393	3,768,423
CURRENT LIABILITIES		
Trade and other payables	1,783,718	1,764,425
Interest bearing loans and borrowings	-	2,086,000
Cash call	-	37,028
Provisions	136,777	111,277
TOTAL CURRENT LIABILITIES	1,920,495	3,998,730
NON-CURRENT LIABILITIES		
Other payables	1,464,844	-
Provisions	-	182,997
TOTAL NON-CURRENT LIABILITIES	1,464,844	182,997
TOTAL LIABILITIES	3,385,339	4,181,727
NET ASSETS	24,098,054	(413,304)
EQUITY		
Contributed equity	128,821,203	112,248,925
Reserves	13,341,691	641,983
Accumulated losses	(119,923,917)	(113,304,212)
PARENT INTERESTS	22,238,977	(413,304)
Non-controlling interests	1,859,077	-
TOTAL EQUITY	24,098,054	(413,304)
Source: Annual Report 2015		

Source: Annual Report 2015

The audit report for Mustang's 2015 Annual Report includes an 'Emphasis of matter' which highlights the following:

• Note 1(c) 'Going Concern' to the financial statements indicates that the Company incurred a net loss for the year of \$6,620,704, has a closing cash balance of \$3,711,787 and a working capital surplus of \$2,578,603 for the year ended 30 June 2015. The Company has significant contingent capital commitments in the next financial year to progress its exploration projects and it is likely the Company will seek to raise additional capital to ensure the ongoing development of projects until such time as they are self-funding. These conditions, along with other matters set



forth in Note 1(c) indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern and therefore, the Company may be able to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

The most significant change from 2014 to 2015 was the disposal of the Company's oil and gas assets and the acquisition of diamond and graphite projects.

5.4 Historical Statement of Comprehensive Income

	Audited for the	Audited for the
Statement of Comprehensive Income	year ended 30-Jun-15	year ended 30-Jun-14
	\$	\$
Interest revenue	2,672	758
Impairment of debtors	-	(250,000)
Administration costs	(1,687,089)	(1,658,636)
Relisting and restructure	(636,432)	-
Profit on sale of assets	40,682	-
Realised FX gain	105,994	-
Future value gain/ (loss) on derivatives	-	(20,212)
Finance costs	(201,967)	(266,295)
Loss from continuing operations before income tax	(2,376,140)	(2,194,385)
Income tax expense	-	-
Loss from continuing operations after income tax	(2,376,140)	(2,194,385)
Loss from discontinued operations	(4,244,564)	(21,249,731)
Net loss for the year	(6,620,704)	(23,444,116)
Foreign currency translation gain	4,743,596	167,294
Total comprehensive loss for the year	(1,877,108)	(23,276,822)

Source: Annual Report 2015

5.5 Capital Structure

The share structure of Mustang as at 16 September 2015 is outlined below:

	Number
Total Ordinary Shares on Issue	90,679,097
Top 20 Shareholders	51,823,011
Top 20 Shareholders - % of shares on issue	57.2%

Source: Annual Report 2015



The range of shares held in Mustang as at 16 September 2015 is as follows:

Range of Shares Held	No. of Ordinary Shareholders
1-1,000	4,234
1,001-5,000	324
5,001-10,000	104
10,001-100,000	275
100,001 - and over	129
TOTAL	5,066

Source: Annual Report 2015

The ordinary shares held by the most significant shareholders as at 16 September 2015 are detailed below:

Name	No of Ordinary Shares Held	Percentage of Issued Shares (%)
Elba Investments Pty Ltd	15,925,201	17.6
Alimold Pty Ltd	12,382,247	13.7%
Regius Resources Group Ltd	4,900,000	5.4%
Total Top 3	33,207,448	36.7%
Others	57,471,649	63.3%
Total Ordinary Shares on Issue	90,679,097	100%

Source: Annual Report 2015

Options on issue of Mustang as at 16 September 2015 are outlined below:

Number of Options	Exercise Price (\$)	Expiry Date
149,253	0.2412	10/11/2017
2,238,806	0.2100	21/5/2017
500,000	0.2000	31/10/2016
1,500,000	0.200	1/12/2016

Source: Annual Report 2015



Profile of the assets to be acquired

6.1 Interest in Montepuez Minerals

The Proposed Transaction includes Mustang's acquisition of 80% of the shares and performance rights in Montepuez Minerals which will provide Mustang with majority interests in three prospective ruby prospecting and exploration licences in the Montepuez area of Mozambique.

Montepuez Ruby Project

Mustang recently acquired the right to earn 70% to 80% interest in three prospective ruby licences covering 15,800 hectares in the Montepuez ruby province in northern Mozambique.

The Montepuez region is the world's largest single source of ruby production and is also the location where Gemfields PLC are operating having discovered the world's largest ruby deposit adjacent to Mustang's licences.

Mustang is intending to commence a (low capital expenditure) bulk sampling program shortly.

6.2 Montepuez Minerals - History

Montepuez Minerals is an Australian private company which was incorporated on 4 June 2015.

Regius has entered into joint venture agreements with the Exploration Licence holders of licences 4143L, 4258L and 5030L to fund and explore those licence areas. Regius holds the right to earn an 80% interest in licence 4143L and a 70% interest in licence 4258L and licence 5030L, including a call option to acquire a further 10% interest in licence 4258L following the conclusion of a bulk sampling program. Regius' rights to earn interests in the licences have been validly assigned and ceded to Montepuez Minerals Pty Ltd. The shareholders of Montepuez Minerals Pty Ltd (including Regius) have agreed to collectively sell 80% of their shares in the Company to Mustang Resources Ltd.

The Exploration Licences were granted to their respective holders with the following applicable dates:

- Licence 4143L: issued to Ibrahima Bã on 14/12/2011 and expires on 14/12/2016 (First term, further 3-year extension available)
- Licence 4258L: issued to CRL Investimentos Lda on 21/07/2011 and expires on 21/07/2016 (First term, further 3-year extension available)
- Licence 5030L: issued to Abdurremane Lino de Almedia on 03/09/2013 and expires on 03/09/215 (First term, further 3-year extension available)

We have been advised that Montepuez does not have any other assets or liabilities.



7. Economic analysis

7.1 Global Overview

Growth of global economic activity remains moderate. In the euro area, economic activity has continued to improve gradually, although activity still remains low. In the United States of America ('USA'), recent data suggest that the slowdown of economic activity at the beginning of year was temporary, with economic growth returning to the pace recorded at the end of 2014.

In China, economic activity, particularly in resource intensive sectors has continued to moderate since the first half of this year. In response, the Chinese government has adjusted various policy settings to provide more support and growth. A more accommodative monetary policy, including reductions in benchmark interest rates and reserve requirement rations, together with the announcement of further approvals for infrastructure investment, should provide some support to growth in coming quarters.

The Japanese economy has recovered since late last year. However, in the rest of east Asia, growth has declined to be slightly below the decade-average in the first half of 2015. The slowdown in economic growth has been driven by a weaker growth in exports within the region, as domestic demand growth remained robust.

Advanced economies have continued to recover while growth in emerging economies has eased over the recent months. Concerns regarding spillovers from developments in Greece have subsided, with focus shifting towards the reaction of financial markets to a potential increase in policy rates by the Federal Reserve. Despite fluctuations in the global financial markets associated with the respective developments in China and Greece, long-term borrowing rates for most sovereigns and creditworthy private borrowers remain low.

Following a sharp and long-lasting fall, oil prices have risen slightly in recent months. This has weakened disinflationary forces in many countries, fuelling an increase in price growth in the euro area. However, price growth in the global economy remains very low, and in some European economies it is still negative. In these conditions, major central banks are keeping interest rates close to zero and the European Central Bank continues with its asset purchase programme.

7.2 Australia

In the light of significant structural changes, the Australian economy has continued to grow over the past year, but at a rate somewhat below its longer-term average. Following strong growth in the March quarter, recent data indicates that growth to be in excess of 3% by 2017. The rate of unemployment, though elevated, has had little change recently. Overall, the economy is likely to be operating with a degree of spare capacity for some time yet. With very slow growth in labour costs, inflation is forecast to remain consistent with the Reserve Bank of Australia ('RBA') target over the next one to two years, despite a lower exchange rate.

Low interest rates in Australia are acting to support borrowing and spending. Credit is recording moderate growth overall, with stronger borrowing by businesses and growth in lending to the housing market broadly steady over recent months. Dwelling prices continue to rise strongly in Sydney, though trends have been more varied in a number of other cities. The RBA is working with other regulators to assess and contain risks that may arise from the housing market. In other asset markets, prices for equities and commercial property have been supported by lower long-term interest rates. The Australian Dollar continues to adjust to the significant declines in key commodity prices.



At its most recent meeting, the RBA decided to leave the cash rate unchanged at 2.0%. However, Glenn Stevens has stated that the RBA expects to increase its policy rate in the coming periods.

The Australian dollar has declined noticeably against a rising US dollar over the past year, though less so against a basket of currencies. Further depreciation seems both likely and necessary, particularly given the significant declines in key commodity prices. A lower exchange rate is likely to be needed to achieve balanced growth in the economy.

7.3 Commodities

Uncertainty about the state of the Chinese economy has caused a new increase in commodity price volatility. The price of crude oil has decreased even further following concerns that demand from China would fall. Other commodities such as copper and steel have also experienced a drop in prices.

On the other hand, demand for gold has increased as investors perceive gold as a safe haven asset. Precious metals have also seen a small increase in prices, although demand is subdued from the low levels of inflation globally and speculation of a potential increase in rates by the US Federal Reserve.

The strengthening of the US dollar, improvements in the US economy and speculation surrounding a potential increase in US rates by the Federal Reserve were all factors in the decline of gold prices earlier in the year. More recently, gold has benefited from safe-haven demand caused by the devaluation of the Chinese renminbi and concerns surrounding the Asian stock market. Gold traders have also begun to increase their positions as there are thoughts that the current price already reflects a rate hike by the US Federal Reserve, with a further hike being unlikely in the near term.

Source: www.rba.gov.au Statement by Glenn Stevens, Governor: Monetary Policy Decision 1 December 2015



8. Industry analysis

8.1 Rubies

Rubies are a red coloured gemstone formed from the mineral Corundum (Aluminium Oxide). Rubies are usually the result of chromium and titanium inclusions in Corundum, the more common form of Corundum is in the form of Sapphire. Corundum is an extremely hard mineral and scores a 9 on the Moh's Hardness scale. It is second only to the Diamond.

Corundum can usually be found in alluvial and eluvia deposits similar to diamonds. Corundum can also be found in pegmatite's that are silica poor. Sapphires are the most common type of Corundum. They can be found in many regions around the world from India, to East Africa, to South America, the Hindu Kush and there are even a few deposits in the United States. Prices of Rubies are determined by colour as well as cut, clarity and carrat weight with colour being the most important factor.

The price can vary significantly with prices realised by Gemfields PLC at auction between \$4.03 per carat ant \$688.64 per carat. These auctions took place between June 2014 and June 2015 with total sales of US\$112.2 million. The Montepuez Minerals assets are located near the Gemfields PLC operations.

Further information is contained in Appendix 4.

8.2 Graphite

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

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

"Worldwide demand for graphite steadily increased throughout 2012, 2013, and into 2014. This increase resulted from the improvement of global economic conditions and its impact on industries that use graphite. Principal import sources of natural graphite were, in descending order of tonnage, Mexico, China, Canada, Brazil, and Madagascar, which combined, accounted for 96% of the tonnage and 89% of the value of total imports. Mexico provided all the amorphous graphite, and Sri Lanka provided all the lump and chippy dust variety. China, Canada, and Madagascar were, in descending order of tonnage, the major suppliers of crystalline flake and flake dust graphite. During 2014, China produced 67% of the world's graphite and consumed 35%. Graphite production increased in Canada, China, Madagascar, Mexico, Turkey, and Zimbabwe from that of 2013, and production decreased in Brazil from 2013 production levels" Source US Geological Survey

Graphite prices are a function of flake size and purity with large flake commanding premium in US\$ per tonne

Large flake: ~ \$1,300 (<80 mesh)

Medium flake: ~\$1,100 (100-80 mesh)

Small flake: ~\$7,50 (>100 mesh)

Further commentary on Graphite projects is included in Appendix 3.



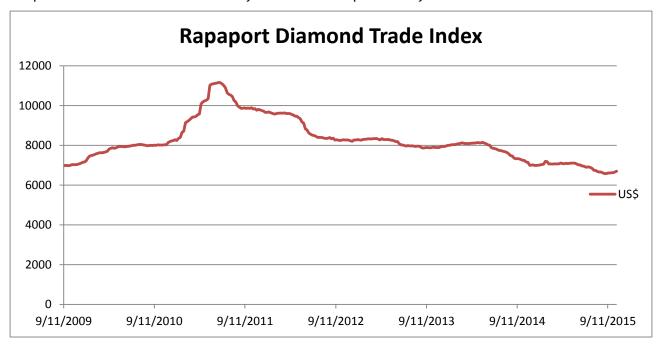
8.3 Diamonds

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

Global demand for diamond jewellery reached a record high of US\$81 billion in 2014, and this demand is expected to continue to grow over the long-term, driven by the ongoing economic recovery in the US (the world's largest diamond jewellery market) and the continued growth of the middle classes in developing markets such as China and India. forecast reduction in supply will likely not be matched by new production in the years ahead and diamond supply is expected to plateau in the second half of the decade, before declining from 2020 onwards.

. Increased demand from the developed world, primarily the US and Europe, returning to positive real growth rates, and continued demand growth from China are expected to drive this demand. However, slower economic growth in the US or China poses a significant downside risk to this demand growth.

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



Source: Bloomberg and BDO Analysis

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



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

9. Valuation approach adopted

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

- Capitalisation of future maintainable earnings ('FME')
- Discounted cash flow ('DCF')
- Quoted market price basis ('QMP')
- Net asset value ('NAV')
- Market based assessment

A summary of each of these methodologies is outlined in Appendix 2.

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

- Net Asset Value
- Market based assessment
- QMP

We have chosen these methodologies for the following reasons:

- We have considered QMP as a primary method In accordance with RG111.69, we note that there is a deep and liquid market for the trading of Mustang shares. Therefore, there is a sufficiently active trading market to reflect a fair market value of the Company's shares, which makes the QMP method a reliable valuation approach. RG 111.32 also requires the consideration of the volatility of the market price of the entity's shares. We note that the share price of Mustang has traded in a narrow range in the period leading up to the acquisition announcement and there were minimal days where no trading occurred
- Mustang is a holder of exploration assets with a limited amount of revenue produced from bulk sampling, as such we do not consider that we have reasonable grounds to use an income based valuation methodology such as DCF.
- We have used a market based assessment by Agricola Mining Consultants Pty Ltd ("Agricola") to value
 the mineral asset interests being acquired and those held prior to the transaction to undertake a Net
 Asset Valuation as a secondary method as required by ASIC's regulatory guidance.



10. Valuation of Mustang prior to the Proposed Transaction

10.1 Quoted Market Prices for Mustang Securities

To provide a comparison to the valuation of Mustang in Section 10.2, we have also assessed the quoted market price for a Mustang share.

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

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

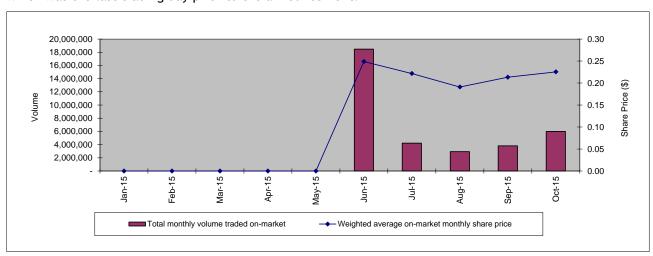
- control over decision making and strategic direction;
- access to underlying cash flows;
- · control over dividend policies; and
- access to potential tax losses.

As the Proposed Transaction is not a control transaction we have not incorporated a premium for control.

Minority interest value

Our analysis of the quoted market price of a Mustang share is based on the pricing prior to the announcement of the Proposed Transaction. This is because the value of a Mustang share after the announcement may include the affects of any change in value as a result of the Proposed Transaction. However, we have considered the value of a Mustang share following the announcement when we have considered reasonableness in Section 13.

Information on the Proposed Transaction was announced to the market on 22 October 2015. Therefore, the following chart provides a summary of the share price movement over the period to 21 October 2015 which was the last trading day prior to the announcement.



Source: Bloomberg

The daily price of Mustang shares from one year prior to announcement to 21 October 2015 has ranged from a low of \$0.145 on 24 August to a high of \$0.33 on 15 June 2015.



The Company was suspended from trading until June 2015 following a restructuring to dispose of its oil and gas assets and the acquisition of the Save River and Balama projects.

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

Date	Announcement	Closing Share Price Following Announcement \$ (movement)	Closing Share Price Three Days After Announcement \$ (movement)
20/10/2015	Balama Graphite Project Update	0.200 • 11.1%	0.200 ▶ 0.0%
19/10/2015	Save River Diamond Project Update	0.225 8.2%	0.195 🕶 13.3%
01/10/2015	Reinstatement to Official Quotation - 2 October 2015	0.185 • 0.0%	0.205 1 0.8%
01/10/2015	Suspension from Official Quotation	0.185 ▶ 0.0%	0.205 1 0.8%
01/10/2015	Save River Diamond Project Update	0.185 • 0.0%	0.205 1 0.8%
01/09/2015	Balama Graphite Project Update	0.200 🔺 5.3%	0.230 15.0 %
17/08/2015	Balama Graphite Project Update	0.195 🔺 2.6%	0.180
30/07/2015	Quarterly Cashflow Report	0.200 ▶ 0.0%	0.185 7.5%
30/07/2015	Quarterly Activities Report	0.200 ▶ 0.0%	0.185 7.5%
14/07/2015	Save River Diamond Project Update	0.220 • 4.3%	0.220 ▶ 0.0%
03/07/2015	Cleansing Prospectus	0.210 ▶ 0.0%	0.200
03/07/2015	Exit from USA OII & Gas Assets	0.210 • 0%	0.200
16/06/2015	Mustang Discovers Diamonds - JORC Table 1	0.260 7%	0.240
15/06/2015	Mustang Discovers Diamonds in Mozambique	0.280 🔺 12%	0.240 14%

The most recent announcements relating to the Save & Balama projects whilst positive resulted in an initial drop in share price, however general market trading was volatile around this period.

To provide further analysis of the market prices for a Mustang share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 21 October 2015.

Share Price per unit	21-Oct-15	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.205				
Volume weighted average price (VWAP)		\$0.227	\$0.221	\$0.212	\$0.216
Source: Bloomberg RDO analysis					

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

An analysis of the volume of trading in Mustang shares for the twelve months to 21 October 2015 is set out below:

Trading days	Share price	Share price	Cumulative volume	As a % of
	low	high	traded	Issued capital
1 Day	\$0.190	\$0.225	344,044	0.38%
10 Days	\$0.190	\$0.250	5,363,010	5.91%
30 Days	\$0.185	\$0.250	8,221,971	9.07%
60 Days	\$0.145	\$0.250	13,173,620	14.53%
90 Days	\$0.145	\$0.250	19,198,060	21.17%
180 Days	N/A	N/A	N/A	N/A
1 Year	N/A	N/A	N/A	N/A

Source: Bloomberg, BDO analysis



This table indicates that Mustang's shares display a high level of liquidity, with 21% of the Company's current issued capital being traded in a 90 trading day period. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

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

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

In the case of Mustang, we are of the view that the market is sufficiently deep as since being requoted trading levels are above 1% per week and despite some peaks in trading there is a degree of consistency to volumes. We do not believe there are material unexplained movements in share price.

Our assessment is that a range of values for Mustang shares based on market pricing, after disregarding post announcement pricing, is between \$0.20 and \$0.225 with a preferred value of \$0.2125. As the Proposed Transaction is not a control transaction we do not need to add a premium for control to this valuation range.



10.2 Net Asset Valuation of Mustang

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

Statement of Financial Position	Note	Audited as at 30-Jun-15 \$	Valuation Low \$	Valuation Preferred \$	Valuation High \$
CURRENT ASSETS					
Cash and cash equivalents	1	3,711,787	1,382,000	1,382,000	1,382,000
Trade and other receivables		670,702	670,702	670,702	670,702
Prepayments		116,609	116,609	116,609	116,609
Financial assets	2	0	1,000,008	1,208,340	1,416,672
TOTAL CURRENT ASSETS		4,499,098	3,169,319	3,377,651	3,585,983
NON-CURRENT ASSETS					
Trade and other receivables		1,014	1,014	1,014	1,014
Plant and equipment		1,676,172	1,676,172	1,676,172	1,676,172
Exploration and evaluation assets	3	21,307,109	4,700,000	5,200,000	5,800,000
Financial assets	2	0	500,004	708,328	708,328
TOTAL NON-CURRENT ASSETS		22,984,295	6,877,190	7,585,514	8,185,514
TOTAL ASSETS		27,483,393	10,046,509	10,963,165	11,771,497
CURRENT LIABILITIES					
Trade and other payables		1,783,718	1,783,718	1,783,718	1,783,718
Provisions		136,777	136,777	136,777	136,777
TOTAL CURRENT LIABILITIES		1,920,495	1,920,495	1,920,495	1,920,495
NON-CURRENT LIABILITIES	4	4 4/4 044	0	0	0
Other payables	4	1,464,844	0	0	0
TOTAL NON-CURRENT LIABILITIES		1,464,844	0	0	0
TOTAL LIABILITIES		3,385,339	1,920,495	1,920,495	1,920,495
NET ASSETS		24,098,054	8,126,014	9,042,670	9,851,002
Shares on issue	5	90,679,097	104,429,497	104,429,497	104,429,497
Value per share controlling interest basis		0.2658	0.078	0.087	0.094
Value per share minority interest basis	6		0.058	0.067	0.075
Source: BDO analysis					

We have been advised that there has not been a significant change in the net assets of Mustang since 30 June 2015 other than in relation to Cash as set out below.

The table above indicates the net asset value of a Mustang share is between \$0.0058 and \$0.075 with a preferred value of \$0.067 on a minority interest basis.

The following adjustments were made to the net assets of Mustang as at 30 June 2015 in arriving at our valuation.

Note 1 Cash

We have adjusted the cash balance to reflect the cash on hand per the last Appendix 5B at 30 September 2015 being \$1,007,000. We have added to this initial payment of \$0.375 million for the subsequent share issue of 12.5 million shares at \$0.20 to raise \$2.5 million with the balance payable over 18 months.

Note 2 Financial assets

Post 30 June 2015 the Company entered into a sharing agreement with Lanstead in respect of the Tranche A funding agreement with Lanstead. Under this agreement monthly instalments are to be received over 18 months based on a benchmark share price of \$0.2667 per share. We have calculated the amount



receivable based on the low of our QMP range of 20 cents and the high value based on the benchmark price as set out below.

Financial Assets	Low Value \$	Preferred Value	High Value \$
Current	1,000,008	1,416,672	1,208,340
Non current	500,004	708,328	604,166

Further details of the sharing agreement are set out in Mustang's ASX announcement dated 23 November 2015 and in the Notice of meeting. Should the share price be below the benchmark price a lower level of cash would be received, we have considered the current share price of \$0.15 and this is not material to our valuation.

Note 3 Valuation of Mustang's mineral assets

We instructed Agricola to provide an independent market valuation of the exploration assets held by Mustang. Agricola considered a number of different valuation methods when valuing the exploration assets of Mustang. Agricola applied the Geoscientific Rating method which assesses key technical attributes to produce a prospectivity rating that is multiplied by a base acquisition cost. We consider this method to be appropriate given the stage of development for Mustang's exploration assets.

The range of values for each of Mustang's exploration assets as calculated by Agricola is set out below:

Mineral Assets	Low Value	Preferred Value	High Value \$
Agricola valuation	4,700,000	5,200,000	5,800,000

Source: Appendix 3

The table above indicates a range of values between \$4.7 million and \$5.8 million, with a preferred value of \$5.2 million.

Note 4 Other Payables

Other payables relate to the estimated liability for a cash payment upon proving a JORC compliant Inferred & Indicated Resource of a minimum of 100 Million tonnes @>5% Total Graphite Content on any of the Balama Licences on or before 31 December 2019. As the valuation undertaken by Agricola in compliance with VALMIN does not attribute a value to this target we have excluded the liability from our valuation. Should this target be met we would expect that the value of the exploration assets would increase.



Note 5 Shares on issue

We have adjusted the shares on issue as follows

	Number of shares
On issue 30 June 2015	90,679,097
Cleansing prospectus issue	400
Issue of 12.5m shares at 20c to Lanstead	12,500,000
Issue of 1.25m shares to Lanstead in lieu of fees	1,250,000
Total	104,429,497

Note 6 Minority interest

The NTA value of a Mustang share is reflective of a controlling interest. This suggests that the acquirer obtains an interest in the Company which allows an influence in the operations and value of that company. As this is not a control transaction we must consider the minority interest value of a Mustang share. We have therefore adjusted our valuation to reflect a minority interest holding. A minority interest discount is the inverse of a premium for control and is calculated using the formula 1- (1÷ (1 + control premium)). As discussed below, we consider an appropriate control premium for Mustang to be in the range of 25% to 35%, giving a minority interest discount in the range of 20% to 26%.

Control Premium

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

Year	Number of Transactions	Average Deal Value (AU\$m)	Average Control Premium (%)
2015	4	336.38	59.76
2014	12	128.96	36.67
2013	7	35.38	47.63
2012	12	35.44	46.47
2011	12	223.04	37.27
2010	19	880.42	40.70
2009	22	102.62	39.93
2008	7	487.96	41.25
	Median	176.00	40.97
	Mean	278.77	43.71

Source: Bloomberg and BDO analysis

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

- Nature and magnitude of non-operating assets;
- Nature and magnitude of discretionary expenses;



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

The table above indicates that the long term average control premium paid for ASX-listed mining companies is approximately 40%. However, given that Mustang's assets are at an early stage of exploration we believe that an appropriate control premium is in the range of 25% to 35%.

10.3 Assessment of a Mustang share value

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

	Low \$	Midpoint \$	High \$
Net asset value (Section 10.2)	0.058	0.067	0.074
ASX market prices (Section 10.1)	0.2000	0.2125	0.2250

Source: BDO analysis

We note that the values obtained from the NAV approach are lower than the values obtained from the QMP approach. The difference between the valuation obtained under the NAV and QMP approaches can be explained by the following:

- The QMP value reflects investors' perception and speculation of the future prospects of Mustang and may have taken into account the future prospects of the exploration and evaluation assets in a manner that incorporates a higher premium than the adjustment to the Geoscientific method adopted by Agricola in arriving at a market value. We note that the QMP value will only be sustained if the Company has adequate funding to enable the Company's projects to be progressed to realise their potential.
- We note that the market value ascribed by Agricola is lower than the book value at 30 June 2015, the
 book value at 30 June 2015 incorporates the acquisition value which is based on the shares and
 performance rights issued which have performance milestones attached. Investors may be forming a
 view on the likelihood of those future milestones being met whilst a VALMIN based valuation report
 reflects the current value and therefore does not.
- We also note that the capital raising undertaken post the announcement of the acquisition was based on \$0.20 per share which further reflects the view of an arm's length buyer.
- In accordance with RG111.69, we note that there is a deep and liquid market for the trading of Mustang shares. Therefore, there is a sufficiently active trading market to reflect a fair market value of the Company's shares, which makes the QMP method a reliable valuation approach.
- RG 111.32 also requires the consideration of the volatility of the market price of the entity's shares.
 We note that the share price of Mustang has traded in a narrow range in the period leading up to the acquisition announcement and there were minimal days where no trading occurred.



Based on the results above we consider the value of a Mustang share to be between \$0.20 and \$0.225, with a midpoint value of \$0.2125. However we note that in the absence of further funding to progress the Company's projects further it is likely that the QMP will decline to levels that are similar to the NAV valuation.

10.4 Assessment of the value of the consideration

Under the terms of the agreement Mustang is to issue 30,555,556 shares and to reimburse Regius Resources Group for US\$150,000 of past expenditure. This is summarised below

	Low \$	Preferred \$	High \$
Mustang share value	0.2000	0.2125	0.2250
Share consideration	6,111,111	6,493,056	6,875,000
Reimbursement converted at 0.72	208,333	208,333	208,333
Total	6,319,445	6,701,389	7,083,334

11. Valuation of the assets acquired

We instructed Agricola to provide an independent market valuation of the exploration interest to be acquired by Mustang in the Rubies Project. Agricola considered a number of different valuation methods when valuing the exploration assets. Agricola applied the Geoscientific Rating method which assesses key technical attributes to produce a prospectivity rating that is multiplied by a base acquisition cost. We consider this method to be appropriate given the stage of development for the assets.

As set out in Appendix 4, Agricola concluded the assets are in the range of \$1.4 million to \$1.9 million with a preferred value of \$1.7 million.

12. Is the Proposed Transaction fair?

The value of the consideration is compared below to the value of the assets acquired:

	Ref	Low \$m	Preferred \$m	High \$m
Value of consideration	10.4	6.3	6.7	7.1
Value of the assets acquired	11	1.4	1.7	1.9

We note from the table above that the value of the consideration exceeds the value of the assets acquired. Therefore, we consider that the Proposed Transaction is not fair.



13. Is the Proposed Transaction reasonable?

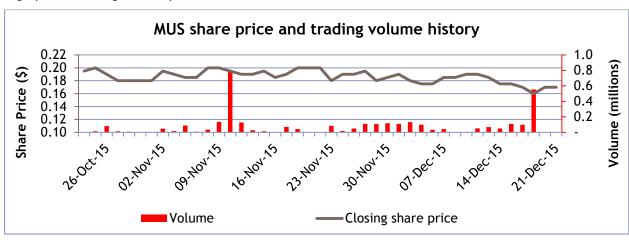
13.1 Alternative Proposal

We are unaware of any alternative proposal.

13.2 Consequences of not Approving the Proposed Transaction

Post announcement pricing

We have analysed movements in Mustang's share price since the Proposed Transaction was announced. A graph of Mustang's share price since the announcement is set out below.



Source: Bloomberg

Since the announcement on 22 October 2015 the Mustang share price traded in a range of between \$0.18 and \$0.20 which was slightly lower than the price pre announcement. Since late November the price has decreased and is currently \$0.15 (7 January 2015). This may reflect the period of time since the transaction was announced and general market conditions which have seen downward pressure on commodity stocks.

Given the above analysis it is possible that if the Proposed Transaction is not approved then Mustang's share may decline.

Consequences

The Company has set out that should the acquisitions not proceed the second \$2,500,000 committed by Lanstead Capital LP will not be payable and the Company will have significant difficulty in raising capital from other sources to continue to develop its Save River Diamond Project and its existing graphite assets under the Balama Graphite Project. The acquisition of the Ruby Project is considered by the Company to be critical in ensuring that the Company can raise additional capital on reasonable terms to progress the existing projects and the new Ruby Project..



13.3 Advantages of Approving the Proposed Transaction

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

Advantage	Description
Exposure to the potential upside of the Montepuez Rubies project	The Proposed Transaction provides shareholders with an interest in ruby exploration licences which are at an early stage of exploration and further exploration may result in an increase in value in the future. The acquisition expands on the Company's interests in Mozambique and provides the opportunity to, if successful, access early stage cashflow with limited capital expenditure.
Capital raising potential	A condition precedent of the Proposed Transaction is that \$6.1 million is to be raised.
	\$2.5 million has been raised from Lanstead, with the second tranche of \$2.5 million dependent on a further \$1.5 million being raised. The Company has announced that \$750,000 has been raised to date via a converting loan. The funds raised from Lanstead have been placed into a sharing agreement whereby there is no change in the number of shares issued under the capital raising, however the cash payments over 18 months are to be benchmarked against a 26.67c share price. Any share price below this benchmark results in a reduction of the cash received and accordingly the Company will need to progress a project to enable a benefit to be realised from the sharing agreement. The Company has undertaken a roadshow and held discussions with brokers which indicated that there were limited avenues to raise capital based on the graphite and diamond projects and that interest from investors has been based on the introduction of the ruby project.
	The Proposed Transaction provides a basis on which a capital raising may be undertaken at a price which is in excess of the current market price. Resolution 9 relates to converting loans of \$4.75 million which upon completion of the Ruby acquisition convert into shares at 20 cents per share. We note that the loans may still convert to shares should shareholder approval not be obtained by 15 February 2016 or another agreed date at the election of the lenders. It is likely that if the Proposed Transaction did not proceed then the \$750,000 would be required to be repaid. We also note that there was 67.7% take up of the option entitlement offer (exercisable at 25 cents) with an issue price of 0.5 cents which was made after the announcement of the Proposed Transaction, indicating a level support among existing shareholders.



Advantage	Description
Ability to support the current QMP	The current QMP exceeds the NAV as set out in section 10.3, the Company currently has approximately \$1.3m in cash which provides limited potential to progress the existing projects in a manner which will enable value to be realised to the level that the QMP exceeds the share price. The Proposed Transaction and associated capital raising provides the potential for the QMP to be supported in the future.

13.4 Disadvantages of Approving the Proposed Transaction

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

Disadvantage	Description
The Proposed Transaction is not fair	As set out in Section 12 the Proposed Transaction is not fair. Where a transaction is not fair the expert must consider factors that provide sufficient reasons for shareholders to vote for the proposal that outweigh the extent that the transaction is not fair.
Dilution of existing shareholders	Following the Proposed Transaction, existing non associated shareholders who currently hold approximately 68.9% of the Company will hold 53.3%, this is based on the current shares on issue of 104,429,497 being increased to 134,985,053. We note that this excludes the impact of the minimum capital raising of \$6.1 million, if this capital raising is undertaken at a value higher than our assessed range of \$0.20 to \$0.225 per share this would be advantageous to Shareholders

14. Conclusion

We have considered the terms of the Proposed Transaction as outlined in the body of this report and have concluded that the Proposed Transaction is not fair but reasonable to the Shareholders of Mustang. . In our opinion, the Proposed Transaction is not fair because the value of the consideration paid exceeds the value of the asset acquired. However, we consider the Proposed Transaction to be reasonable because the advantages of the Proposed Transaction to Shareholders are greater than the disadvantages. In particular, the ability of the Company to raise capital which will enable work programs to be undertaken on the Company's assets. This may enable the Company to continue to trade in excess of it's net asset value. We also note that on a net asset valuation basis there is an overlap of the range of consideration provided and the value of the asset acquired.

15. Sources of information

This report is based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Audited financial statements of Mustang for the years ended 30 June 2015 and 30 June 2014.
- Independent Valuation Report of Mustang's mineral assets dated 21 December 2015 performed by Agricola Mining Consultants Pty Ltd;



- Independent Valuation Report of Mustang's mineral assets dated 14 December 2015 performed by Agricola Mining Consultants Pty Ltd;
- Share registry information;
- Information in the public domain; and
- · Discussions with Directors and Management of Mustang.

16. Independence

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

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

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

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

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

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

17. Qualifications

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

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

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty five years experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 250 public company independent expert's reports under the Corporations Act or



ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Natural Resources Leader for BDO in Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 18 years in the Audit and Assurance and Corporate Finance areas. Adam has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

18. Disclaimers and consents

This report has been prepared at the request of Mustang for inclusion in the Explanatory Memorandum which will be sent to all Mustang Shareholders. Mustang engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider if the acquisition of Montepuez Minerals Pty Ltd is fair and reasonable to non-associated shareholders.

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

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

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

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

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

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent valuations for mineral assets held by Mustang and those to be acquired.

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

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



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

Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD

Sherif Andrawes

The Som

Adam Myers

Director

Director



Appendix 1 - Glossary of Terms

Reference	Definition
The Act	The Corporations Act 2001 Cth
Agricola	Agricola Mining Consultants Pty Ltd
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
The Company	Mustang Resources Limited
Corporations Act	The Corporations Act 2001 Cth
DCF	Discounted Future Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FME	Future Maintainable Earnings
JORC Code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
Montepuez Minerals	Montepuez Minerals Pty Ltd
Mustang	Mustang Resources Limited
NAV	Net Asset Value
QMP	Quoted market price
RBA	Reserve Bank of Australia
Regulations	Corporations Act Regulations 2001 (Cth)
Our Report	This Independent Expert's Report prepared by BDO
RG 111	Content of expert reports (March 2011)



Reference	Definition
RG 112	Independence of experts (March 2011)
Section 411	Section 411 of the Corporations Act
Section 611	Section 611 of the Corporations Act
Shareholders	Shareholders of Mustang not associated with Montepuez Minerals Pty Ltd
The Proposed Transaction	The proposal to issue 30,555,556 shares in Mustang to the vendors of Montepuez Minerals Pty Ltd
Valmin Code	The Code of Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.
VWAP	Volume Weighted Average Price

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For permission requests, write to BDO Corporate Finance (WA) Pty Ltd, at the address below:

The Directors

BDO Corporate Finance (WA) Pty Ltd

38 Station Street

SUBIACO, WA 6008

Australia



Appendix 2 - Valuation Methodologies

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

1 Net asset value ('NAV')

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

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

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

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

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

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

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

2 Quoted Market Price Basis ('QMP')

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

3 Capitalisation of future maintainable earnings ('FME')

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



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

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

4 Discounted future cash flows ('DCF')

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

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

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

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

5 Market Based Assessment

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

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Appendix 3 - Independent Valuation Report



Malcolm Castle Agricola Mining Consultants Pty Ltd P.O. Box 473, South Perth, WA 6951

Mobile: 61 (4) 1234 7511

Email: mcastle@castleconsulting.com.au

ABN: 84 274 218 871

21 December 2015

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

Dear Sirs,

Re: INDEPENDENT VALUATION OF THE MINERAL ASSETS IN MOZAMBIQUE

held by MUSTANG RESOURCES LTD

UPDATED to DECEMBER 2015

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

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

Scope of the Valuation Report

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

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

This is commonly known as the *Spencer test* after the High Court decision upon which these principles are based and to which the Courts have used in their determinations of market value of a property. In attributing the price that would be paid to the hypothetical vendor by the hypothetical purchaser it is assumed that the property will be put to its "highest and best use".

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

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

The main requirements of the Valuation Report are:

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

Projects

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

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

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

DECLARATIONS

Relevant codes and guidelines

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

Geoscientists ("AIG"), as well as the rules and guidelines issued by the Australian Securities and Investments Commission ("ASIC") and the ASX Limited ("ASX") which pertain to Independent Expert Reports (Regulatory Guides RG111 and RG112, March 2011).

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

Sources of Information

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

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

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

Qualifications and Experience

The person responsible for the preparation of this report is:

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

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

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

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

Competent Person's Statement

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

Independence

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

Valuation Opinion

Based on an assessment of the factors involved the estimate of market value of the Company's Projects for the current equity position is in the range of $\underline{A$4.7}$ million to $\underline{A$5.8}$ million with a preferred value of $\underline{A$5.2}$ million.

This valuation is effective on 21 December 2015.

Yours faithfully

Malcolm Castle

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

TENEMENT SCHEDULE

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

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

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

6678L	80% interest in license through JV with license holder. Agreement between Regius and Mr. Tomas Frederico Mandlate	32Km²	Granted	Issue Date: 18-03- 2014 Valid Until: 18-03-2019
6527L	75% interest in license through JV with license holder. Agreement between Regius and Green Energy & Minerals Lda	210Km ²	Granted	Issue Date: 07-03- 2014 Valid Until: 07-03-2019

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

PROJECT REVIEW

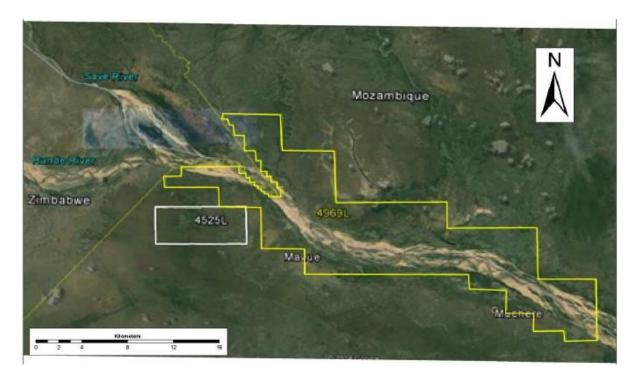
SAVE RIVER DIAMONDS PROJECT

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

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

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

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



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

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

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

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

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

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

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

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

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

December 2015 Update

Mustang Resources has acquired majority interests in two diamond exploration licences in Mozambique, known as the Save River Diamond Project. The project area comprises 24,000 hectares and is situated in the Save River Valley, downstream from the well-known Murowa and Marange diamond fields in Zimbabwe.

Significantly, many of the known kimberlite pipes in Zimbabwe have been weathered away and the diamonds from the diamondiferous pipes have been washed down the river systems through the Save River.

To date Mustang has recovered multiple gem-quality diamonds from its initial bulk sampling activities. The Company recovered a 2.58 carat white diamond from the shallow surface gravels at Save River, which is the largest diamond to be recovered from the project to date.

BALAMA GRAPHITE PROJECT

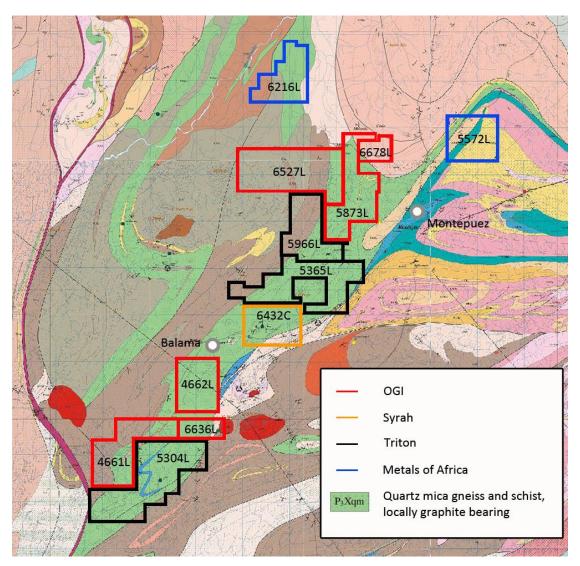
In Mozambique, a number of graphite deposits have been identified, many of which are already been explored and are currently being developed. There are a number of reports on the graphite deposits being associated with an economic vanadium potential, adding value and interest to all graphite projects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

6527L

Mustang has a 75% interest in the License 6527L through a Joint Venture with their local Mozambican partner. This License borders the Triton and Metals of Africa concessions, which are currently very active in their graphite exploration.

Northeastern Mozambique is predominantly underlain by Proterzoic rocks that form a number of gneiss complexes that range from Palaeo to Neoproterozoic in age. The Balama Graphite Project site

is underlain by metamorphic rocks of the Neoproterozoic Lurio Group that are included within the Xixano Complex. The graphite layer is comprised of a sequence of metamorphosed carbonaceous pelitic and psammitic (sandstone) sediments within the Proterozoic Mozambique Belt. The sediments have been metamorphosed to graphitic schists (pelites) and graphitic sandstones (psammites). In addition to the graphite, the Balama Graphite Project site has granite outcrops in the northeast. It appears that these are intrusive into the graphite bearing schists.



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

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

The southern License 6527L, hosts an area of approximately 35km² of the green unit. a granite intrusion, similar to the one believed to have caused the graphite "upgrade" in the Syrah project, has

been noted in the eastern area of the License 6527L which suggests a similar grade and amount of the total graphite content within the graphitic schists.

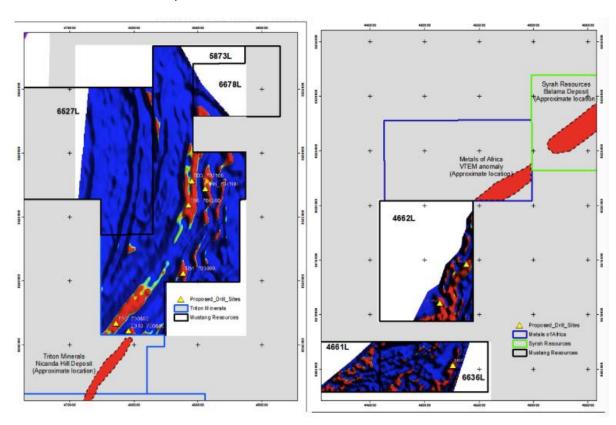
License 6636L is set in the same north-east trending geological unit as that of the Syrah Resources and Triton Mineral's graphite resources discussed above. The potential to find graphitic mineralisation is the graphitic schist that occupies an area of approximately 34km² in License 6366L. Just to the west of License 6636L, there is a granitic intrusion in close proximity to the concession, which has the potential to upgrade the graphite thereby increasing the concessions economic potential.

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

December 2015 Update

In August 2015, Mustang commissioned SkyTEM Australia Pty Ltd (SkyTEM) to complete a highly detailed airborne electromagnetic survey across all six of the Company's graphite prospecting licences in Northern Mozambique.

The initial 2,400km line survey was focused on the lithology which has been regionally mapped as quartz mica gneiss and schist (P3Xqm) which is known to be graphite bearing. Importantly, the orientation of the line survey was designed perpendicular to the strike of the geology to ensure an accurate collection of the representative data.



SkyTEM results within tenements Mustang's Licences showing EM anomalies along strike from Triton's Nicanda Hill deposit and Syrah Resources Balama deposit

Mustang has commenced a maiden drilling program across its Balama tenements focused on evaluating a number of promising EM anomalies located along strike from known graphite deposits and/or anomalies, aiming to target shallow graphite mineralisation identified by initial scout drilling and rock chip sampling carried out in September and October 2014.

REFERENCES

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

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

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

VALUATION ASSESSMENT

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

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

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

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

GEO-FACTOR RATING METHOD - EXPLORATION POTENTIAL

BASE VALUE

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

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

Mustang Resources Ltd							
Project	Tenement	Km²	Status				
Save River	4525L	5.00	Granted				
Save River	4969L	216.60	Granted				
Balama	6527L	210.00	Granted				
Balama	6636L	46.00	Granted				
Balama	5873L	138.00	Granted				
Balama	6678L	32.00	Granted				
Balama	4661L	148.90	Granted				
Balama	4662L	95.00	Granted				

Prospectivity Assessment Factors

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

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

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

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

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

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

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

Mustang Resources Ltd										
Project		Off 9	Off Site		On Site		Anomaly		Geology	
		Low	High	Low	High	Low	High	Low	High	
Save River	4525L	1.50	1.55	2.00	2.05	2.00	2.05	2.00	2.05	
Save River	4969L	1.50	1.55	2.25	2.30	2.00	2.05	2.00	2.05	
Balama	6527L	2.50	2.55	2.25	2.30	2.00	2.05	2.25	2.30	
Balama	6636L	2.50	2.55	2.00	2.05	1.75	1.80	2.25	2.30	
Balama	5873L	2.50	2.55	2.00	2.05	2.00	2.05	2.25	2.30	
Balama	6678L	2.50	2.55	2.00	2.05	1.50	1.55	2.25	2.30	
Balama	4661L	2.50	2.55	2.00	2.05	1.50	1.55	2.25	2.30	
Balama	4662L	2.50	2.55	2.00	2.05	1.75	1.80	2.25	2.30	

TECHNICAL VALUE

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

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

Mustang Resources I	.td			
Project	Tenement	Technical Value A\$M		
Save River	4525L	0.02	0.03	0.03
Save River	4969L	1.17	1.46	1.32
Sub Total		1.19	1.49	1.32
Balama	6527L	0.36	0.45	0.41
Balama	6636L	1.24	1.53	1.39
Balama	5873L	0.22	0.27	0.24
Balama	6678L	1.01	1.25	1.13
Balama	4661L	0.75	0.93	0.84
Balama	4662L	0.75	0.93	0.84
Sub Total		4.32	5.35	4.83

Comparison with Yardstick (Rule of Thumb) Method

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

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

Based on the values estimated in this report, the Save River Diamonds Project fall in the range \$2,400 to \$3000 per square kilometer. Recent bulk sampling has yielded good diamond on the property. The Balama Graphite Project, based on 100% equity, falls in the range \$3,200 to \$4,000 per square kilometres. In view of the prospectivity of the graphite zone where previous explorers have made significant discoveries, the recent geophysical surveys that have yielded valid exploration targets support the valuation.

MARKET VALUE

In arriving at a fair market value for a particular exploration tenement, Agricola has considered the country risk and current market for exploration properties in Australia. Assessment of country risk and an assessment of the Business Climate have been provided by an independent specialist firm (source: www.coface.com). The rating for Mozambique is 'C' for country risk and 'C' for business climate, which are considered to be moderate to high risk. Strengths include Favourable geographic location: long coastline, closeness to South African market, Considerable mineral (coal), agricultural and hydroelectric potential, Major gas reserves discovered off-shore (2010) and Support by donors and foreign investors (FDI) for financing mining and gas infrastructure. Weaknesses include Limited diversification; dependence on raw material prices (aluminium, coal), Poor transport and port infrastructure seriously limiting its ability to export its raw materials, High dependence on international aid and the South African economy and Poor governance

This rating will affect the market factor in assessing market value.

The current market for diamond properties is considered to be in moderate demand and a market premium of **5%** is applied.

The current market value for mineral projects in the graphite sector in Mozambique is considered to be in demand, especially close to the advanced projects held by Syrah and Triton and in a similar geological setting. A market premium of **15**% has been applied to 6527 and 5873 due to its close proximity to the projects held by Syrah and Triton and **10**% to the other tenements which are more remote.

Mustang Resources Ltd						
Project	Tenement	Market Factor	Mark	Market Value A\$m		
			Low	High	Preferred	
Save River	4525L	105%	0.03	0.03	0.03	
Save River	4969L	105%	1.23	1.53	1.38	
Sub Total			1.25	1.56	1.41	
Balama	6527L	115%	0.42	0.52	0.47	
Balama	6636L	110%	1.37	1.68	1.53	
Balama	5873L	115%	0.25	0.31	0.28	
Balama	6678L	110%	1.11	1.37	1.24	
Balama	4661L	110%	0.82	1.02	0.92	
Balama	4662L	110%	0.82	1.02	0.92	
Sub Total			4.78	5.92	5.35	

EQUITY VALUE

Mustang shall have the exclusive right in the tenements as shown in the table

Mustang Resources Ltd					
Project	Tenement	Tenement Equity Equity Value A\$m			
			Low	High	Preferred
Save River	4525L	100%	0.03	0.03	0.03
Save River	4969L	100%	1.23	1.53	1.38
Sub Total			1.25	1.56	1.41
Balama	6527L	75%	0.31	0.39	0.35
Balama	6636L	75%	1.02	1.26	1.14
Balama	5873L	75%	0.19	0.23	0.21
Balama	6678L	80%	0.88	1.10	0.99
Balama	4661L	60%	0.49	0.61	0.55
Balama	4662L	60%	0.49	0.61	0.55
Sub Total			3.39	4.20	3.80

VALUATION OPINION

The Market Value is estimated for <u>equity stated in the tables above</u> in the Projects

Based on an assessment of the factors involved the estimate of market value of the Company's Projects is in the range of A\$4.7 million to A\$5.8 million with a preferred value of A\$5.2 million.

This valuation is effective on 21 December 2015.



MINERAL ASSETS VALUATION FOR EXPLORATION TENEMENTS

M. Castle – Updated 21 December 2015

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

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The Meaning of Value – Scope of the Report

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

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

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

Judicial interpretation

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

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

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

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

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

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

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

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

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

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

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

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

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

These principles apply equally to mineral assets

Regulatory Authorities

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

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

The VALMIN Code, 2005

The main requirements of the Valuation Report are

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

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

Materiality - This means the valuer has to ensure that all important data that could have a significant impact on the valuation is included in the report. Materiality and Material refer to data or information which contribute to the determination of the Mineral Property value, such that the

inclusion or omission of such data or information might result in the reader of a Valuation Report coming to a substantially different conclusion as to the value of the Mineral Property. Material data and information are those, which would reasonably be required to make an informed assessment of the value of the subject Mineral Property.

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

Competent Persons Statement

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

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

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

Methodology - The decisions as to the valuation methodology or methodologies to be used and the content of the Report are solely the responsibility of the Expert or Specialist whose decisions must not be influenced by the Commissioning Entity. The Expert or Specialist must state the reasons for

selecting each methodology used in the Report. Methods chosen must be rational and logical and be based upon reasonable grounds.

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

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

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

Regulatory Guides RG111 and RG112, March 2011

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

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

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

The complex valuations in an expert's report necessarily contain significant uncertainties. Because of this an expert who gives a single point value will usually be implying spurious accuracy to his or her valuation. An expert should, however, give as narrow a range of values as possible. An expert report becomes meaningless if the range of values is too wide. An expert should indicate the most probable point within the range of values if it is feasible to do so.

The expert should carry out sufficient enquiries or examinations to establish reasonable grounds for believing that any profit forecasts, cash flow forecasts and unaudited profit figures that are used in

the expert's report, and have been prepared on a reasonable basis. If there are material variations in method or presentation the expert should adjust for or comment on them in the report.

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

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

The JORC Code, 2012

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

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

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

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

Changes to the JORC Code 2012

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

VALUATION METHODOLOGY FOR EXPLORATION TENEMENTS

Fair Market Value of Mineral Assets

Mineral assets include, but are not limited to, mining and exploration tenements held or acquired in connection with the exploration, the development of, and the production from those tenements together with all plant, equipment and infrastructure owned or acquired for the development, extraction and processing of minerals in connection with those tenements.

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

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

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

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

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

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

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

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

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

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

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

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

When assessing value of exploration properties with no identified Ore Reserves it is inappropriate to prepare any form of financial analysis to determine the net present value. The valuation of

exploration tenements or licences, particularly those without identified resources, is highly subjective and a number of methods are appropriate to give a guide as discussed below.

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

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

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

Contemporaneous transactions in the asset

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

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

Any underlying royalty or net profits interests or rights held by the original vendor of the claims should be deducted from the resultant property value before determination of the company's interest. Also, reductions in value should be made where environmental, legal or political sensitivities could seriously retard the development of exploration properties.

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

DCF value

Where a financial model has been prepared which considers the exploration results to date, the costs involved in taking the project to production and the probability-weighted returns expected from the project, in the absence of a contemporaneous transaction in the actual exploration interest, this provides the best evidence as to the value of the exploration interest. This method

requires that a reasonable estimate can be made of expected cash flows. In accordance with the JORC Code 2012, the estimation of an Ore Reserve must be based on a Pre Feasibility Study or a Feasibility Study. The DCF Method, therefore, is only possible then these studies are available and an Ore Reserve has been estimated. (*DCF Method – see below*)

Contemporaneous transactions in comparable assets

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

Potential for Further Discoveries

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

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

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

Past Expenditure

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

Yardstick (Rule of Thumb) Method

A Rule-of-Thumb method sometimes used for valuing Mineral Assets without identified Resources is based upon conversion of comparable sales data to a unit area (per km² or per ha). It is probably the most difficult comparative tool to justify.

Share market trading in companies holding comparable exploration interests

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

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

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

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

Valuation of Development Projects by Discounted Cash Flow Methods

Agricola believes that the Discounted Cash Flow/Net Present Value method should never be applied to the valuation of a Mineral Property that is only at an exploration stage, based on the hypothetical cash flows from a postulated exploitation scenario. Valuers tend to consider before or after tax values only in the context of the DCF/NPV Method, with a general preference for determinations of after-tax value.

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

Discounted cash flow analysis

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

Once a Mineral Resource has been assessed for mining by considering revenues and operating costs,

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

The resulting 'classical' NPV has several recognised deficiencies linked to the fact that the approach assumes a static approach to investment decision making, however the NPV represents a fundamental approach to valuing a proposed or on-going mining operation and is widely used within the mining industry.

In terms of cash flow analysis, the DCF valuation technique is the most commonly used valuation tool. The technique has specific strengths over the methods considered in the market and cost approaches. These include its ability to consider the effects of royalties, leases, taxation and financial gearing on the resulting cash flow. In addition, the beneficial impact of unredeemed capital balances, assessed losses, depreciation and amortization on free cash flows can also be modelled.

Compiling cash flows on resources categorized as inferred, or those with even less geoscientific confidence (which in some cases are referred to as inventory), is prohibited by some international codes. It is only under exceptional circumstances that many securities exchanges will accept such cash flows and the effect of cash flow contributions from inferred resources on project performance should be demonstrated separately from those derived from other resource and reserve categories.

The DCF method is used to produce numerous quantitative results. On its own and as an investment tool, it is based on the principle that for any initial investment, the investor will look to the future cash flows of that entity to provide a minimum return. This return will be at least a predetermined return over the investor's hurdle rate for that investment. The hurdle rate represents the minimum return of a project, below which the decision to invest or develop a new project will be negative, and above which the project will be developed. The hurdle rate should always be greater than the cost of capital for the investor.

For a mining project, in a macroeconomic environment that is sufficiently favourable and stable for this method to be applied, the critical input data will generally be incorporated in a life of mine (LoM) plan. The LoM plan, such as that accompanying a pre-feasibility, feasibility or a bankable feasibility study, will include:

- reserve and resource estimates in accordance with the JORC Code
- ➤ forecast mining schedules of tonnage on a daily, monthly or annual basis
- ➤ forecast grade profiles and associated recoveries from a processing facility. This, together with the tonnage profile, allows the valuer to calculate the volume of saleable product
- restimated working costs, preferably unitized to either an amount per tonne mined or milled or an amount per unit of metal or product sold
- ➤ forecast capital expenditure profiles over the life of the operation, including ongoing or sustainable capital expenditure amounts and

rehabilitation liabilities or trust fund contributions, retrenchment costs, plant metal lock-up and any other specific factor that will impact on costs or revenue.

Changes in working capital balances are generally calculated based on historical balance ratios, applied to forecast revenues and working costs. They impact on short term cash flows and therefore must be modelled into the cash flows. Naturally, any working capital locked up during the life of the operation will be released at the end of this life.

Once the economic inputs have been assumed, the DCF can be determined. This is often stated as EBITDA (Earnings before Interest, Taxation, Depreciation and Amortisation) and is frequently taken as the technical value of the project, subject to a consideration of sensitivity to the assumptions.

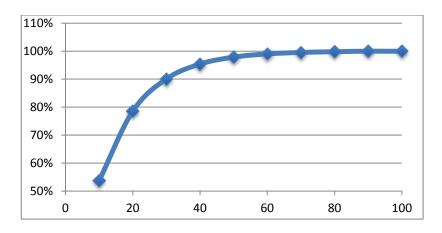
The resultant cash flow is then used to derive the net present value (NPV) of the operation at a predetermined discount rate or a range of discount rates. The derived NPV, on which the return on investment can be calculated, is used as a proxy for the operation's implicit value. This is often compared with the value or returns the market attributes to the operation, if it is a listed entity, or compared with other investment opportunities in order to optimize investment or development schedules.

In any cash flow determination, the impact of inflation on the final result cannot be overstated. One only has to consider the effect of taxation as applied to real taxable income as opposed to being levied against nominal taxable income. Converting the final cash flows to real money terms, the values derived from two similar cash flows will be quite different. The unredeemed capital balance will last longer in the real terms case, incorrectly enhancing the value of the same project. The real cash flow lines in Table X must be compared to recognize the impact of taxation on real and nominal cash flows.

As a result of the difficulty in obtaining agreement on appropriate inflation forecasts to use in the specific valuation of a project, valuers often exclude a forecast on inflation rates. This in itself may be construed as an inflation assumption, in that inflation is taken to be zero per cent per year. However, this reflects an ideal world, which is unrealistic.

The resulting 'classical' NPV has several recognised deficiencies linked to the fact that the approach assumes a static approach to investment decision making, assumption into the future which cannot be verified with any confidence and limited mine life. However the NPV represents a fundamental approach to valuing a proposed or on-going mining operation and is widely used within the mining industry.

As example of the shortcomings of the DCF Method a conceptual cash flow was modeled and NPV estimated at 8% over different time periods with the following outcome over 100 years:



Percent of maximum NPV from 10 to 100 years.

The estimated NPV reached a maximum value in 60 years and no amount of future income adds to this value.

Valuation of Resources by Comparable Transactions

When only a resource or defined body of mineralisation has been outlined and its economic viability has still to be established (i.e. there is no ore reserve) then a **Comparable Transactions** approach is usually applied, often stated as a percentage of metal value. This can be applied to Mineral Resource estimates and Exploration Targets in accordance with the JORC code with appropriate discounts for risk in the different Mineral Resource categories and operational factors to differentiate between deposits.

Agricola Mining Consultants prefers the comparable transactions approach where mineral resources have been estimated. The DCF method is inappropriate because there is no Pre Feasiblity or Feasibility Study available and no Ore Reserves has been (or can be) estimated under the JORC Code. The Geoscientific Factor method (potential for further discoveries) and Past Expenditure methods are appropriate for exploration ground that is not advanced enough to estimate mineral resources. The contemporaneous transactions over adjacent ground may be appropriate but the absence of such information the only viable method (in Agricola's opinion) is to compare the sale of other deposits on a 'dollar per unit' basis for the mineral resource estimated in accordance with the JORC Code. Agricola is not aware of a method to cross check the valuation for the technical value (as apposed to the Market value) under these circumstances except by comparison with earlier valuations.

With metal projects the Comparable Transactions method requires allocating a dollar value to resource tonnes or ounces in the ground. The dollar value must take into account a number of aspects of the resources including:

- The confidence in the resource estimation (the JORC Category)
- The quality of the resource (grade and recovery characteristics)
- Possible extensions of the resource in adjacent areas
- Exploration potential for other mineralisation within the tenements
- Presence and condition of a treatment plant within the project
- Proximity of infrastructure, development and capital expenditure aspects

This approach can be taken with metals or bulk commodities sold on the spot market and where current price can be estimated with appropriate adjustments for impurities if required. Value is estimated as a percentage of contained value by applying appropriate discounts for uncertainty relating to resource categorisation and operational issues (modifying factors) discount factors to the contained value. This is consistent with the JOC Code relating to contained values

JORC Code clause 51, page 24

The publication of in situ or 'in ground' financial valuations breaches the principles of the Code (as set out in Clause 4) as the use of these terms is not transparent and lacks material information. It is also contrary to the intent of Clause 28 of the Code. Such in situ or in ground financial valuations must not be reported by companies in relation to Exploration Results, Mineral Resources or deposit size.

The use of such financial valuations (usually quoted in dollars) has little or no relationship to economic viability, value or potential returns to investors.

These financial valuations can imply economic viability without the apparent consideration of the application of the Modifying Factors, (Clause 12 and Clauses 29 to 36), in particular, the mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social, and governmental factors.

The contained value is modified for the JORC resource category on the basis the Measured Resources will command a higher price than Inferred Resources or Exploration targets. Different operational issues have been considered to do with the individual projects. This might include higher discounts for stranded iron ore deposits, underground versus open cut mining for gold and base metals, processing difficulty, high operating and capital costs transport issues and marketing.

There is a wide variety of things to consider but to bring this down to something manageable and this has been condensed this into a single table. These discounts or modifying factors can be combined with the spread of values from the gold sales database (the AAC) to give an indication of what a purchaser would be prepared to pay for a particular mineral asset.

Resource Category Discounts	
Measured Resource	80%
Indicated Resource	70%
Inferred Resource	60%
Exploration Target	45%

An example of appropriate discounts for operational factors is included below but these must be considered on a case-by-case basis.

	Base	Iron Ore	Coal	Gold	Rare
Operations Factors	Metals				Earths

Recovery	75%	75%	70%	95%	60%
Mining	75%	90%	75%	90%	100%
Processing	80%	70%	70%	95%	50%
Rail	80%	90%	70%	95%	75%
Port	80%	90%	50%	100%	90%
Capex	80%	70%	75%	90%	50%
Marketing	75%	80%	75%	100%	75%
Total Operating	17%	21%	7%	69%	7%
Discount	1/%	21%	170	09%	/ 70

Mergers and Acquisitions Activity

A recent review of Mergers and Acquisitions over the last eight years covering the mining boom, the GFC and the recovery phase of the Mining Market indicates the price paid for gold assets.

Merger and Acq	uisitions Ac	tivity (CAD)						
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Gold Price	\$709	\$778	\$920	\$1,154	\$1,277	\$1,590	\$1,665	\$1,488	\$1,303
Producing Assets*	\$74	\$94	\$115	\$89	\$207	\$202	\$200	\$121	\$120
Percent of Price	10.40%	12.10%	12.50%	7.70%	16.20%	12.70%	12.00%	8.10%	9.20%
Exploration Assets*	\$54	\$28	\$31	\$29	\$71	\$90	\$47	\$23	\$17
Percent of Price	7.60%	3.60%	3.40%	2.50%	5.60%	5.70%	2.80%	1.50%	1.30%
*Estimated price	e paid per o	unce of go	ld in the g	round, up	dated Dec	ember			
31, 2014									
Source: http://www.ihkcapital.com/capital-market-highlights/merger-acquisition-									

Source: http://www.ibkcapital.com/capital-market-highlights/merger-acquisition-activity/

The information is based on Canadian experience and closely replicates values reported in Australia and similar metal markets elsewhere. The 'Apparent Acquisition Cost' ("AAC") for gold projects lies in the range of 1.5% to 7.6% of the gold price at the time. The data set does not differentiate between resource categories or variations in deposits type and individual assessment. It is implicit that this has been taken into account with risk related discounts. Information on sales internationally has shown a pattern for AAC. For the purpose of valuation the Average Acquisition Cost for the lower, preferred and higher value is selected at the 25th, 50th and 75th percentiles of the spread of values.

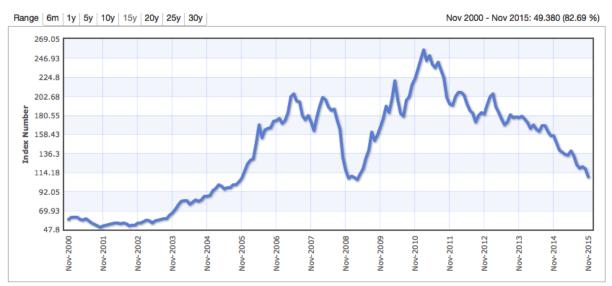
AAC Percentiles 2006 - 2014 - Exploration Assets							
Percentile	10%	25%	50%	75%	90%		

AAC	1.5%	2.5%	3.4%	5.6%	6.1%		
AAC Percentiles 2006 - 2014 - Producing Assets							
Percentile	10%	25%	50%	75%	90%		
AAC	8.0%	9.2%	12.0%	12.5%	13.4%		

The AAC method percentiles are derived from Canadian Merger and Acquisitions activity in the gold industry. The original database provided \$/ounce values for producing and non-producing asset sales for a period of years and Agricola has recalculated this as a percentage of metal value so it can be related to current metal prices in other metals. The quoted prices are based on enterprise value (EV - Market Capitalisation plus debt minus cash) so they cannot be directly compared to technical value. A "top-down" approach is often taken to determine technical vale (for example for stamp duty assessment) where company specific elements such as cash, debt, goodwill, database value etc ate deducted from the EV. Agricola prefers a "bottom-up" approach in this Report where discount factors for resource category and operating factors are assessed for each deposit.

This, of course, is a subjective decision and AAC percentiles are used in conjunction with the resource category discounts and operational factors to "normalise' the rates for gold acquisitions to other metals. In the absence of a useful database of project sales for other metals this is considered to be a reasonable proxy for sales in most metal projects (the combination of AAC, discounts and Operational factors). Mineral asset sales are related to the current mineral price (or contained value) which is provided by the M & A database over the period 2006 - 2013 through a period of boom and bust and the valuation method is realistic when adjusted by factors that relate specifically to the metal involved and more specifically to the individual deposits.

Sensitivity to Metal Price



Description: Commodity Metals Price Index, 2005 = 100, includes Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead, and

Valuation of mineral resources is estimated at a specific date as stated in the report and metal prices are estimated from current information available at that time. Metal markets may be quite volatile from time to time and it is appropriate to consider the effect of variations in metal price (which may change on a daily basis).

The chart represent the Commodity Metal Price index over the last fifteen years and shows a marked decline in 2008/09 (GFC) and a similar decline in recent years.

There is an obvious need for reassessment of value if there is a significant change in metal/oxide prices.

Geoscience Factor Method

The Geoscience Factor method attempts to convert a series of scientific opinions about a subject property into a numeric evaluation system. The success of this method relies on the selection of multiplying factors that reflect the tenement's prospectivity.

Agricola Mining Consultants prefers the Geoscientific Factor method (potential for further discoveries) for exploration ground that is not advanced enough to estimate mineral resources. The contemporaneous transactions over adjacent ground may be appropriate but the absence of such information the only viable method (in Agricola's opinion) is to compare the sale of other deposits on a 'dollar per unit' basis for the mineral resource estimated in accordance with the JORC Code. Agricola uses Past Expenditure and yardstick (Rule of Thumb) methods as an appropriate way of cross checking the reasonableness of the valuation.

The Geoscience Factor method is essentially a technique to define a value based on geological prospectivity. The method appraises a variety of mineral property characteristics:

- location with respect to any off-property mineral occurrence of value, or favourable geological, geochemical or geophysical anomalies;
- location and nature of any mineralisation, geochemical, geological or geophysical anomaly within the property and the tenor (grade) of any mineralisation known to exist on the property being valued;
- geophysical and/or geochemical targets and the number and relative position of anomalies on the property being valued;
- geological patterns and models appropriate to the property being valued.

It is recognised that application of this method can be highly subjective, and that it relies almost exclusively on the geoscience ratings adopted by the valuer. As such, it is good practice for valuers using this method to provide sufficient discussion supporting their selection of the various multiplying factors to allow another suitably qualified geoscientist to assess the appropriateness of the factors selected.

The successful application of this method depends on the selection of appropriate multipliers that reflect the tenement prospectivity. Furthermore, there is the expectation that the outcome reflects the market's perception of value, hence the application of the market factor. Agricola Mining Consultants prefers the Geoscience Factor approach because it endeavours to implement a system that is systematic and defendable. It also takes account of the key factors that can be reasonably considered to impact on the exploration potential. The keystone of the method is the BAC, which provides a standard base from which to commence a valuation. The acquisition and holding costs of

a tenement for one year provides a reasonable, and importantly, consistent starting point. Presumably when a tenement is pegged for the first time by an explorer the tenement has been judged to be worth at least the acquisition and holding cost.

It may be argued that on occasions an EL may be converted to a ML expediently for strategic reasons rather than based on exploration success, and hence it is unreasonable to value such a ML starting at a relatively high BAC compared to that of an EL.

It has also been argued that the method is a valuation-by-numbers approach. In Agricola's opinion, the strength of the method is that it reveals to the public, in the most open way possible, just how a tenement's value was systematically determined. It is an approach that lays out the subjective judgements made by the valuer.

Area

The area of a tenement is usually stated in terms of square kilometres as a matter of convenience and cosistency. A graticular boundary (or block) system was introduced for exploration licences in mid 1991 in W.A. and a block is defined as one minute of latitude by one minute of longitude. The square kilometres contained within a block varies from place to place. For instance, at Kunnanurra (Latitude 15 deg. S) one block equals 3.31 square kilometres, at Mt Isa (Latitude 20 deg. S) one block equals 3.22 square kilometres. at Carnarvon or Bundaberg (Latitude 25 deg. S) one block equals 3.11 square kilometres and at Albany or Adelaide (Latitude 35 deg. S) one block equals 2.81 square kilometres.

Prospecting Licences and Mining Leases are granted in Hectares (100 hectares equals one square kilometre.

Basic Acquisition Cost

The Basic Acquisition Cost ("BAC") is the important input to the Geoscience Factor Method and it is estimated by summing the annual rent, statutory expenditure for a period of 12 months and administration fees for a first stage exploration tenement such as an Exploration Licence(the first year holding cost).

The notes are general in nature and references to Western Australia are an example of exploration expenditures. they are appropriate for other states and other countries based on Agricola's experience in many areas of Australia and elsewhere.

The current holding cost for exploration projects is considered to be the average expenditure for the first year of the licence tenure. Exploration Licences in Western Australia, for example, attract a minimum annual expenditure for the first three years of \$300 per square kilometre per year with a minimum of \$20,000 and annual rent of \$46.80. A 15% administration fee is taken into account to imply a holding cost of \$400 per square kilometre. A similar approach based on expenditure commitments could be taken for Prospecting Licences and Mining Leases (effective 1 July 2014). The Benchmark minimum expenditure for Exploration Licences in the Northern Territory is \$10,000 plus \$150 per block.

The BAC was originally based on calculations of exploration expenditures and other costs for Western Australia. Agricola's experience has confirmed this range to be appropriate for other parts of the world where exploration or valuations have been carried out.

Many overseas jurisdictions do not specify a minimum expenditure commitment but require that sufficient work be completed in the first year to allow granting of the tenement into the second year. This usually requires preparation of a report with results of exploration carried out. For example with a grass roots portfolio 500 square kilometres in the first year the expenditure (BAC) would be \$200,000 to \$225,000 which is appropriate for early work of desktop studies, field visits rock chip sampling and general research. Agricola believes an Australian company would consider this reasonable for the first phase of work in any country.

A company may well choose to spend more than that and budgets of \$0.5 to \$1.0 million are not uncommon but these budgets are usually based on significant previous encouragement such as scout drilling, aeromagnetic targets etc. The BAC is designed for grass roots projects where no earlier work is available and only regional selection information is available.

Where the Company in earlier work programs has received encouragement from earlier work then that aspect is addressed in the geofactors, which tend to upgrade the BAC based on earlier results and perceived prospectivity.

In Western Australia (from February 2006), an application for a Mining Lease required either a mining proposal or a statement describing when mining is likely to commence; the most likely method of mining; and the location, and the area, of land that is likely to be required for the operation of plant, machinery and equipment and for other activities associated with those mining operations. A mineralisation report is also required that has been prepared by a qualified person.

The mineralisation report must be completed by a qualified person and shall contain information of sufficient standard and detail to substantiate, to the satisfaction of the Director Geological Survey, that significant mineralisation exists within the ground applied for. A 'qualified person' means a person who is a member of the Australasian Institute of Mining and Metallurgy (AusIMM) or the Australian Institute of Geoscientists (AIG). Significant mineralisation means a deposit of minerals located during exploration activities and that there is a reasonable expectation that those minerals will be extracted by mining operations.

The implication of the mineralisation report suggests that Mining leases should be valued on the body of significant mineralisation (usually a Mineral Resource estimated in accordance with the JORC Code) and not on the basis of prospectivity. The preferred method for valuing resources is by comparable transactions (Market Based).

The Mineral Resources are assumed to encapsulate all the value for the tenements or prospects on which they occur and the exploration results considered for the estimate. A separate value for exploration potential for this tenement is not considered warranted.

It is recognised that further exploration potential may exist within the tenement boundaries but when a mineral resource has already been estimated in accordance with the JORC Code a hypothetical willing but not too anxious purchaser would be unlikely to consider additional value for

surrounding untested ground. The possibility of undrilled extensions to mineral resources may be considered in the market factor assessment.

Mining Leases granted prior to 2006 and Prospecting Licences may not have a mineralisation report available and may cover old workings or simply an expedient or strategic method of securing ground at the expiry of an Exploration Licence rather than based on exploration success. While these Licences carry all the obligations set out in the Mining Act, from a valuation point of view they are equivalent to Exploration Licences and it is unreasonable to value such these MLs (or PLs) starting at a relatively high holding cost compared to that of an EL where only exploration results are available. These tenements should be considered on the basis of a **BAC of \$400 to \$450**. To value these areas at the higher levels may not be considered to be reasonable under the VALMIN Code.

Tenement Status

Uncertainty may exist where a tenement is in the application stage. Competing applications may be present where a ballot is required to determine the successful applicant or Native Title issues and negotiations may add to the risk of timely grant. Other issues may also be present such as state parks or forestry and wildlife reserves, competing land use and compensation agreements. There is an inherent risk that the tenement may not be granted and this needs to be recognised in the base value assessment. A 'grant factor' of zero may be applied where there is no realistic chance of approval (e.g. sacred sites) and where no significant impediments are known the factor may increase to about 60% to reflect delays and compliance with regulations.

Equity

The equity a Company may hold in a tenement through joint venture arrangements or royalty commitments may be addressed in assessing base Value but it is often considered at the end of a valuations report.

Geoscience Factors

The multipliers or ratings and the criteria for rating selection across these four factors are summarised in the following table.

The selection of factors from the table must be tempered with an eye to the reasonableness of the outcome and an awareness of the inherent exploration risks in achieving progress to the next level. Some exploration licences are overly large and may cover several domains of prospective (or entirely unprospective) ground and this should be recognised in the Geology Factor. A conservative approach is considered mandatory.

Estimate of project value is carried out on a tenement-by-tenement basis and uses four calculations as shown below. The value estimate is shown as a range with a preferred value.

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

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

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

Market Value = [Technical Value]*[Market Premium/Discount Factor]

	Rating	Address - Off Property	Mineralisation - On Property	Anomalies	Geology
Low	0.5	Very little chance of mineralisation, Concept unsuitable to environment	Very little chance of mineralisation, Concept unsuitable to environment	Extensive previous exploration with poor results - no encouragement	Unfavourable lithology over >75% of the tenement
	0.75				Unfavourable lithology over >50% of the tenement
Average	1	Indications of Prospectivity, Concept validated	Indications of Prospectivity, Concept validated	Extensive previous exploration with encouraging results - regional targets	Deep alluvium Covered favourable geology (40- 50%)
	1.5	RAB Drilling with some scattered results	Exploratory sampling with encouragement, Concept validated	Several early stage targets outlined from geochemistry and geophysics	Shallow alluvium Covered favourable geology (50- 60%)
	2	Significant RC drilling leading to advance project status	RAB &/or RC Drilling with encouraging intercepts reported	Several well defined surface targets with some RAB drilling	Exposed favourable lithology (60- 70%)
	2.5	Grid drilling with encouraging results on adjacent sections	Diamond Drilling after RC with encouragement	Several well defined surface targets with encouraging drilling results	Strongly favourable lithology (70- 80%)
High	3	Resource areas identified	Advanced Resource definition drilling - early stage	Several significant subeconomic targets - no indication of volume	Highly prospective geology (80 - 100%)
	3.5	Along strike or adjacent to known mineralisation at Pre-Feasibility Stage	Resource areas identified	Subeconomic targets of possible significant volume - early stage drilling	

Prospectivity Enhancement Multiplier ("PEM")

Various valuation methods exist which make reference to historical exploration expenditure. One such method is based on a 'multiple of historical exploration expenditure'. Successful application of this method relies on the valuer assessing the extent to which past exploration expenditure is likely to lead to a target resource being discovered, as well as working out the appropriate multiple to apply to such expenditure.

Another such method is the 'appraised value method'. When adopting this approach, the valuer should only account for meaningful past exploration expenditure plus warranted future expenditures. Warranted future expenditures reflect a reasonable and justifiable exploration budget to test the identified potential of the target.

PEM Factors Used in this valuation method

PEM Range	Criteria
0.2 – 0.5	Exploration (past and present) has downgraded the tenement prospectivity, no mineralisation identified
0.5 – 1.0	Exploration potential has been maintained (rather than enhanced) by past and present activity from regional mapping
1.0 – 1.3	Exploration has maintained, or slightly enhanced (but not downgraded) the prospectivity
1.3 – 1.5	Exploration has considerably increased the prospectivity (geological mapping, geochemical or geophysical)
1.5 – 2.0	Scout Drilling has identified interesting intersections of mineralisation
2.0 – 2.5	Detailed Drilling has defined targets with potential economic interest.
2.5 – 3.0	A resource has been defined at Inferred Resource Status, no feasibility study has been completed
3.0 – 4.0	Indicated Resources have been identified that are likely to form the basis of a prefeasibility study
4.0 – 5.0	Indicated and Measured Resources have been identified and economic parameters are available for assessment.

When historical expenditure approaches are adopted, it is good practice for valuers to provide full transparency in relation to all historical exploration expenditure on the subject property, details of those expenditures selected for use in the method (including details in relation to warranted future expenditures), and justification for any multiples applied.

Past expenditure on a tenement and/or future committed exploration expenditure can establish a base value from which the effectiveness of exploration can be assessed. Where exploration has produced documented results, a PEM can be derived which takes into account the valuer's judgment of the prospectivity of the tenement and the value of the database.

Future committed exploration expenditure is discounted to 60% by some valuers to reflect the uncertainty of results and the possible variations in exploration programmes caused by future undefined events. Expenditure estimates for tenements under application are often discounted to 60% of the estimated value by some valuers to reflect uncertainty in the future granting of the tenement. The PEM Factors are defined in the table.

Yardstick (Rule of Thumb) Method

A Rule-of-Thumb method sometimes used for valuing Mineral Assets without identified Resources is based upon conversion of comparable sales data to a unit area (per km² or per ha). It is probably the most difficult comparative tool to justify. This Method has found greater acceptance in North America, where tenement sizes appear to be smaller and where there are many more transactions

forming a deep and liquid market than elsewhere. In addition, dealing in tenements is not discouraged by the mining legislation, especially in the US with its historic focus on property rights. It is used in Canada and Australia, though to a much lesser extent.

In Australia, many State jurisdictions grant large exploration tenements (say 300km2 maximum) on a graticular block system. This means a tenement is usually larger than geometrically necessary to cover the specific geologically prospective terrane. Also, most jurisdictions here require periodic significant reductions in the tenement's size, so it is common to apply for more area than is actually needed to provide for this obligatory reduction. The sale of exploration tenements to third parties is discouraged (although sales, particularly if interests, certainly occur) because the basis of grant is that the applicants will carry out the granted tenement's exploration obligations themselves. The State sees itself as the centralised, timely distributor of exploration rights, not the free market.

That said, some valuers still attempt to use this Rule-of-Thumb (based upon area) in Australia with an emphasis on market value. A review of technical value (which is not influenced by market conditions) of exploration areas carried out by Agricola over the last few years suggests that ground without resources can be categorized as a matter of convenience into four groups:

- Advanced exploration areas located in a well mineralised area near existing mineral deposits with significant potential attract values well above \$2000 per square kilometre
- Exploration areas along strike or structurally related to estimated mineral resources. Such areas attract values in the range \$1200 to \$2000 per square kilometre.
- Exploration areas in known mineral fields. Such areas attract values in the range of \$700 to \$1300 per square kilometre.
- Exploration areas in green fields or early exploration domains remote from mineral resources. Such areas attract values in the range of \$400 to \$800 per square kilometre.

Adjustments to the Technical Value – Market Value

Mineral Assets are often bought and sold at a price that is different than their technical value or stand-alone value. To the extent that it exists, the amount of the transacted value differs from the technical value is often described as the 'acquisition premium or discount'.

The concept of market value implies the construction of a hypothetical transaction between willing, knowledgeable, but not anxious buyers and sellers. Therefore, when assessing the market value of resource projects, it is likely that valuers will consider whether it is appropriate to make an adjustment to the technical value of the project to reflect any observed 'acquisition premium or discount', or other adjustments. Such adjustments can either be implicit or explicit in the valuation method chosen. However, care should be taken not to treat as acquisition premium or discount something that is properly part of technical value, such as where assumed forward values for commodity prices are reflected in the technical value.

Particularly when valuing early stage exploration and development projects the technical value may be assessed for a project with reference to parameters that may be above or below those present in the financial markets as at the valuation date. Consequently, when applying these exploration valuation methods, it may be appropriate to reflect a series of high level adjustments to the

technical value to account for differences in market conditions relative to those embedded within the method itself.

However, other valuation methods (particularly the DCF valuation method) are able to explicitly reflect a series of parameters that may apply to future financial market expectations. This is particularly the case if valuers adopt commodity price, exchange rate, inflation rate, and discount rate parameters, which are forecast with reasonable confidence, and resource to reserve conversion, cost structure and capital expenditure parameters which are consistent with the expectations in the market. Doing so will limit the need to make further adjustments to the resulting stand alone value to account for such factors as 'market considerations'.

To the extent that valuers choose to apply further adjustments to their assessed stand alone value, it is good practice to clearly identify how they have applied the adjustments are applied, and the rationale for doing so.

Boom and Bust Markets

Investment in the mining sector is cyclical, and sector valuation fluctuations between boom and bust are evident over time in share prices and index prices for miners (Figure 1). Mining is a capital intensive business, so the cycle is driven by liquidity – the availability of investment funding. Liquidity is the product of sentiment, which swings between greed and fear. While the shape of historic cycles reflected in share prices of miners differs from cycle to cycle, indicators of liquidity follow a similar pattern of evolution through each cycle.

Most recently, the mining sector has experienced a bust that produced sustained share price declines across most of the sector, starting in mid-2011. All busts end, and since mid-2013 there has been strengthening signals that a change in sentiment towards miners is underway.

In 2011, 2012 and most of 2013, miners fell whilst the rest of the equity market was positive. 2014 saw stabilisation in miners' equity performance and in 2015 miners have remained weak, but for the first time this has been against a falling broader market. The correlation between miners and the rest of the market for Australia's ASX200 index (ie Resources vs Industrials) was negative during calendar years 2011-14. Year to date in 2015 the correlation is strongly positive (r2 = 0.72), signifying that miners are no longer 'falling out of bed'. Combined with signals from liquidity indicators, there is a very strong sense that the sentiment of a bust is now passed. Although it is too early yet to call the next boom, this shift in sentiment strongly suggests the mining sector is now passing through the base of the cycle.

GLOSSARY OF TERMS

- 'Minerals Industry' (also Extractive Industry) Defined as encompassing those engaged in exploring for, extracting, processing and marketing 'Minerals'.
- 'Price' The amount paid for a good or service and it is a historical fact. It has no real relationship with 'Value', because of the financial motives, capabilities or special interests of the purchaser; and the state of the market at the time.
- **Personal Property** Covers all items other than **'Real Estate'** and may be tangible (like a chattel or goods) or intangible (like a patent or debt). It has a moveable character.

'Real Property' – A non-physical, legal concept and it includes all the rights, interests and benefits related to the ownership of 'Real Estate' and normally recorded in a formal document (eg, deed or lease). The rights are to sell, lease, enter, bequeath, gift, etc. There may be absolute single or partial ownership (subject to limitations imposed by Government, like taxation, planning powers, appropriation, etc). These rights may be affected by restrictive covenants or easements affecting title; or by security or financial interests, say conveyed by mortgages.

'Real Estate' – A physical concept, including land and all things that are a natural part of the land (eg, trees and Minerals). In addition it includes all things effectively permanently attached by people (eg, buildings, site improvements, and permanent physical attachments, like cooling systems and lifts) on, above or below the ground.

VALUATION AND VALUE

- 'Value' (also Valuation which is the result of determining 'Value') The estimated likely future 'Price' of a good or service at a specific time, but it depends upon the particular qualified type of value (eg 'Market Value', 'Salvage Value', 'Scrap Value', 'Special Value', etc). There is also a particular value for tax and rating, or insurance purposes.
- 'Market Value' (IVS Definition) The result of an objective Valuation of specific identified ownership rights to a specific asset as at a given date. It is the value in exchange not 'Value-in-Use' set by the market place. It is the "estimated amount for which a property should exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had acted knowledgeably, prudently, and without compulsion".
- 'Fair Value' (IVS definition) An accountancy term used for values envisaged to be derived under any and all conditions, not just those prevailing in an open market for the normal orderly disposal of assets. Being a transaction price it reflects both existing and alternative uses, too. It is also a legal term for values involved in dispute settlements which may not also meet the strict 'Market Value' definition. Commonly, it reflects the service potential of an asset ie, value derived by DCF/NPV analysis, not merely the result of comparable sales analysis. It is still the "amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction".
- 'Highest-and-Best-Use' for physical property, it is the reasonably probable and legal use of property, which is physically possible, appropriately supported and financially feasible, that results in the highest value. In the case of personal property, it is the same with the additional qualification that the highest value must be in the appropriate market place, consistent with the purpose of the appraisal. It may be, in volatile markets, the holding for a future use.
- 'Value-in-Use' in contrast to 'Highest-and-Best-Use', it is the specific value of a specific tangible asset that has a specific use to a specific user. It is not market-related. The focus is on the value that a specific property contributes to the enterprise of which it is a part (being part of a 'Going Concern Valuation'). It measures the contributory value of a specified asset(s) used within that specific enterprise, although it is not the 'Market Value' for that individual asset. It is the Value-to-the-Owner/Entity/Business in accountancy terms and may be the lower of net current replacement cost and its recoverable amount. It is also the net present value of the expected future net cash flows from the continued use of that asset, plus its disposal value at the end of its useful life ('Scrap Value'). At the 'Valuation Date', there must be recognition of its existing use by a particular user. This is in contrast to the alternative reasonable use to which an asset might be put by unspecified owner(s).
- 'Going Concern Value' A business valuation concept rather than one relating to individual property valuation. It is the value of an operating business/enterprise (ie one that is expected to continue operating) as a whole and it includes goodwill, special rights, unique patents or licences, special

- reserves, etc. Apportionment of this total value may be made to constituent parts, but none of these components constitute a basis for 'Market Value'.
- 'Forced Sale Value' (Liquidated Value) The amount reasonably expected to be received from the sale of an asset within a short time frame for completion that is too short to meet the 'Market Value' definition. This definition requires a reasonable marketing time, having taken into account the asset's nature, location and the state of the market). Usually it also involves an unwilling seller and buyers who have knowledge to the disadvantage of the seller.
- 'Market Capitalization' The total dollar market value of all of a company's outstanding shares. Market capitalization is calculated by multiplying a company's shares outstanding by the current market price of one share. The investment community uses this figure to determine a company's size, as opposed to sales or total asset figures. Frequently referred to as "market Cap" or MCap
- 'Enterprise Value EV' A measure of a company's value, often used as an alternative to straightforward market capitalization. Enterprise value is calculated as market cap plus debt, minority interest and preferred shares, minus total cash and cash equivalents. In the event of a buyout, an acquirer would have to take on the company's debt, but would pocket its cash. EV differs significantly from simple market capitalization in several ways, and many consider it to be a more accurate representation of a firm's value.
- 'Market Premium' A control premium is an amount that a buyer is usually willing to pay over the current market price of a publicly traded company in order to acquire a controlling share in that company. The reason the buyer of a controlling interest is willing to offer a premium over the price currently established by other market participants is the additional prerogatives of control, including electing the company directors, firing and hiring key employees, declaring and distributing dividends, divesting or acquiring additional business assets, and entering into merger and acquisition transactions. The opposite of control premium is the minority discount.
- 'Investment Value' (Worth) this is the value of a specific asset to a specific investor(s) for identified investment objectives or criteria. It may be higher or lower than 'Market Value' and is associated with 'Special Value'.
- 'Property-with-Trading-Potential' refers to the valuation of specialised property (eg, hotel, petrol station, restaurant, etc) that is sold on an operating or going concern basis. It recognises that assets other than land and buildings are to be included in the 'Market Value' and it is often difficult to separate the component values for land and property.
- **'Special Value'** An extraordinary premium over and above the 'Market Value', related to the specific circumstances that a particular prospective owner or user of the property attributes to the asset. It may be a physical, functional or economic aspect or interest that attracts this premium. It is associated with elements of 'Going Concern Value' or 'Investment Value' since it also represents synergistic benefits. In a strict sense it could apply to very specialised or special purpose assets which are rarely sold on the open market, except as part of a business, because their utility is restricted to particular users. In some circumstances, it may be the lower value given by 'Value –in–Use'.
- **'Salvage Value'** The expected value of an asset at the end of its economic life (ie, being valued for salvage disposal purposes rather than for its originally intended purpose). Hence, it is the value of property, excluding land, as if disposed of for the materials it contains, rather than for its continued use, without special repairs or adaptation.
- **'Scrap Value' (Residual Value)** The remaining value (usually a net value after disposal costs) of a wasting asset at the end of a prescribed or predictable period of time (usually the end of its effective life) that was ascertained upon acquisition.
- **'Valuation Date'** Means the reference date to which a Valuation applies. Depending on the circumstances, it could be different to the date of completion or signing of the Valuation Report or

the cut-off date of the available data (VALMIN Code,).

'Valuer' (also Valuer [Canada] or Appraiser [USA]) — Either the 'Expert' or 'Specialist' (Qualified Person in Canada) who is the natural person responsible for the Valuation to determine the 'Fair Market Value' after consideration of the technical assessment of the 'Mineral Asset' and other relevant issues. They must have demonstrable 'Competence' (and 'Independence', when required).

JORC CODE

'Competent Person - A 'Competent Person' is a minerals industry professional who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy, or of the Australian Institute of Geoscientists, or of a 'Recognised Professional Organisation' (RPO), as included in a list available on the JORC and ASX websites. These organisations have enforceable disciplinary processes including the powers to suspend or expel a member. A Competent Person must have a minimum of five years relevant experience in the style of mineralisation or type of deposit under consideration and in the activity which that person is undertaking. If the Competent Person is preparing documentation on Exploration Results, the relevant experience must be in exploration. If the Competent Person is estimating, or supervising the estimation of Mineral Resources, the relevant experience must be in the estimation, assessment and evaluation of Mineral Resources. If the Competent Person is estimating, or supervising the estimation of Ore Reserves, the relevant experience must be in the estimation, assessment, evaluation and economic extraction of Ore Reserves. (JORC 2012)

'Independent/Independence' — Means that the person(s) making the Valuation have no 'Material' pecuniary or beneficial (present or contingent) interest in any of the 'Mineral Assets' being assessed or valued, other than professional fees and reimbursement of disbursements paid in connection with the assessment or Valuation concerned; or any association with the commissioning entity, or with the owners or promoters (or parties associated with them) likely to create an apprehension of bias. Hence, they must have no beneficial interest in the outcome of the transaction or purpose of the technical assessment/Valuation of the 'Mineral Asset' (VALMIN Code). ASIC RG112, which deals with the Independence of Expert Reports, provides more detail on this concept. (JORC 2012)

'Exploration results' - Exploration Results include data and information generated by mineral exploration programmes that might be of use to investors but which do not form part of a declaration of Mineral Resources or Ore Reserves. The reporting of such information is common in the early stages of exploration when the quantity of data available is generally not sufficient to allow any reasonable estimates of Mineral Resources. Examples of Exploration Results include results of outcrop sampling, assays of drill hole intersections, geochemical results and geophysical survey results. (JORC 2012)

'Exploration Target' - An Exploration Target is a statement or estimate of the exploration potential of a mineral deposit in a defined geological setting where the statement or estimate, quoted as a range of tonnes and a range of grade (or quality), relates to mineralisation for which there has been insufficient exploration to estimate a Mineral Resource. Any such information relating to an Exploration Target must be expressed so that it cannot be misrepresented or misconstrued as an estimate of a Mineral Resource or Ore Reserve. The terms Resource or Reserve must not be used in this context. (JORC 2012)

'Inferred Mineral Resource' - An 'Inferred Mineral Resource' is that part of a Mineral Resource for which quantity and grade (or quality) are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

An Inferred Mineral Resource has a lower level of confidence than that applying to an Indicated Mineral Resource and must not be converted to an Ore Reserve. It is reasonably expected that the majority of Inferred Mineral Resources could be upgraded to Indicated Mineral Resources with continued exploration. (JORC 2012)

- 'Indicated Mineral Resource' An 'Indicated Mineral Resource' is that part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of Modifying Factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to assume geological and grade (or quality) continuity between points of observation where data and samples are gathered. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource and may only be converted to a Probable Ore Reserve. (JORC 2012)
- 'Measured Mineral Resource' A 'Measured Mineral Resource' is that part of a Mineral Resource for which quantity, grade (or quality), densities, shape, and physical characteristics are estimated with confidence sufficient to allow the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit. Geological evidence is derived from detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to confirm geological and grade (or quality) continuity between points of observation where data and samples are gathered. A Measured Mineral Resource has a higher level of confidence than that applying to either an Indicated Mineral Resource or an Inferred Mineral Resource. It may be converted to a Proved Ore Reserve or under certain circumstances to a Probable Ore Reserve. (JORC 2012)
- 'Modifying Factors' are considerations used to convert Mineral Resources to Ore Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors. (JORC 2012)
- **'Scoping Study'** A Scoping Study is an order of magnitude technical and economic study of the potential viability of Mineral Resources. It includes appropriate assessments of realistically assumed Modifying Factors together with any other relevant operational factors that are necessary to demonstrate at the time of reporting that progress to a Pre-Feasibility Study can be reasonably justified. A Scoping Study must not be used as the basis for estimation of Ore Reserves. (*JORC 2012*)
- 'Pre Feasibility Study' A Preliminary Feasibility Study (Pre-Feasibility Study) is a comprehensive study of a range of options for the technical and economic viability of a mineral project that has advanced to a stage where a preferred mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, is established and an effective method of mineral processing is determined. It includes a financial analysis based on reasonable assumptions on the Modifying Factors and the evaluation of any other relevant factors which are sufficient for a Competent Person, acting reasonably, to determine if all or part of the Mineral Resources may be converted to an Ore Reserve at the time of reporting. A Pre- Feasibility Study is at a lower confidence level than a Feasibility Study. (JORC 2012)
- 'Feasibility Study' A Feasibility Study is a comprehensive technical and economic study of the selected development option for a mineral project that includes appropriately detailed assessments of applicable Modifying Factors together with any other relevant operational factors and detailed financial analysis that are necessary to demonstrate at the time of reporting that extraction is reasonably justified (economically mineable). The results of the study may reasonably serve as the basis for a final decision by a proponent or financial institution to proceed with, or

finance, the development of the project. The confidence level of the study will be higher than that of a Pre- Feasibility Study. (*JORC 2012*)

VALMIN CODE

- 'Mineral(s)' Any naturally occurring material found in or on the Earth's crust, that is useful to and/or has a value placed on it by mankind. The term specifically includes coal, shale and materials used in building and construction, but excludes crude oil and natural gas (VALMIN Code).
- 'Mineral Asset(s)' (Resource Assets or Mineral Properties) All property including, but not limited to 'Real Property', intellectual property, mining and exploration tenements held or acquired in connection with the exploration, the development of and the production from those tenements; together with all plant, equipment and infrastructure owned or acquired for the development, extraction and processing of Minerals in connection with those tenements. Most can be classified as 'Exploration Areas', 'Advanced Exploration Areas', 'Pre-Development Projects', 'Development Projects' or 'Operating Mines' (VALMIN Code).
- 'Operating Mines' Mineral Properties, particularly mines and processing plants, which have been fully commissioned and are in production (VALMIN Code).
- 'Development Projects' Mineral Properties which have been committed to production, but which are not yet commissioned or not operating at design levels (VALMIN Code).
- 'Advanced Exploration Areas' and 'Pre-development Projects' Mineral Properties where Mineral Resources have been identified and their extent estimated (possibly incompletely) but where a positive development decision has not been made. Mineral Properties at the early assessment stage, those for which a development decision has been negative, those on care and maintenance and those held on retention titles are all included in this category if Mineral Resources have been identified. This is even if no further valuation or technical assessment work, delineation or advanced exploration is being undertaken (VALMIN Code).
- **'Exploration Areas'** Mineral Properties where mineralisation may or may not have been identified, but where a Mineral Resource has not been identified (VALMIN Code).
- 'Fair Market Value' (Market Value or Value) The object and result of the Valuation. It is the estimated amount of money (or the cash equivalent of some other consideration) for which the 'Mineral Asset' should change hands on the 'Valuation Date'. It must be between a willing buyer and a willing seller in an 'arm's length' transaction in which each party has acted knowledgeably, prudently and without compulsion. It is usually comprised of two components, the underlying or 'Technical Value' and a premium or discount, relating to market, strategic or other considerations (VALMIN Code,).
- 'Technical Value' An assessment of a 'Mineral Asset's' future net economic benefit at the 'Valuation Date' under a set of assumptions deemed most appropriate by the 'Valuer', excluding any premium or discount to account for market, strategic or other considerations (VALMIN Code,).
- **'Expert'** Means a **'Competent'** (and **'Independent'**, where relevant) natural person who prepares and has overall responsibility for the Valuation Report. He/she must have at least 10 years of relevant **'Minerals Industry'** experience, using a relevant **'Specialist'** for specific tasks in which he/she is not **'Competent'**. An **'Expert'** must be a corporate member of an appropriate, recognised professional association having an enforceable Code of Ethics, or explain why not (*VALMIN Code*).
- 'Specialist' Means a 'Competent' (and 'Independent', where relevant) natural person who is retained by the 'Expert' to provide subsidiary reports (or sections of the Valuation Report) on matters on which the 'Expert' is not personally expert. He/she must have at least 5 years of suitable and preferably recent 'Minerals Industry' experience relevant to the subject matter on

which he/she contributes. A 'Specialist' must be corporate member of appropriate, recognised professional association having an enforceable Code of Ethics, or explain why not (VALMIN Code).

'Material/Materiality' - with respect to the contents and conclusions of a relevant Report, it means data and information of such importance that the inclusion or omission of the data or information concerned might result in a reader of the Report reaching a different conclusion than might otherwise be the case. 'Material' data (or information) is that which would reasonably be required in order to make an informed assessment of the subject of the Report. The Australian Society of Accountants' Standard AAS5 indicates that 'Material' data (or information) is such that the omission or inclusion of it could lead to changes in total value of greater than 10% (between 5% and 10% it is discretionary). Also the Supreme Court of New South Wales has stated that something is 'Material' if it is significant in formulating a decision about whether or not to make an investment or accept an offer (VALMIN Code).

'Transparent/Transparency' - as applied to a valuation it means, as in the Concise Oxford Dictionary, "easily seen through, of motive, quality, etc". It applies to the factual information used, the assumptions made and the methodologies applied, all of which must be made plain in the Report (VALMIN Code).

'Competence' – it means having relevant expertise, qualifications and experience (technical or commercial), as well as, by implication, the professional reputation so as to give authority to statements made in relation to particular matters. (*VALMIN Code*).

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Appendix 4 - Independent Valuation Report



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14 December 2015

The Directors
Mustang Resources Ltd
566 Elizabeth Street
Melbourne, VIC, 3000

Dear Sirs,

Re: INDEPENDENT VALUATION OF MINERAL ASSETS at the RUBIES PROJECT and ADDITIONAL TENEMENTS at the BALAMA PROJECT in MOZAMBIQUE

Agricola has been commissioned by the Directors of Mustang Resources Ltd ("Mustang") to provide a Mineral Asset Valuation Report ("Report") on the Mineral Assets at the Rubies Project in Mozambique held by Regius Resources Group (the "Company") and additional tenements held by various owners at the Balama Graphite Project. This report serves to comment on the geological setting and exploration results on the properties and presents a Technical and Market Valuation for the exploration assets based on the information in this Report.

The present status of the tenements in Mozambique is based on information made available by the Company and verified by Agricola by reference to a Due Diligence Report prepared by an independent law firm, Business Development Corporation, Sociedade Unipessoal, Lda dated 26 November 2015. The Report has been prepared on the assumption that the tenements are lawfully accessible for evaluation.

Scope of the Valuation Report

Agricola Mining Consultants Pty Ltd ("Agricola") prepared this Report utilizing information relating to operational methods and expectations provided to it by various sources. Where possible, Agricola has verified this information from independent sources. This Report has been prepared for the purpose of providing information to Mustang but Directors of Agricola accept no liability for any losses arising from reliance upon the information presented in this Report.

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

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

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

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

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

The main requirements of the Valuation Report are:

- Prepared in accordance with the VALMIN Code 2005
- Experience and qualifications of key personnel to be set out
- Details of valuation methodologies
- Reasoning for the selection of the valuation approach adopted
- Details of the valuation calculations
- Conclusion on value as a range with a preferred value

DECLARATIONS

Relevant codes and guidelines

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

Where mineral resources have been referred to in this report, the information was prepared and first disclosed under the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"), prepared by the Joint Ore Reserves Committee of the AusIMM, the AIG and the Minerals Council of Australia 2012.

Under the definition provided by the VALMIN Code, the Rubies Project and Balama tenements are classified as 'exploration areas' with no identified mineral resources, which are inherently speculative in nature. The properties are considered to be sufficiently prospective, subject to varying degrees of risk, to warrant further exploration and development of their economic potential.

Sources of Information

The statements and opinion contained in this report are given in good faith and this review is based on information provided by the title holders, along with technical reports by consultants, previous tenements holders and other relevant published and unpublished data for the area. Agricola has

endeavoured, by making all reasonable enquiries, to confirm the authenticity, accuracy and completeness of the technical data upon which this report is based. A final draft of this report was provided to the Company, along with a written request to identify any material errors or omissions in the technical information prior to lodgment.

In compiling this report, Agricola did not carry out a site visit to the project areas. Based on its professional knowledge, experience and the availability of extensive databases and technical reports made available by various Government Agencies and the early stage of exploration, Agricola considers that sufficient current information was available to allow an informed appraisal to be made without such a visit.

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

Qualifications and Experience

The person responsible for the preparation of this report is:

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

Malcolm Castle has over 40 years' experience in exploration geology and property evaluation, working for major companies for 20 years as an exploration geologist. He established a consulting company over 20 years ago and specializes in exploration management, technical audit, due diligence and property valuation at all stages of development. He has wide experience in a number of commodities including uranium, gold, base metals, iron ore and mineral sands. He has been responsible for project discovery through to feasibility study in Australia, Fiji, Southern Africa and Indonesia and technical audits in many countries. He has completed numerous Independent Geologist's Reports and Mineral Asset Valuations over the last decade as part of his consulting business.

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

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

Competent Persons Statement

The information in this report that relates to Exploration Results and Mineral Resources of the Company has been reviewed by Malcolm Castle who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Castle has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as an Expert and Competent Person as defined under the

VALMIN Code and in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Castle consents to the inclusion in this report of the matters based on the information in the form and context in which they appear.

Independence

Agricola or its employees and associates are not, nor intend to be a director, officer or other direct employee of Mustang or the Company and have no material interest in the projects. The relationship with the Company is solely one of professional association between client and independent consultant. The review work and this report are prepared in return for professional fees of \$6,000 plus GST based upon agreed commercial rates and the payment of these fees is in no way contingent on the results of this Report.

Valuation Opinion

The Market Value is estimated for <u>equity stated in the Report</u> in the Projects

Based on an assessment of the factors involved the estimate of the market value of the tenements in the Rubies Project in Mozambique held by Regius Resources Group is in the range of $\underline{A$1.4}$ million to $\underline{A$1.9}$ million with a preferred value of $\underline{A$1.7}$ million.

Based on an assessment of the factors involved the estimate of the market value of the tenements in the additional tenements at the Balama Project in Mozambique held by various owners is

6526L - in the range of A\$1.0 million to A\$1.4 million with a preferred value of A\$1.2 million.

6363L - in the range of A\$180,000 to A\$250,000 with a preferred value of A\$220,000.

7486L - in the range of A\$160,000 to A\$230,000 with a preferred value of A\$190,000.

7560L - in the range of A\$320,000 to A\$450,000 with a preferred value of A\$390,000.

Tenements 6363L, 7486L and 6526L are in the application stage.

This valuation is effective on 14 December 2015.

Yours faithfully

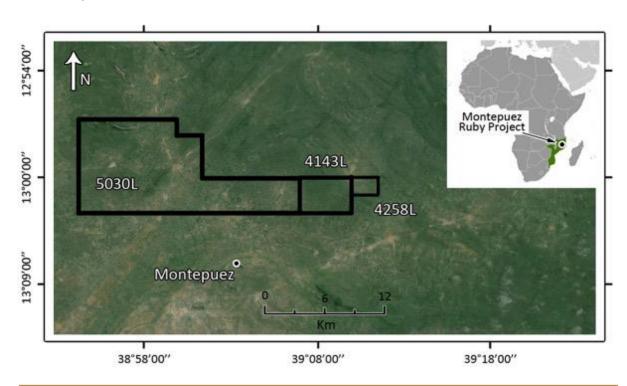
Malcolm Castle

B.Sc.(Hons) MAusIMM,

GCertAppFin (Sec Inst)

TENEMENT SCHEDULE

Rubies Project



REGIUS RESOURCES GROUP - RUBIES - CONCESSIONS - LICENSE AREAS							
License Area	Government License Issued License Holder	Date Granted	Shareholding & Interest	Size in Hectares			
4143 L	Ibrahima Ba	14.12.2011	80 %	1,920			
4258 L	CRL Investimentos Limitada	21.07.2011	70 % + 10 %	480			
5030L	Abdurremane Lino de Almedia	03/09/2013	70 %	13,400			

Mustang Resources entered into an agreement to acquire three highly prospective assets in Montepuez in Northern Mozambique during October 2015.

Through the proposed acquisition of 80% of Montepuez Minerals Pty Ltd ("MM") Mustang will gain rights to earn 70-80% of three highly prospective ruby licences covering 15,800 hectares in the Montepuez area and located immediately adjacent the world's largest known ruby deposit.

Mustang shall have the exclusive right (in their sole discretion) to acquire the tenements:

- 80% of 4143L
- 70% of 4258L (with the right to acquire a further 10%)
- 70% of 5030L

Balama Project

	BALAMA PROJECT		
		Date	
Licence Area	Holder	Granted	Area (Hectares)
6526L	Green Energy and Minerals Ltda	27-May-14	23,614.70
6363L	Montepuez Mineral Resources S.A.	Application	7,579.98
7486L	RQL Graphite Resources S.A.	Application	6,451.01
7560L	Montepuez Mineral Resources S.A.	Application	12,792.23

Mustang shall have the exclusive right (in their sole discretion) to acquire two of tenements:

- 75% of 6526L
- 90% of 6363L
- 95% of 7486L
- 95% of 7560L

The present status of the tenements in Mozambique is based on information made available by the Company and verified by Agricola by reference to a Due Diligence Report prepared by and Independent Law firm, Business Development Corporation, Sociedade Unipessoal, Lda dated 26 November 2015, pursuant to paragraph 67 of the Valmin Code. The granted and pending tenements are believed to be in good standing at the date of this valuation as represented by the Company. Some future events such as the grant (or otherwise) of expenditure exemptions and plaint action may impact of the valuation and may give grounds for a reassessment. The Report has been prepared on the assumption that the tenements are lawfully accessible for evaluation

PROJECT REVIEW - RUBIES PROJECT

The Rubies Project tenements are located next to what is reported to be the world's largest single ruby deposit, held by AIM-listed Gemfields PLC. Gemfields recently realised US\$122 million in four separate auctions for approximately 6 million carats of the 16 million carats of rubies mined during its bulk sampling phase.

Furthermore, there is strong and ongoing global demand for coloured gemstones with Mozambique alluvial rubies currently selling for in excess of circa US\$600 per carat, and widely sought after with a quality that rivals the renowned Burmese 'Pigeon-Blood' rubies.

Regional Geology

The Project Area lies within the structurally deformed and metamorphic terrane known as the Mozambique Belt or East African Orogen, which represents a belt of sedimentary and volcanic rocks that were deposited in a series of depositional basins.

This belt of sediments and volcanic rocks is aligned north to south and is over 7000km long, up to 1000km wide, and up to 30km thick. In global terms it may be regarded as a very long narrow and sinuous geological feature that has suffered a cyclic history of metamorphism and Independent deformation in a sequence of early, mid and late Proterozoic tectono - metamorphic events.

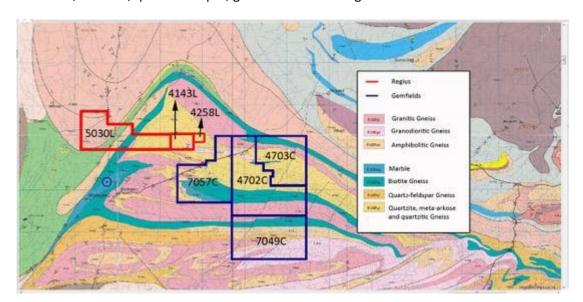
The initial geological history is one of a major high – grade metamorphic event associated with depth of burial and high heat flow through predominantly continental crust. Accompanying deformation associated with the intercratonic movement and closure of the basinal structures produced pronounced polyphase folding and related subordinate faulting. Subsequent intercratonic movements initiated later brittle deformation, predominantly in the form of thrust sequences.

Later fragmentation of Gondwana along the east coast of Mozambique occurred at ca 180 Ma, with an eastern block, which included Antarctica, Madagascar, India, Sri Lanka and Australia, breaking away and drifting southwards to their current positions.

Much of the deformation is widely accepted to be the result of a collisional event between east and west Gondwanaland or their associated microcontinents and explains the close association of Gem Deposits between Northern Mozambique, Madagascar, and Sri Lanka.

Geology of the Montepuez Complex

The Montepuez Complex forms a wedge-shaped unit of strongly deformed para- and orthogneisses between Montepuez, Chiúre and Namuno. The Montepuez Complex comprises orthogneisses, ranging from granitic to amphibolitic in composition, and paragneisses, comprising mainly quartzites, meta-arkoses, marbles, quartz-feldspar, gneisses and biotite gneisses.



Geological Map of the Montepuez Complex showing the MM Licenses as well as those of MRM (Gemfields).

The rocks of the Montepuez Complex are strongly folded into tight and isoclinal folds on all scales, and have later been cut by a number of mainly NE–SW-trending shear zones. The strong deformation makes the lithological succession very complex, with large variations on all scales, both within and between the lithologies.



Detailed Geology of the Project Areas

Montepuez Ruby Mining (Gemfields) Occurrence

The Montepuez Ruby Mining deposit is located in North-eastern Mozambique near the town of Namanhumbir and lies approximately 20km to the south east of the current licences (4143 L 4258L, 5030L). The project is held by another owner, Gemfields.

Two types of Ruby Mineralization are present within the MRM Mining license area, namely primary amphibolite mineralization, and secondary gravel bed mineralization. At this stage, the location of the main source of the secondary ruby mineralization is unclear, although it is considered that it lies outside of the area currently delineated by exploration drilling and pitting. MRM have a 4-5 year exploration plan for their current licences.

Gemfields has predicted that the Project should account for around 40% of the world's ruby supply. MRM note that according to Vincent Pardieu, a renowned gemmologist, one of the main characteristics of Montepuez rubies is the internal presence of rounded transparent crystals, which under analysis by the Gemmological Institute of America (GIA) proved to be amphibole.

Namahaka

Several minor diggings occur some 21 km east of Montepuez and north of the main Pemba–Montepuez road in the Cabo Delgado Province where red-brown to pinkish corundum crystals, up to 24 mm across, occur.

M'Sawize

The M'Sawize deposit is located within the Niassa National Reserve and is very remote. The deposit appears to be confined within metagabbro and gabbroic gneiss. Two deposits are present:

2 An eluvial ruby rich soil between 1 and 2m thick associated with red garnet.

② A primary deposit where ruby is found in association with white feldspar and a dark green amphibole.

Raman Spectroscopy showed the feldspar to be anorthite (Ca feldspar) while the dark green amphibole appears to be actinolite. The relatively close proximity of the mining site to banded migmatite and faulting may be significant to a possible genetic model.

Ruambeze, Niassa Province.

The Ruambeze Ruby Deposit is reported to have been discovered about 20 years ago and appears to produce orange or brownish to dark red cabochon grade material sometimes suitable for lead glass treatment. The brownish aspect comes from numerous fissures that are filled with possible limonite and the most common micro features were twin planes and their associated intersection tubes.

Recent Transactions in Mozambique

Recently published M&A activity of neighbouring/adjacent licenses:

Dec 2014: Gemfields acquired 75% of 2 ruby licenses immediately South of the current licences (4143 L 4258L, 5030L) along geological strike. Gemfields paid US\$3.5million for a 75% share in the licenses with 25% shareholder free carried for full duration of the project. Two licenses acquired (7057C and 7049C) held by Megaruma Mining Lda covering an area of 340 square kilometres.

Very little exploration and no resource estimations were available to support the purchase price with only some local artisanal miner activity similar the Company's licences. The implied value is approximately USD13,750 (AUD\$16,650) per square kilometre at that time

"Gemfields Plc has completed the acquisition of two additional licenses for ruby deposits in Mozambique."

Source: Africa Mining, 17 Dec 2014

The licenses were granted by the Mozambican government to Gemfields' 75% owned subsidiary, Megaruma Mining Limited. The licenses do not border each other but do share a boundary with Gemfields' 75% owned Montepuez ruby deposit. The new licenses cover a total of 34 000 hectares.

The total purchase consideration for the two licences totalled \$3.5 million which is payable to the vendor, EME Investimentos S.A. Gemfields will settle the bulking of the outstanding value and the vendor will hold a 25% share of Megaruma Mining.

Chief Executive Officer of Gemfields, Ian Harebottle, commented, "We are delighted to announce the completion of this transaction, which encapsulates our great confidence in future global demand for Mozambican rubies, just as our stellar Singapore auction results did last week, and our belief in the significance of the ruby deposits in this area. We look forward to working with all our stakeholders in Mozambique in creating the world's preeminent ruby supply source".

Gemfields is an AIM listed producer of coloured gemstones with operations in Zambia and Mozambique.

• **Feb 2012:** Gemfields acquired 75% of 1 ruby license immediately south of the current licences (4143 L 4258L, 5030L) along geological strike. Gemfields paid US\$2.5million for a 75% share in the license with 25% shareholder free carried for full duration of the project.

Very little exploration and no resource estimations were available to support the purchase price with only some local artisanal miner activity similar the Company's licences. The implied value is approximately USD10,000 (AUD\$10,000) per square kilometre at that time.

"Acquisition of ruby mine in Mozambique leads British company Gemfields to issue 1 million shares"

Source: Macauhub News July 9, 2012

British company Gemfields has issued just over 1 million shares following its acquisition of a ruby mining license in Montepuez, in the Mozambican province of Cabo Delgado, the company said in a statement issued Friday.

The company bought a 75 percent stake in the mining license in February for US\$2.5 million, and the 1 million new shares floated on the stock market Friday raise the company's shares to 325 million and give it a market capitalisation of 120 million pounds sterling.

Gemfields was focused on emerald mining in Kagem, Zambia, but the acquisition of the new mining license in Mozambique, for a 25-year period, has expanded the company's portfolio of precious stones.

The Montepuez project includes prospecting and exploration rights of an area of around 34,000 hectares, which is considered to be one of the world's richest ruby deposits, and the first gems are expected to be mined this year. ()

Summary Of The Ruby Potential For All The License Areas Held By The Company.

The potential for significant ruby mineralization over the Licenses 4143L, 4258L and 5030L is high. In particular:

☑ The licenses are covered by the same lithologies as those found over the Gemfields property and the potential exists for similar ruby mineralization, both primary and secondary.

☑ The Licenses lie along strike between the Gemfields ruby occurrence and the Namahaka ruby occurrence.

It is also noteworthy that the source of the higher quality secondary rubies over the MRM license remain to be discovered.

The high resolution Aeromagnetic Image of the area shows several NE trending lineaments which transect the license areas as well as the Gemfields Permit Area. These lineaments / faults may have played a role in the localisation of ruby associated magmas or fluids or the remobilization thereof.

The geological map of the License Areas 4143L, 4258L and 5030L includes a similar roughly ESE trending fold axis to that marked on the same map over the Gemfields permit areas (and to the east of the Gemfields permit areas where other ruby occurrences are known). It may be that the intersection of these fold axes with the above mentioned NE trending geophysical lineaments may be associated with ruby forming fluids, whether magmatic, metamorphic, or remobilized.

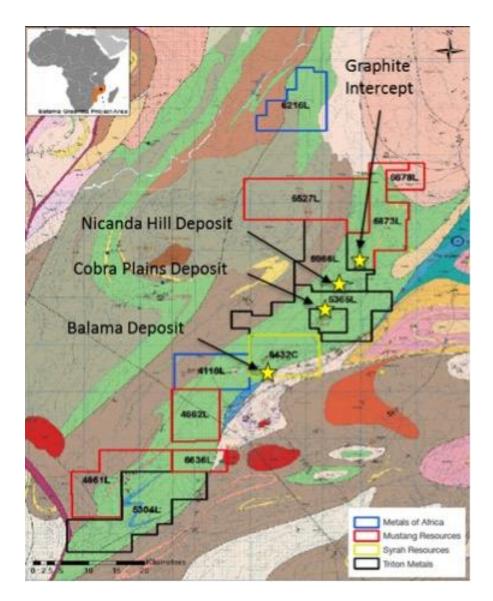
The Magnetic Image includes sites of artisanal activity identified from an initial heliborne inspection of the area during August - September 2015, several of which occur over the license areas. The presence of active artisanal ruby mining activity on these license areas together with the underlying geology makes them highly prospective and warrants further exploration including the undertaking of bulk sampling activities.

In addition to the above the International Market for Mozambican Ruby is very significant and increasing largely due to the marketing efforts by Gemfields. The prices for Mozambican Ruby published by Gemfields are significant and even a modestly sized primary or secondary ruby discovery has a good potential to be economically viable for the foreseeable future.

PROJECT REVIEW – BALAMA GRAPHITE PROJECT

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

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



Location of Mustang Prospecting Licences overlaying regional geological mapping and depicting the location of ground held by Syrah Resources, Triton Minerals and Metals of Africa

Triton's Nicanda Hill Project

Triton Minerals Ltd ("Triton") released the Nicanda Hill Scoping Study in November 2014, which was based on the Nicanda Hill resource. Approximately 328Mt of the Nicanda Hill Mineral Resource estimate has been classified as an Indicated Mineral Resource. The Scoping Study is based entirely within the Indicated Mineral Resource.

The mining inventory on which the Scoping Study is based, comprises 51Mt grading 12.4%TGC. Vanadium-credits were not included in the Scoping Study but form part of the future project upside.

The study envisages a shallow open pit operation, focused initially on the high grade Mutola, Macico and Grande graphite zones and accessed by three separate ramps (as shown in Figure 1 below). The shallow nature of the open pit operation combined with interlode (schist + gneiss zones in between the mineralised domains) material averaging 6%TGC, represents exceptionally low technical risk.

Average grades for the first five years are anticipated to be between 12 and 13%TGC. Locally, grades are expected to exceed 13%TGC. Initial waste to ore strip ratio averages 0.84:1, with the Life of Mine (LOM) strip ratio be approximately 1:1. The majority of the interlode material averages approximately 5%TGC.

The Scoping Study anticipates a straight-forward crushing, milling and flotation process together with screening and drying circuits.

The results are based upon a thirty year conceptual LOM (29 years mining plus 1 year construction) and a processing operation of 1.8Mta resulting in an average annual production rate of 210,000 tonnes of graphite concentrate.

Triton notes that the Scoping Study has assumed a conservative average graphite price of US\$985 per tonne, to incorporate price variations between the selling prices of different graphite size and purity fractions. The Scoping Study assumes this selling price will remain constant over the thirty year life cycle of the proposed Nicanda Hill mine and does not take into account any potential price escalation as demand grows.

Other key outcomes from the Optiro Scoping Study report are outlined and summarised below:

- Estimated initial capital cost US\$110 million which includes contingencies;
- LOM free cash flow of US\$624/t;
- Estimated average mine gate cost of production at US\$250/t;
- Free on Board cost (FOB) Port of Pemba estimated average cost at US\$315/
- Cash operating costs of US\$338/t;
- Positive cash flow within 2 months of commission; and
- Payback period within approximately 10 months of commission

Syrah's Balama Project

In December 2013, the Mozambican Government granted Twigg Exploration and Mining Limitada (100% owned by Syrah Resources) a 25 year mining licence, for both Graphite and Vanadium at Balama. It is a 110.62km² mining concession which is located within the Balama District in the Cabo Delgado Province, in northern Mozambique. Under Mozambique law an extension of the Mining Licence for a further 25 years is available.

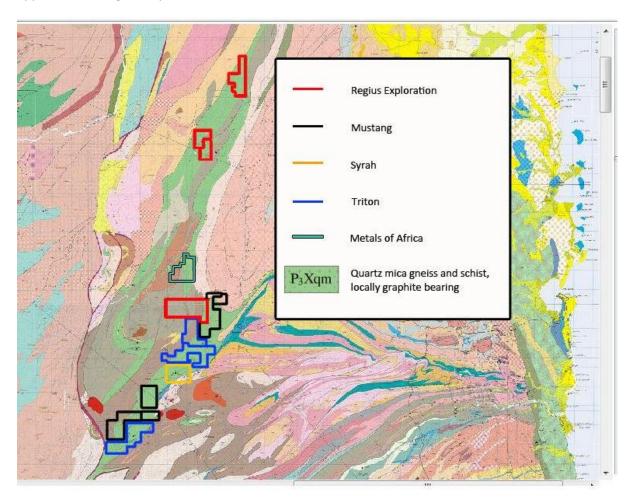
The project is located approximately 240km by road west of the port town of Pemba. The Balama Project site is accessible by a major sealed road which runs from Pemba to approximately 45km from the project site. The last 45km is unsealed but in the process of being upgraded. This main road is located 2.4 km from the project site.

The Balama Graphite and Vanadium deposit comprises a ridge and three hills containing graphitic schists. Field reconnaissance and an extensive 100+ hole drilling program has delineated an extensive, outcropping area of high grade graphite and vanadium. The mapped strike distance of the graphitic schists is over 8km. Thin section analysis indicates that a substantial amount of the Balama graphite is coarse flake, which attracts a sales premium in the worldwide market. Construction of the Balama Graphite and Vanadium project was scheduled to commence in March 2015.

The Global Inferred Resource at Balama is currently 1.15 billion tonnes at 10.2% Total Graphitic Carbon (TGC) and 0.23% V2O5 (at a 5% TGC cutoff). Included within this figure are several high grade zones which are being upgraded to Indicated and Measured Resources. These primary zones are comprised of Ativa and Mualia at Balama West and Mepiche at Balama East.

The Scoping Study commissioned from Snowden Engineering Group was based on graphite only. At the time the Scoping Study was commissioned, Syrah only had sufficient technical data on the graphite. Syrah has decided to incorporate vanadium into the Bankable Feasibility Study (BFS).

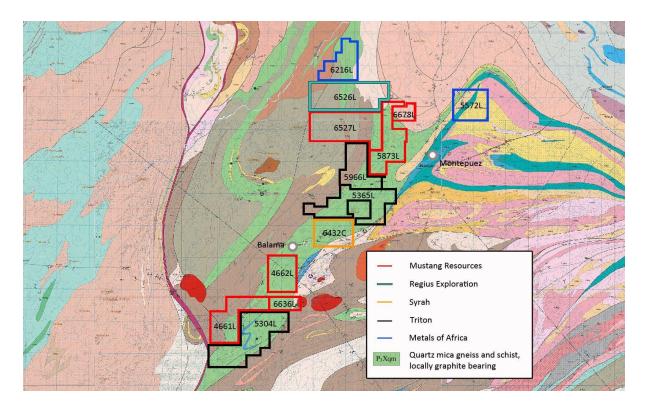
Environmental work on the graphite is well advanced and Syrah is hopeful that environmental approval will be given by June 2014..



Location of Regius, Syrah and Triton tenements

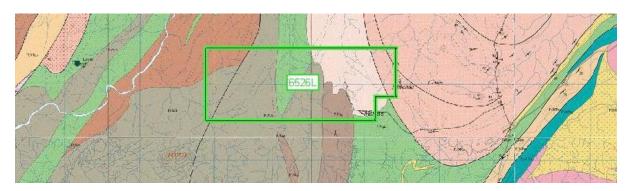
Tenement 6526L

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



Location of 6526L

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

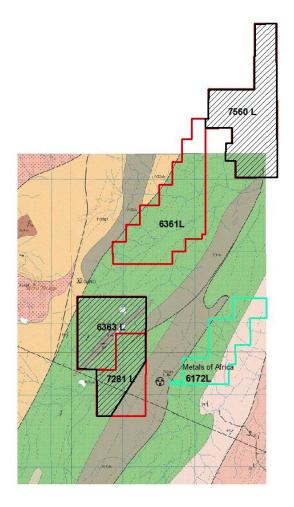


6526L overlying the potential graphite mineralisation

The area of interest for the graphitic mineralisation occupies an area of approximately 47km² in the more northern License 6526L. A granite intrusion, similar to the one believed to have caused the graphite "upgrade" in the Syrah project, has been noted in the eastern area of the Regius Licenses

6526L and 6527L which bodes very well for a similar grade and amount of the total graphite content within the graphitic schists.

Tenements 6363L and 7560L and Tenement 7486L



These tenements ar known to overlie the prospective graphite unit in the vicinity of the Balama project tenements. The geological characteristics are similar to those tenements with early stage prospective ground available

A recent SkyTEM EM survey has been completed and has yielded drilling targets.

VALUATION ASSESSMENT

The Rubies Project, including licences 4143L, 4258L and 5030L and the additional Licences at the Balama Graphite Project are classed as an exploration project. Several methods of valuation are available for such projects where a Mineral Resource has not yet been estimated in accordance with the JORC code. These include the use of valuations based on past exploration expenditure and valuations based on perceived prospectivity.

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

The 'Geo-factor Rating' method of valuation for exploration tenements is the preferred valuation method for the Company's current tenement by Agricola as it focuses on the future prospectivity of the area.

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

Agricola has reviewed alternative comparative valuation methods as set out in Regulatory Guide 111: Content of expert reports (RG 111) at RG 111.65, which considers that "an expert should, where possible, use more than one valuation methodology. We consider this reduces the risk that the expert's opinion is distorted by its choice of methodology. We also consider that an expert should compare the figures derived from using the different methodologies and comment of any differences."

Agricola considers that the expectation of future gain is the main driver for mineral asset valuation of exploration projects as it endeavours to ascertain the unencumbered price which a willing but not anxious vendor could reasonably expect to obtain and a hypothetical willing but not too anxious purchaser could reasonably expect to have to pay for the property if the vendor and the purchaser had got together and agreed on a price in friendly negotiation (the Spencer Test). The method set out in this report is considered appropriate for valuation of exploration projects.

Base Value

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

The BAC was originally based on calculations of exploration expenditures and other costs for Western Australia. Agricola's experience has confirmed this range to be appropriate for Australia and other parts of the world where exploration or valuations have been carried out by Agricola.

The BAC is designed for grass roots projects where no earlier work is available and only regional selection information is available. Where the Company in earlier work programs has received encouragement from earlier work then that aspect is addressed in the geofactors, which tend to upgrade the BAC based on earlier results and perceived prospectivity.

The assessment of value is based on the current equity and status for the various tenements as shown in the following table. Grant Factor for granted tenements is 100%. A discount of 40% has been applied to the pending tenement applications 6363L, 7486L and 7560L.

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

REGIUS RESOURC	Tenement Factors			
Tenement	Equity	На	Km²	Status
Rubies Project				
4143L	100%	1,920	19.20	Granted
4258L	100%	480	4.80	Granted
5030L	100%	13,400	134.00	Granted

MUSTANG RESOL	Tenement Factors			
Tenement	Equity	На	Km2	Status
Baloma Project				
6526L	100%	23,614.70	236.15	Granted
6363L	100%	7,579.98	75.80	Pending
7486L	100%	6,451.01	64.51	Pending
7560L	100%	12,792.23	127.92	Pending

Prospectivity Assessment Factors

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

Regional mineralisation, old and current workings and the validity of conceptual models.

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

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

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

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

REGIUS RESOURCES GROUP <u>Prospectivity Factors</u>						ctors		
Project	Off Sit	te	On S	ite	Anon	naly	Geol	ogy
Rubies Project	Low	High	Low	High	Low	High	Low	High
4143L	4.00	4.10	1.75	1.85	1.50	1.60	2.75	2.85
4258L	4.00	4.10	1.75	1.85	1.50	1.60	2.75	2.85
5030L	4.00	4.10	1.75	1.85	1.50	1.60	2.75	2.85

MUSTANG RESOURCE	S LTD					Prospe	ctivity Fa	ctors
Tenement	Off Si	te	On S	ite	Anon	naly	Geol	ogy
Baloma Project	Low	High	Low	High	Low	High	Low	High
6526L	2.50	2.60	1.50	1.60	1.75	1.85	2.00	2.10
6363L	2.00	2.10	1.50	1.60	1.75	1.85	2.00	2.10
7486L	2.00	2.10	1.50	1.60	1.75	1.85	2.00	2.10
7560L	2.00	2.10	1.50	1.60	1.75	1.85	2.00	2.10

TECHNICAL VALUE

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

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

REGIUS RESOURCES GROUP						
Project	Technical Value, A\$M					
Rubies Project	Low High Preferred					
4143L	0.22	0.30	0.26			
4258L	0.06	0.08	0.07			
5030L	1.55	2.09	1.82			
Total	1.83	2.46	2.14			

MUSTANG RESOURCES LTD						
Project	Technical Value, A\$M					
Balama Project	Low High Preferred					
6526L	1.24	1.72	1.48			
6363L	0.19	0.27	0.23			
7486L	0.16	0.23	0.20			
7560L	0.32	0.45	0.39			
Total	1.92	2.66	2.29			

The valuation for the Projects is not date specific and applies through a range of years depending on the exploration carried out and the results received. Monetary value is affected by the BAC.

Comparison with Yardstick (Rule of Thumb) Method

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

- Advanced exploration areas located in a well mineralised area near existing mineral deposits with significant potential attract values well above \$2000 per square kilometre
- Exploration areas along strike or structurally related to estimated mineral resources. Such areas attract values in the range \$1200 to \$2000 per square kilometre.
- Exploration areas in known mineral fields. Such areas attract values in the range of \$700 to \$1300 per square kilometre.
- Exploration areas in green fields or early exploration domains remote from mineral resources. Such areas attract values in the range of \$400 to \$800 per square kilometre.

\$ per square kilometre = Technical Value/Area

REGIUS RESOURCES GROUP		\$ per square km		
Rubies Project	km2	Low	High	
4143L	19.20	11,560	15,570	
4258L	4.80	11,450	15,620	
5030L	134.00	11,550	15,560	

MUSTANG RESOUR	\$ per square km		
Balama Project	km2	Low	High
6526L	236.15	5,250	7,270
6363L	75.80	2,510	3,520
7486L	64.51	2,520	3,510
7560L	127.92	2,510	3,520

Based on the values estimated in this report, the Project falls in the range shown in the table, which are considered to be reasonable based on the existing Montepuez Ruby Mine and the Advanced projects held by Syrah and Triton.

MARKET VALUE

In arriving at a fair market value for a particular exploration tenement, Agricola has considered the country risk and current market for exploration properties in Australia. Assessment of country risk and an assessment of the Business Climate have been provided by an independent specialist firm (source: www.coface.com). The rating for Mozambique is 'C' for country risk and 'C' for business climate, which are considered to be moderate to high risk. Strengths include Favourable geographic location: long coastline, closeness to South African market, Considerable mineral (coal), agricultural and hydroelectric potential, Major gas reserves discovered off-shore (2010) and Support by donors and foreign investors (FDI) for financing mining and gas infrastructure. Weaknesses include Limited diversification; dependence on raw material prices (aluminium, coal), Poor transport and port infrastructure seriously limiting its ability to export its raw materials, High dependence on international aid and the South African economy and Poor governance

This rating will affect the market factor in assessing market value.

The current market value for mineral projects in the ruby sector in Mozambique is considered to be in demand, especially close to a producing mine and in a similar geological setting. A market premium of 10% has been applied to the tenements in the Rubies Project in recognition of the stage of exploration and the encouraging geological settings. Recent M & A transactions in the area by Gemfield suggest a sales price of A\$16,650 per square kilometre in December 2014 Gemfields paid US\$3.5 million for 75% equity in a block of ground adjacent to its Montepuez Ruby Deposit covering 340 square kilometres, approximately double the size of the current tenements. The current market value for the Company's tenements at the Rubies project is approximately A\$14,900 per square kilometre.

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

REGIUS RESOURCES GROUP		Market Value, A\$M			
Rubies Project	Market Factor	Low	High	Preferred	
4143L	110%	0.24	0.33	0.29	
4258L	110%	0.06	0.08	0.07	
5030L	110%	1.70	2.29	2.00	
Total		2.01	2.71	2.36	

The current market value for mineral projects in the graphite sector in Mozambique is considered to be in demand, especially close to the advanced projects held by Syrah and Triton and in a similar geological setting. A market premium of **10%** has been applied to 6526 due to its close proximity to the other projects and **5%** to the other tenements which are more remote.

MUSTANG RESOURCES LTD		Market Value, A\$M			
Balama Project	Market Factor	Low	High	Preferred	
6526L	110%	1.36	1.89	1.63	
6363L	105%	0.20	0.28	0.24	
7486L	105%	0.17	0.24	0.20	
7560L	105%	0.34	0.47	0.41	
Total		2.07	2.88	2.48	

EQUITY VALUE

Mustang shall have the exclusive right (in their sole discretion) to acquire the tenements:

- 80% of 4143L
- 70% of 4258L (with the right to acquire a further 10%)
- 70% of 5030L

REGIUS RESOURCES GROUP		Equity Value, A\$M			
Rubies Project	Equity	Low	High	Preferred	
4143L	80%	0.20	0.26	0.23	
4258L	70%	0.04	0.06	0.05	
5030L	70%	1.19	1.61	1.40	
Total		1.43	1.93	1.68	

Mustang shall have the exclusive right (in their sole discretion) to acquire two of tenements:

- 75% of 6526L
- 90% of 6363L
- 95% of 7486L
- 95% of 7560L

MUSTANG RESOU	Equ	Equity Value, A\$M			
Balama Project	Equity	Low	High	Preferred	
6526L	75%	1.02	1.42	1.22	
6363L	90%	0.18	0.25	0.22	
7486L	95%	0.16	0.23	0.19	
7560L	95%	0.32	0.45	0.39	
Total		1.69	2.35	2.02	

VALUATION OPINION

The Market Value is estimated for <u>equity stated in the tables above</u> in the Projects

Based on an assessment of the factors involved the estimate of the market value of the tenements in the Rubies Project in Mozambique held by Regius Resources Group is in the range of $\underline{A\$1.4}$ million to $\underline{A\$1.9}$ million with a preferred value of $\underline{A\$1.7}$ million.

Based on an assessment of the factors involved the estimate of the market value of the tenements in the additional tenements at the Balama Project in Mozambique held by various owners is

6526L - in the range of A\$1.0 million to A\$1.4 million with a preferred value of A\$1.2 million.

6363L - in the range of A\$180,000 to A\$250,000 with a preferred value of A\$220,000.

7486L - in the range of A\$160,000 to A\$230,000 with a preferred value of A\$190,000.

7560L - in the range of A\$320,000 to A\$450,000 with a preferred value of A\$390,000.

Tenements 6363L, 7486L and 6526L are in the application stage.

This valuation is effective on 14 December 2015.

Background notes and details of the Valuation process adopted by Agricola are included as an appendix to this Report.



MINERAL ASSETS VALUATION FOR EXPLORATION TENEMENTS

M. Castle – Updated 27 November 2015

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

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The Meaning of Value – Scope of the Report

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

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

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

Judicial interpretation

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

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

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

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

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

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

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

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

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

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

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

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

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

These principles apply equally to mineral assets

Regulatory Authorities

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

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

The VALMIN Code, 2005

The main requirements of the Valuation Report are

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

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

Materiality - This means the valuer has to ensure that all important data that could have a significant impact on the valuation is included in the report. Materiality and Material refer to data or information which contribute to the determination of the Mineral Property value, such that the

inclusion or omission of such data or information might result in the reader of a Valuation Report coming to a substantially different conclusion as to the value of the Mineral Property. Material data and information are those, which would reasonably be required to make an informed assessment of the value of the subject Mineral Property.

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

Competent Persons Statement

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

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

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

Methodology - The decisions as to the valuation methodology or methodologies to be used and the content of the Report are solely the responsibility of the Expert or Specialist whose decisions must not be influenced by the Commissioning Entity. The Expert or Specialist must state the reasons for

selecting each methodology used in the Report. Methods chosen must be rational and logical and be based upon reasonable grounds.

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

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

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

Regulatory Guides RG111 and RG112, March 2011

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

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

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

The complex valuations in an expert's report necessarily contain significant uncertainties. Because of this an expert who gives a single point value will usually be implying spurious accuracy to his or her valuation. An expert should, however, give as narrow a range of values as possible. An expert report becomes meaningless if the range of values is too wide. An expert should indicate the most probable point within the range of values if it is feasible to do so.

The expert should carry out sufficient enquiries or examinations to establish reasonable grounds for believing that any profit forecasts, cash flow forecasts and unaudited profit figures that are used in

the expert's report, and have been prepared on a reasonable basis. If there are material variations in method or presentation the expert should adjust for or comment on them in the report.

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

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

The JORC Code, 2012

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

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

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

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

Changes to the JORC Code 2012

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

VALUATION METHODOLOGY FOR EXPLORATION TENEMENTS

Fair Market Value of Mineral Assets

Mineral assets include, but are not limited to, mining and exploration tenements held or acquired in connection with the exploration, the development of, and the production from those tenements together with all plant, equipment and infrastructure owned or acquired for the development, extraction and processing of minerals in connection with those tenements.

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

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

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

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

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

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

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

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

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

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

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

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

When assessing value of exploration properties with no identified Ore Reserves it is inappropriate to prepare any form of financial analysis to determine the net present value. The valuation of

exploration tenements or licences, particularly those without identified resources, is highly subjective and a number of methods are appropriate to give a guide as discussed below.

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

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

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

Contemporaneous transactions in the asset

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

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

Any underlying royalty or net profits interests or rights held by the original vendor of the claims should be deducted from the resultant property value before determination of the company's interest. Also, reductions in value should be made where environmental, legal or political sensitivities could seriously retard the development of exploration properties.

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

DCF value

Where a financial model has been prepared which considers the exploration results to date, the costs involved in taking the project to production and the probability-weighted returns expected from the project, in the absence of a contemporaneous transaction in the actual exploration interest, this provides the best evidence as to the value of the exploration interest. This method

requires that a reasonable estimate can be made of expected cash flows. In accordance with the JORC Code 2012, the estimation of an Ore Reserve must be based on a Pre Feasibility Study or a Feasibility Study. The DCF Method, therefore, is only possible then these studies are available and an Ore Reserve has been estimated. (*DCF Method – see below*)

Contemporaneous transactions in comparable assets

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

Potential for Further Discoveries

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

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

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

Past Expenditure

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

Yardstick (Rule of Thumb) Method

A Rule-of-Thumb method sometimes used for valuing Mineral Assets without identified Resources is based upon conversion of comparable sales data to a unit area (per km² or per ha). It is probably the most difficult comparative tool to justify.

Share market trading in companies holding comparable exploration interests

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

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

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

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

Valuation of Development Projects by Discounted Cash Flow Methods

Agricola believes that the Discounted Cash Flow/Net Present Value method should never be applied to the valuation of a Mineral Property that is only at an exploration stage, based on the hypothetical cash flows from a postulated exploitation scenario. Valuers tend to consider before or after tax values only in the context of the DCF/NPV Method, with a general preference for determinations of after-tax value.

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

Discounted cash flow analysis

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

Once a Mineral Resource has been assessed for mining by considering revenues and operating costs,

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

The resulting 'classical' NPV has several recognised deficiencies linked to the fact that the approach assumes a static approach to investment decision making, however the NPV represents a fundamental approach to valuing a proposed or on-going mining operation and is widely used within the mining industry.

In terms of cash flow analysis, the DCF valuation technique is the most commonly used valuation tool. The technique has specific strengths over the methods considered in the market and cost approaches. These include its ability to consider the effects of royalties, leases, taxation and financial gearing on the resulting cash flow. In addition, the beneficial impact of unredeemed capital balances, assessed losses, depreciation and amortization on free cash flows can also be modelled.

Compiling cash flows on resources categorized as inferred, or those with even less geoscientific confidence (which in some cases are referred to as inventory), is prohibited by some international codes. It is only under exceptional circumstances that many securities exchanges will accept such cash flows and the effect of cash flow contributions from inferred resources on project performance should be demonstrated separately from those derived from other resource and reserve categories.

The DCF method is used to produce numerous quantitative results. On its own and as an investment tool, it is based on the principle that for any initial investment, the investor will look to the future cash flows of that entity to provide a minimum return. This return will be at least a predetermined return over the investor's hurdle rate for that investment. The hurdle rate represents the minimum return of a project, below which the decision to invest or develop a new project will be negative, and above which the project will be developed. The hurdle rate should always be greater than the cost of capital for the investor.

For a mining project, in a macroeconomic environment that is sufficiently favourable and stable for this method to be applied, the critical input data will generally be incorporated in a life of mine (LoM) plan. The LoM plan, such as that accompanying a pre-feasibility, feasibility or a bankable feasibility study, will include:

- reserve and resource estimates in accordance with the JORC Code
- ➤ forecast mining schedules of tonnage on a daily, monthly or annual basis
- ➤ forecast grade profiles and associated recoveries from a processing facility. This, together with the tonnage profile, allows the valuer to calculate the volume of saleable product
- restimated working costs, preferably unitized to either an amount per tonne mined or milled or an amount per unit of metal or product sold
- ➤ forecast capital expenditure profiles over the life of the operation, including ongoing or sustainable capital expenditure amounts and

rehabilitation liabilities or trust fund contributions, retrenchment costs, plant metal lock-up and any other specific factor that will impact on costs or revenue.

Changes in working capital balances are generally calculated based on historical balance ratios, applied to forecast revenues and working costs. They impact on short term cash flows and therefore must be modelled into the cash flows. Naturally, any working capital locked up during the life of the operation will be released at the end of this life.

Once the economic inputs have been assumed, the DCF can be determined. This is often stated as EBITDA (Earnings before Interest, Taxation, Depreciation and Amortisation) and is frequently taken as the technical value of the project, subject to a consideration of sensitivity to the assumptions.

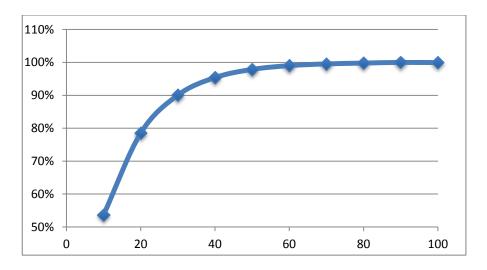
The resultant cash flow is then used to derive the net present value (NPV) of the operation at a predetermined discount rate or a range of discount rates. The derived NPV, on which the return on investment can be calculated, is used as a proxy for the operation's implicit value. This is often compared with the value or returns the market attributes to the operation, if it is a listed entity, or compared with other investment opportunities in order to optimize investment or development schedules.

In any cash flow determination, the impact of inflation on the final result cannot be overstated. One only has to consider the effect of taxation as applied to real taxable income as opposed to being levied against nominal taxable income. Converting the final cash flows to real money terms, the values derived from two similar cash flows will be quite different. The unredeemed capital balance will last longer in the real terms case, incorrectly enhancing the value of the same project. The real cash flow lines in Table X must be compared to recognize the impact of taxation on real and nominal cash flows.

As a result of the difficulty in obtaining agreement on appropriate inflation forecasts to use in the specific valuation of a project, valuers often exclude a forecast on inflation rates. This in itself may be construed as an inflation assumption, in that inflation is taken to be zero per cent per year. However, this reflects an ideal world, which is unrealistic.

The resulting 'classical' NPV has several recognised deficiencies linked to the fact that the approach assumes a static approach to investment decision making, assumption into the future which cannot be verified with any confidence and limited mine life. However the NPV represents a fundamental approach to valuing a proposed or on-going mining operation and is widely used within the mining industry.

As example of the shortcomings of the DCF Method a conceptual cash flow was modeled and NPV estimated at 8% over different time periods with the following outcome over 100 years:



Percent of maximum NPV from 10 to 100 years.

The estimated NPV reached a maximum value in 60 years and no amount of future income adds to this value.

Valuation of Resources by Comparable Transactions

When only a resource or defined body of mineralisation has been outlined and its economic viability has still to be established (i.e. there is no ore reserve) then a **Comparable Transactions** approach is usually applied, often stated as a percentage of metal value. This can be applied to Mineral Resource estimates and Exploration Targets in accordance with the JORC code with appropriate discounts for risk in the different Mineral Resource categories and operational factors to differentiate between deposits.

Agricola Mining Consultants prefers the comparable transactions approach where mineral resources have been estimated. The DCF method is inappropriate because there is no Pre Feasiblity or Feasibility Study available and no Ore Reserves has been (or can be) estimated under the JORC Code. The Geoscientific Factor method (potential for further discoveries) and Past Expenditure methods are appropriate for exploration ground that is not advanced enough to estimate mineral resources. The contemporaneous transactions over adjacent ground may be appropriate but the absence of such information the only viable method (in Agricola's opinion) is to compare the sale of other deposits on a 'dollar per unit' basis for the mineral resource estimated in accordance with the JORC Code. Agricola is not aware of a method to cross check the valuation for the technical value (as apposed to the Market value) under these circumstances except by comparison with earlier valuations.

With metal projects the Comparable Transactions method requires allocating a dollar value to resource tonnes or ounces in the ground. The dollar value must take into account a number of aspects of the resources including:

- The confidence in the resource estimation (the JORC Category)
- The quality of the resource (grade and recovery characteristics)
- Possible extensions of the resource in adjacent areas
- Exploration potential for other mineralisation within the tenements

- Presence and condition of a treatment plant within the project
- Proximity of infrastructure, development and capital expenditure aspects

This approach can be taken with metals or bulk commodities sold on the spot market and where current price can be estimated with appropriate adjustments for impurities if required. Value is estimated as a percentage of contained value by applying appropriate discounts for uncertainty relating to resource categorisation and operational issues (modifying factors) discount factors to the contained value. This is consistent with the JOC Code relating to contained values

JORC Code clause 51, page 24

The publication of in situ or 'in ground' financial valuations breaches the principles of the Code (as set out in Clause 4) as the use of these terms is not transparent and lacks material information. It is also contrary to the intent of Clause 28 of the Code. Such in situ or in ground financial valuations must not be reported by companies in relation to Exploration Results, Mineral Resources or deposit size.

The use of such financial valuations (usually quoted in dollars) has little or no relationship to economic viability, value or potential returns to investors.

These financial valuations can imply economic viability without the apparent consideration of the application of the Modifying Factors, (Clause 12 and Clauses 29 to 36), in particular, the mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social, and governmental factors.

The contained value is modified for the JORC resource category on the basis the Measured Resources will command a higher price than Inferred Resources or Exploration targets. Different operational issues have been considered to do with the individual projects. This might include higher discounts for stranded iron ore deposits, underground versus open cut mining for gold and base metals, processing difficulty, high operating and capital costs transport issues and marketing.

There is a wide variety of things to consider but to bring this down to something manageable and this has been condensed this into a single table. These discounts or modifying factors can be combined with the spread of values from the gold sales database (the AAC) to give an indication of what a purchaser would be prepared to pay for a particular mineral asset.

Resource Category Discounts	
Measured Resource	80%
Indicated Resource	70%
Inferred Resource	60%
Exploration Target	45%

An example of appropriate discounts for operational factors is included below but these must be considered on a case-by-case basis.

	Base	Iron Ore			Rare
	Metals	iron ore	Coal	Gold	Earths
Operations Factors	ivictais				
Recovery	75%	75%	70%	95%	60%
Mining	75%	90%	75%	90%	100%
Processing	80%	70%	70%	95%	50%
Rail	80%	90%	70%	95%	75%
Port	80%	90%	50%	100%	90%
Capex	80%	70%	75%	90%	50%
Marketing	75%	80%	75%	100%	75%
Total Operating	17%	210/	7%	69%	7%
Discount	1/70	21%	1 70	0970	7 70

Mergers and Acquisitions Activity

A recent review of Mergers and Acquisitions over the last eight years covering the mining boom, the GFC and the recovery phase of the Mining Market indicates the price paid for gold assets.

Merger and Acquisitions Activity (CAD)									
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Gold Price	\$709	\$778	\$920	\$1,154	\$1,277	\$1,590	\$1,665	\$1,488	\$1,303
Producing Assets*	\$74	\$94	\$115	\$89	\$207	\$202	\$200	\$121	\$120
Percent of Price	10.40%	12.10%	12.50%	7.70%	16.20%	12.70%	12.00%	8.10%	9.20%
Exploration Assets*	\$54	\$28	\$31	\$29	\$71	\$90	\$47	\$23	\$17
Percent of Price	7.60%	3.60%	3.40%	2.50%	5.60%	5.70%	2.80%	1.50%	1.30%
*Estimated price	paid per o	unce of go	ld in the g	round, up	dated Dec	ember			
31, 2014									
Source: http://ww activity/	ww.ibkcap	ital.com/ca	pital-marl	ket-highlig	ghts/merg	er-acquisit	tion-		

The information is based on Canadian experience and closely replicates values reported in Australia and similar metal markets elsewhere. The 'Apparent Acquisition Cost' ("AAC") for gold projects lies in the range of 1.5% to 7.6% of the gold price at the time. The data set does not differentiate between resource categories or variations in deposits type and individual assessment. It is implicit that this has been taken into account with risk related discounts. Information on sales internationally has shown a pattern for AAC. For the purpose of valuation the Average Acquisition Cost for the lower, preferred and higher value is selected at the 25th, 50th and 75th percentiles of the spread of values.

	AAC Percentiles	2006 - 2014 -	Exploration As	sets	
Percentile	10%	25%	50%	75%	90%
AAC	1.5%	2.5%	3.4%	5.6%	6.1%
	AAC Percentile	s 2006 - 2014 ·	- Producing Ass	ets	
Percentile	10%	25%	50%	75%	90%
AAC	8.0%	9.2%	12.0%	12.5%	13.4%

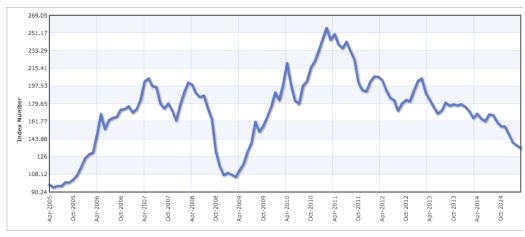
The AAC method percentiles are derived from Canadian Merger and Acquisitions activity in the gold industry. The original database provided \$/ounce values for producing and non-producing asset sales for a period of years and Agricola has recalculated this as a percentage of metal value so it can be related to current metal prices in other metals. The quoted prices are based on enterprise value (EV - Market Capitalisation plus debt minus cash) so they cannot be directly compared to technical value. A "top-down" approach is often taken to determine technical vale (for example for stamp duty assessment) where company specific elements such as cash, debt, goodwill, database value etc ate deducted from the EV. Agricola prefers a "bottom-up" approach in this Report where discount factors for resource category and operating factors are assessed for each deposit.

This, of course, is a subjective decision and AAC percentiles are used in conjunction with the resource category discounts and operational factors to "normalise' the rates for gold acquisitions to other metals. In the absence of a useful database of project sales for other metals this is considered to be a reasonable proxy for sales in most metal projects (the combination of AAC, discounts and Operational factors). Mineral asset sales are related to the current mineral price (or contained value) which is provided by the M & A database over the period 2006 - 2013 through a period of boom and bust and the valuation method is realistic when adjusted by factors that relate specifically to the metal involved and more specifically to the individual deposits.

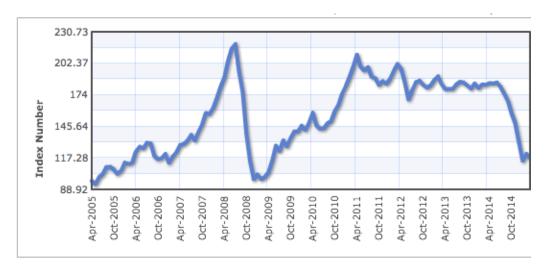
Sensitivity to Metal Price

Valuation of mineral resources is estimated at a specific date as stated in the report and metal prices are estimated from current information available at that time. Metal markets may be quite volatile from time to time and it is appropriate to consider the effect of variations in metal price (which may change on a daily basis).

The two charts below represent the Commodity Matal Price index and the Commodity Price Index over the last decade. Both charts show a marked decline in 2008/09 (GFC) and a similar decline in recent years.



Description: Commodity Metals Price Index, 2005 = 100, includes Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead, and Uranium Price Indices



Description: Commodity Price Index, 2005 = 100, includes both Fuel and Non-Fuel Price Indices

There is an obvious need for reassessment of value if there is a significant change in metal/oxide prices.

Geoscience Factor Method

The Geoscience Factor method attempts to convert a series of scientific opinions about a subject property into a numeric evaluation system. The success of this method relies on the selection of multiplying factors that reflect the tenement's prospectivity.

Agricola Mining Consultants prefers the Geoscientific Factor method (potential for further discoveries) for exploration ground that is not advanced enough to estimate mineral resources. The contemporaneous transactions over adjacent ground may be appropriate but the absence of such information the only viable method (in Agricola's opinion) is to compare the sale of other deposits on a 'dollar per unit' basis for the mineral resource estimated in accordance with the JORC Code. Agricola uses Past Expenditure and yardstick (Rule of Thumb) methods as an appropriate way of cross checking the reasonableness of the valuation.

The Geoscience Factor method is essentially a technique to define a value based on geological prospectivity. The method appraises a variety of mineral property characteristics:

- location with respect to any off-property mineral occurrence of value, or favourable geological, geochemical or geophysical anomalies;
- location and nature of any mineralisation, geochemical, geological or geophysical anomaly within the property and the tenor (grade) of any mineralisation known to exist on the property being valued;
- geophysical and/or geochemical targets and the number and relative position of anomalies on the property being valued;
- geological patterns and models appropriate to the property being valued.

It is recognised that application of this method can be highly subjective, and that it relies almost exclusively on the geoscience ratings adopted by the valuer. As such, it is good practice for valuers using this method to provide sufficient discussion supporting their selection of the various multiplying factors to allow another suitably qualified geoscientist to assess the appropriateness of the factors selected.

The successful application of this method depends on the selection of appropriate multipliers that reflect the tenement prospectivity. Furthermore, there is the expectation that the outcome reflects the market's perception of value, hence the application of the market factor. Agricola Mining Consultants prefers the Geoscience Factor approach because it endeavours to implement a system that is systematic and defendable. It also takes account of the key factors that can be reasonably considered to impact on the exploration potential. The keystone of the method is the BAC, which provides a standard base from which to commence a valuation. The acquisition and holding costs of a tenement for one year provides a reasonable, and importantly, consistent starting point. Presumably when a tenement is pegged for the first time by an explorer the tenement has been judged to be worth at least the acquisition and holding cost.

It may be argued that on occasions an EL may be converted to a ML expediently for strategic reasons rather than based on exploration success, and hence it is unreasonable to value such a ML starting at a relatively high BAC compared to that of an EL.

It has also been argued that the method is a valuation-by-numbers approach. In Agricola's opinion, the strength of the method is that it reveals to the public, in the most open way possible, just how a tenement's value was systematically determined. It is an approach that lays out the subjective judgements made by the valuer.

Area

The area of a tenement is usually stated in terms of square kilometres as a matter of convenience and cosistency. A graticular boundary (or block) system was introduced for exploration licences in mid 1991 in W.A. and a block is defined as one minute of latitude by one minute of longitude. The square kilometres contained within a block varies from place to place. For instance, at Kunnanurra (Latitude 15 deg. S) one block equals 3.31 square kilometres, at Mt Isa (Latitude 20 deg. S) one block equals 3.22 square kilometres. at Carnarvon or Bundaberg (Latitude 25 deg. S) one block equals 3.11 square kilometres and at Albany or Adelaide (Latitude 35 deg. S) one block equals 2.81 square kilometres.

Prospecting Licences and Mining Leases are granted in Hectares (100 hectares equals one square kilometre.

Basic Acquisition Cost

The Basic Acquisition Cost ("BAC") is the important input to the Geoscience Factor Method and it is estimated by summing the annual rent, statutory expenditure for a period of 12 months and administration fees for a first stage exploration tenement such as an Exploration Licence(the first year holding cost).

The notes are general in nature and references to Western Australia are an example of exploration expenditures. they are appropriate for other states and other countries based on Agricola's experience in many areas of Australia and elsewhere.

The current holding cost for exploration projects is considered to be the average expenditure for the first year of the licence tenure. Exploration Licences in Western Australia, for example, attract a minimum annual expenditure for the first three years of \$300 per square kilometre per year with a minimum of \$20,000 and annual rent of \$46.80. A 15% administration fee is taken into account to imply a holding cost of \$400 per square kilometre. A similar approach based on expenditure commitments could be taken for Prospecting Licences and Mining Leases (effective 1 July 2014). The Benchmark minimum expenditure for Exploration Licences in the Northern Territory is \$10,000 plus \$150 per block.

The BAC was originally based on calculations of exploration expenditures and other costs for Western Australia. Agricola's experience has confirmed this range to be appropriate for other parts of the world where exploration or valuations have been carried out.

Many overseas jurisdictions do not specify a minimum expenditure commitment but require that sufficient work be completed in the first year to allow granting of the tenement into the second year. This usually requires preparation of a report with results of exploration carried out. For example with a grass roots portfolio 500 square kilometres in the first year the expenditure (BAC) would be \$200,000 to \$225,000 which is appropriate for early work of desktop studies, field visits rock chip sampling and general research. Agricola believes an Australian company would consider this reasonable for the first phase of work in any country.

A company may well choose to spend more than that and budgets of \$0.5 to \$1.0 million are not uncommon but these budgets are usually based on significant previous encouragement such as scout drilling, aeromagnetic targets etc. The BAC is designed for grass roots projects where no earlier work is available and only regional selection information is available.

Where the Company in earlier work programs has received encouragement from earlier work then that aspect is addressed in the geofactors, which tend to upgrade the BAC based on earlier results and perceived prospectivity.

In Western Australia (from February 2006), an application for a Mining Lease required either a mining proposal or a statement describing when mining is likely to commence; the most likely method of mining; and the location, and the area, of land that is likely to be required for the

operation of plant, machinery and equipment and for other activities associated with those mining operations. A mineralisation report is also required that has been prepared by a qualified person.

The mineralisation report must be completed by a qualified person and shall contain information of sufficient standard and detail to substantiate, to the satisfaction of the Director Geological Survey, that significant mineralisation exists within the ground applied for. A 'qualified person' means a person who is a member of the Australasian Institute of Mining and Metallurgy (AusIMM) or the Australian Institute of Geoscientists (AIG). Significant mineralisation means a deposit of minerals located during exploration activities and that there is a reasonable expectation that those minerals will be extracted by mining operations.

The implication of the mineralisation report suggests that Mining leases should be valued on the body of significant mineralisation (usually a Mineral Resource estimated in accordance with the JORC Code) and not on the basis of prospectivity. The preferred method for valuing resources is by comparable transactions (Market Based).

The Mineral Resources are assumed to encapsulate all the value for the tenements or prospects on which they occur and the exploration results considered for the estimate. A separate value for exploration potential for this tenement is not considered warranted.

It is recognised that further exploration potential may exist within the tenement boundaries but when a mineral resource has already been estimated in accordance with the JORC Code a hypothetical willing but not too anxious purchaser would be unlikely to consider additional value for surrounding untested ground. The possibility of undrilled extensions to mineral resources may be considered in the market factor assessment.

Mining Leases granted prior to 2006 and Prospecting Licences may not have a mineralisation report available and may cover old workings or simply an expedient or strategic method of securing ground at the expiry of an Exploration Licence rather than based on exploration success. While these Licences carry all the obligations set out in the Mining Act, from a valuation point of view they are equivalent to Exploration Licences and it is unreasonable to value such these MLs (or PLs) starting at a relatively high holding cost compared to that of an EL where only exploration results are available. These tenements should be considered on the basis of a **BAC of \$400 to \$450**. To value these areas at the higher levels may not be considered to be reasonable under the VALMIN Code.

Tenement Status

Uncertainty may exist where a tenement is in the application stage. Competing applications may be present where a ballot is required to determine the successful applicant or Native Title issues and negotiations may add to the risk of timely grant. Other issues may also be present such as state parks or forestry and wildlife reserves, competing land use and compensation agreements. There is an inherent risk that the tenement may not be granted and this needs to be recognised in the base value assessment. A 'grant factor' of zero may be applied where there is no realistic chance of approval (e.g. sacred sites) and where no significant impediments are known the factor may increase to about 60% to reflect delays and compliance with regulations.

Equity

The equity a Company may hold in a tenement through joint venture arrangements or royalty commitments may be addressed in assessing base Value but it is often considered at the end of a valuations report.

Geoscience Factors

The multipliers or ratings and the criteria for rating selection across these four factors are summarised in the following table.

The selection of factors from the table must be tempered with an eye to the reasonableness of the outcome and an awareness of the inherent exploration risks in achieving progress to the next level. Some exploration licences are overly large and may cover several domains of prospective (or entirely unprospective) ground and this should be recognised in the Geology Factor. A conservative approach is considered mandatory.

Estimate of project value is carried out on a tenement-by-tenement basis and uses four calculations as shown below. The value estimate is shown as a range with a preferred value.

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

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

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

Market Value = [Technical Value]*[Market Premium/Discount Factor]

GEO-FAC	GEO-FACTOR RATING CRITERIA - GUIDELINES					
	Rating	Address - Off Property	Mineralisation - On Property	Anomalies	Geology	
Low	0.5	Very little chance of mineralisation, Concept unsuitable to environment	Very little chance of mineralisation, Concept unsuitable to environment	Extensive previous exploration with poor results - no encouragement	Unfavourable lithology over >75% of the tenement	
	0.75				Unfavourable lithology over >50% of the tenement	
Average	1	Indications of Prospectivity, Concept validated	Indications of Prospectivity, Concept validated	Extensive previous exploration with encouraging results - regional targets	Deep alluvium Covered favourable geology (40- 50%)	
	1.5	RAB Drilling with some scattered results	Exploratory sampling with encouragement, Concept validated	Several early stage targets outlined from geochemistry and geophysics	Shallow alluvium Covered favourable geology (50- 60%)	

	2	Significant RC	RAB &/or RC	Several well	Exposed
		drilling leading to	Drilling with	defined surface	favourable
		advance project	encouraging	targets with some	lithology (60-
		status	intercepts reported	RAB drilling	70%)
	2.5	Grid drilling with	Diamond Drilling	Several well	Strongly
		encouraging results	after RC with	defined surface	favourable
		on adjacent	encouragement	targets with	lithology (70-
		sections		encouraging	80%)
				drilling results	
High	3	Resource areas	Advanced Resource	Several significant	Highly
		identified	definition drilling -	subeconomic	prospective
			early stage	targets - no	geology (80 -
				indication of	100%)
				volume	
	3.5	Along strike or	Resource areas	Subeconomic	
		adjacent to known	identified	targets of possible	
		mineralisation at		significant volume	
		Pre-Feasibility		- early stage	
		Stage		drilling	

Prospectivity Enhancement Multiplier ("PEM")

Various valuation methods exist which make reference to historical exploration expenditure. One such method is based on a 'multiple of historical exploration expenditure'. Successful application of this method relies on the valuer assessing the extent to which past exploration expenditure is likely to lead to a target resource being discovered, as well as working out the appropriate multiple to apply to such expenditure.

Another such method is the 'appraised value method'. When adopting this approach, the valuer should only account for meaningful past exploration expenditure plus warranted future expenditures. Warranted future expenditures reflect a reasonable and justifiable exploration budget to test the identified potential of the target.

PEM Factors Used in this valuation method

PEM Range	Criteria
0.2 – 0.5	Exploration (past and present) has downgraded the tenement prospectivity, no mineralisation identified
0.5 – 1.0	Exploration potential has been maintained (rather than enhanced) by past and present activity from regional mapping
1.0 – 1.3	Exploration has maintained, or slightly enhanced (but not downgraded) the prospectivity
1.3 – 1.5	Exploration has considerably increased the prospectivity (geological mapping, geochemical or geophysical)
1.5 – 2.0	Scout Drilling has identified interesting intersections of mineralisation
2.0 – 2.5	Detailed Drilling has defined targets with potential economic interest.
2.5 – 3.0	A resource has been defined at Inferred Resource Status, no feasibility study has been completed

3.0 – 4.0	Indicated Resources have been identified that are likely to form the basis of a prefeasibility study
4.0 – 5.0	Indicated and Measured Resources have been identified and economic parameters are available for assessment.

When historical expenditure approaches are adopted, it is good practice for valuers to provide full transparency in relation to all historical exploration expenditure on the subject property, details of those expenditures selected for use in the method (including details in relation to warranted future expenditures), and justification for any multiples applied.

Past expenditure on a tenement and/or future committed exploration expenditure can establish a base value from which the effectiveness of exploration can be assessed. Where exploration has produced documented results, a PEM can be derived which takes into account the valuer's judgment of the prospectivity of the tenement and the value of the database.

Future committed exploration expenditure is discounted to 60% by some valuers to reflect the uncertainty of results and the possible variations in exploration programmes caused by future undefined events. Expenditure estimates for tenements under application are often discounted to 60% of the estimated value by some valuers to reflect uncertainty in the future granting of the tenement. The PEM Factors are defined in the table.

Yardstick (Rule of Thumb) Method

A Rule-of-Thumb method sometimes used for valuing Mineral Assets without identified Resources is based upon conversion of comparable sales data to a unit area (per km² or per ha). It is probably the most difficult comparative tool to justify. This Method has found greater acceptance in North America, where tenement sizes appear to be smaller and where there are many more transactions forming a deep and liquid market than elsewhere. In addition, dealing in tenements is not discouraged by the mining legislation, especially in the US with its historic focus on property rights. It is used in Canada and Australia, though to a much lesser extent.

In Australia, many State jurisdictions grant large exploration tenements (say 300km2 maximum) on a graticular block system. This means a tenement is usually larger than geometrically necessary to cover the specific geologically prospective terrane. Also, most jurisdictions here require periodic significant reductions in the tenement's size, so it is common to apply for more area than is actually needed to provide for this obligatory reduction. The sale of exploration tenements to third parties is discouraged (although sales, particularly if interests, certainly occur) because the basis of grant is that the applicants will carry out the granted tenement's exploration obligations themselves. The State sees itself as the centralised, timely distributor of exploration rights, not the free market.

That said, some valuers still attempt to use this Rule-of-Thumb (based upon area) in Australia with an emphasis on market value. A review of technical value (which is not influenced by market conditions) of exploration areas carried out by Agricola over the last few years suggests that ground without resources can be categorized as a matter of convenience into four groups:

 Advanced exploration areas located in a well mineralised area near existing mineral deposits with significant potential attract values well above \$2000 per square kilometre

- Exploration areas along strike or structurally related to estimated mineral resources. Such areas attract values in the range \$1200 to \$2000 per square kilometre.
- Exploration areas in known mineral fields. Such areas attract values in the range of \$700 to \$1300 per square kilometre.
- Exploration areas in green fields or early exploration domains remote from mineral resources. Such areas attract values in the range of \$400 to \$800 per square kilometre.

Adjustments to the Technical Value – Market Value

Mineral Assets are often bought and sold at a price that is different than their technical value or stand-alone value. To the extent that it exists, the amount of the transacted value differs from the technical value is often described as the 'acquisition premium or discount'.

The concept of market value implies the construction of a hypothetical transaction between willing, knowledgeable, but not anxious buyers and sellers. Therefore, when assessing the market value of resource projects, it is likely that valuers will consider whether it is appropriate to make an adjustment to the technical value of the project to reflect any observed 'acquisition premium or discount', or other adjustments. Such adjustments can either be implicit or explicit in the valuation method chosen. However, care should be taken not to treat as acquisition premium or discount something that is properly part of technical value, such as where assumed forward values for commodity prices are reflected in the technical value.

Particularly when valuing early stage exploration and development projects the technical value may be assessed for a project with reference to parameters that may be above or below those present in the financial markets as at the valuation date. Consequently, when applying these exploration valuation methods, it may be appropriate to reflect a series of high level adjustments to the technical value to account for differences in market conditions relative to those embedded within the method itself.

However, other valuation methods (particularly the DCF valuation method) are able to explicitly reflect a series of parameters that may apply to future financial market expectations. This is particularly the case if valuers adopt commodity price, exchange rate, inflation rate, and discount rate parameters which are forecast with reasonable confidence, and resource to reserve conversion, cost structure and capital expenditure parameters which are consistent with the expectations in the market. Doing so will limit the need to make further adjustments to the resulting stand alone value to account for such factors as 'market considerations'.

To the extent that valuers choose to apply further adjustments to their assessed stand alone value, it is good practice to clearly identify how they have applied the adjustments are applied, and the rationale for doing so.

GLOSSARY OF TERMS

'Minerals Industry' (also Extractive Industry) – Defined as encompassing those engaged in exploring for, extracting, processing and marketing 'Minerals'.

'Price' – The amount paid for a good or service and it is a historical fact. It has no real relationship with 'Value', because of the financial motives, capabilities or special interests of the purchaser;

and the state of the market at the time.

- **Personal Property** Covers all items other than **'Real Estate'** and may be tangible (like a chattel or goods) or intangible (like a patent or debt). It has a moveable character.
- 'Real Property' A non-physical, legal concept and it includes all the rights, interests and benefits related to the ownership of 'Real Estate' and normally recorded in a formal document (eg, deed or lease). The rights are to sell, lease, enter, bequeath, gift, etc. There may be absolute single or partial ownership (subject to limitations imposed by Government, like taxation, planning powers, appropriation, etc). These rights may be affected by restrictive covenants or easements affecting title; or by security or financial interests, say conveyed by mortgages.
- 'Real Estate' A physical concept, including land and all things that are a natural part of the land (eg, trees and Minerals). In addition it includes all things effectively permanently attached by people (eg, buildings, site improvements, and permanent physical attachments, like cooling systems and lifts) on, above or below the ground.

VALUATION AND VALUE

- 'Value' (also Valuation which is the result of determining 'Value') The estimated likely future 'Price' of a good or service at a specific time, but it depends upon the particular qualified type of value (eg 'Market Value', 'Salvage Value', 'Scrap Value', 'Special Value', etc). There is also a particular value for tax and rating, or insurance purposes.
- 'Market Value' (IVS Definition) The result of an objective Valuation of specific identified ownership rights to a specific asset as at a given date. It is the value in exchange not 'Value-in-Use' set by the market place. It is the "estimated amount for which a property should exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had acted knowledgeably, prudently, and without compulsion".
- 'Fair Value' (IVS definition) An accountancy term used for values envisaged to be derived under any and all conditions, not just those prevailing in an open market for the normal orderly disposal of assets. Being a transaction price it reflects both existing and alternative uses, too. It is also a legal term for values involved in dispute settlements which may not also meet the strict 'Market Value' definition. Commonly, it reflects the service potential of an asset ie, value derived by DCF/NPV analysis, not merely the result of comparable sales analysis. It is still the "amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction".
- 'Highest-and-Best-Use' for physical property, it is the reasonably probable and legal use of property, which is physically possible, appropriately supported and financially feasible, that results in the highest-value. In the case of personal property, it is the same with the additional qualification that the highest value must be in the appropriate market place, consistent with the purpose of the appraisal. It may be, in volatile markets, the holding for a future use.
- 'Value-in-Use' in contrast to 'Highest-and-Best-Use', it is the specific value of a specific tangible asset that has a specific use to a specific user. It is not market-related. The focus is on the value that a specific property contributes to the enterprise of which it is a part (being part of a 'Going Concern Valuation'). It measures the contributory value of a specified asset(s) used within that specific enterprise, although it is not the 'Market Value' for that individual asset. It is the Value-to-the-Owner/Entity/Business in accountancy terms and may be the lower of net current replacement cost and its recoverable amount. It is also the net present value of the expected future net cash flows from the continued use of that asset, plus its disposal value at the end of its useful life ('Scrap Value'). At the 'Valuation Date', there must be recognition of its existing use by a particular user. This is in contrast to the alternative reasonable use to which an asset might be

- put by unspecified owner(s).
- 'Going Concern Value' A business valuation concept rather than one relating to individual property valuation. It is the value of an operating business/enterprise (ie one that is expected to continue operating) as a whole and it includes goodwill, special rights, unique patents or licences, special reserves, etc. Apportionment of this total value may be made to constituent parts, but none of these components constitute a basis for 'Market Value'.
- **'Forced Sale Value' (Liquidated Value)** The amount reasonably expected to be received from the sale of an asset within a short time frame for completion that is too short to meet the 'Market Value' definition. This definition requires a reasonable marketing time, having taken into account the asset's nature, location and the state of the market). Usually it also involves an unwilling seller and buyers who have knowledge to the disadvantage of the seller.
- 'Market Capitalization' The total dollar market value of all of a company's outstanding shares. Market capitalization is calculated by multiplying a company's shares outstanding by the current market price of one share. The investment community uses this figure to determine a company's size, as opposed to sales or total asset figures. Frequently referred to as "market Cap" or MCap
- 'Enterprise Value EV' A measure of a company's value, often used as an alternative to straightforward market capitalization. Enterprise value is calculated as market cap plus debt, minority interest and preferred shares, minus total cash and cash equivalents. In the event of a buyout, an acquirer would have to take on the company's debt, but would pocket its cash. EV differs significantly from simple market capitalization in several ways, and many consider it to be a more accurate representation of a firm's value.
- 'Market Premium' A control premium is an amount that a buyer is usually willing to pay over the current market price of a publicly traded company in order to acquire a controlling share in that company. The reason the buyer of a controlling interest is willing to offer a premium over the price currently established by other market participants is the additional prerogatives of control, including electing the company directors, firing and hiring key employees, declaring and distributing dividends, divesting or acquiring additional business assets, and entering into merger and acquisition transactions. The opposite of control premium is the minority discount.
- 'Investment Value' (Worth) this is the value of a specific asset to a specific investor(s) for identified investment objectives or criteria. It may be higher or lower than 'Market Value' and is associated with 'Special Value'.
- 'Property-with-Trading-Potential' refers to the valuation of specialised property (eg, hotel, petrol station, restaurant, etc) that is sold on an operating or going concern basis. It recognises that assets other than land and buildings are to be included in the 'Market Value' and it is often difficult to separate the component values for land and property.
- 'Special Value' An extraordinary premium over and above the 'Market Value', related to the specific circumstances that a particular prospective owner or user of the property attributes to the asset. It may be a physical, functional or economic aspect or interest that attracts this premium. It is associated with elements of 'Going Concern Value' or 'Investment Value' since it also represents synergistic benefits. In a strict sense it could apply to very specialised or special purpose assets which are rarely sold on the open market, except as part of a business, because their utility is restricted to particular users. In some circumstances, it may be the lower value given by 'Value –in–Use'.
- **'Salvage Value'** The expected value of an asset at the end of its economic life (ie, being valued for salvage disposal purposes rather than for its originally intended purpose). Hence, it is the value of property, excluding land, as if disposed of for the materials it contains, rather than for its continued use, without special repairs or adaptation.
- 'Scrap Value' (Residual Value) The remaining value (usually a net value after disposal costs) of a

wasting asset at the end of a prescribed or predictable period of time (usually the end of its effective life) that was ascertained upon acquisition.

'Valuation Date' - Means the reference date to which a Valuation applies. Depending on the circumstances, it could be different to the date of completion or signing of the Valuation Report or the cut-off date of the available data (VALMIN Code,).

'Valuer' (also Valuer [Canada] or Appraiser [USA]) — Either the 'Expert' or 'Specialist' (Qualified Person in Canada) who is the natural person responsible for the Valuation to determine the 'Fair Market Value' after consideration of the technical assessment of the 'Mineral Asset' and other relevant issues. They must have demonstrable 'Competence' (and 'Independence', when required).

JORC CODE

'Competent Person - A 'Competent Person' is a minerals industry professional who is a Member or Fellow of The Australasian Institute of Mining and Metallurgy, or of the Australian Institute of Geoscientists, or of a 'Recognised Professional Organisation' (RPO), as included in a list available on the JORC and ASX websites. These organisations have enforceable disciplinary processes including the powers to suspend or expel a member. A Competent Person must have a minimum of five years relevant experience in the style of mineralisation or type of deposit under consideration and in the activity which that person is undertaking. If the Competent Person is preparing documentation on Exploration Results, the relevant experience must be in exploration. If the Competent Person is estimating, or supervising the estimation of Mineral Resources, the relevant experience must be in the estimation, assessment and evaluation of Ore Reserves, the relevant experience must be in the estimation, assessment, evaluation and economic extraction of Ore Reserves. (JORC 2012)

'Independent/Independence' – Means that the person(s) making the Valuation have no 'Material' pecuniary or beneficial (present or contingent) interest in any of the 'Mineral Assets' being assessed or valued, other than professional fees and reimbursement of disbursements paid in connection with the assessment or Valuation concerned; or any association with the commissioning entity, or with the owners or promoters (or parties associated with them) likely to create an apprehension of bias. Hence, they must have no beneficial interest in the outcome of the transaction or purpose of the technical assessment/Valuation of the 'Mineral Asset' (VALMIN Code). ASIC RG112, which deals with the Independence of Expert Reports, provides more detail on this concept. (JORC 2012)

'Exploration results' - Exploration Results include data and information generated by mineral exploration programmes that might be of use to investors but which do not form part of a declaration of Mineral Resources or Ore Reserves. The reporting of such information is common in the early stages of exploration when the quantity of data available is generally not sufficient to allow any reasonable estimates of Mineral Resources. Examples of Exploration Results include results of outcrop sampling, assays of drill hole intersections, geochemical results and geophysical survey results. (JORC 2012)

'Exploration Target' - An Exploration Target is a statement or estimate of the exploration potential of a mineral deposit in a defined geological setting where the statement or estimate, quoted as a range of tonnes and a range of grade (or quality), relates to mineralisation for which there has been insufficient exploration to estimate a Mineral Resource. Any such information relating to an Exploration Target must be expressed so that it cannot be misrepresented or misconstrued as an estimate of a Mineral Resource or Ore Reserve. The terms Resource or Reserve must not be used in this context. (JORC 2012)

- 'Inferred Mineral Resource' An 'Inferred Mineral Resource' is that part of a Mineral Resource for which quantity and grade (or quality) are estimated on the basis of limited geological evidence and sampling. Geological evidence is sufficient to imply but not verify geological and grade (or quality) continuity. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. An Inferred Mineral Resource has a lower level of confidence than that applying to an Indicated Mineral Resource and must not be converted to an Ore Reserve. It is reasonably expected that the majority of Inferred Mineral Resources could be upgraded to Indicated Mineral Resources with continued exploration. (JORC 2012)
- 'Indicated Mineral Resource' An 'Indicated Mineral Resource' is that part of a Mineral Resource for which quantity, grade (or quality), densities, shape and physical characteristics are estimated with sufficient confidence to allow the application of Modifying Factors in sufficient detail to support mine planning and evaluation of the economic viability of the deposit. Geological evidence is derived from adequately detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to assume geological and grade (or quality) continuity between points of observation where data and samples are gathered. An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource and may only be converted to a Probable Ore Reserve. (JORC 2012)
- 'Measured Mineral Resource' A 'Measured Mineral Resource' is that part of a Mineral Resource for which quantity, grade (or quality), densities, shape, and physical characteristics are estimated with confidence sufficient to allow the application of Modifying Factors to support detailed mine planning and final evaluation of the economic viability of the deposit. Geological evidence is derived from detailed and reliable exploration, sampling and testing gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes, and is sufficient to confirm geological and grade (or quality) continuity between points of observation where data and samples are gathered. A Measured Mineral Resource has a higher level of confidence than that applying to either an Indicated Mineral Resource or an Inferred Mineral Resource. It may be converted to a Proved Ore Reserve or under certain circumstances to a Probable Ore Reserve. (JORC 2012)
- 'Modifying Factors' are considerations used to convert Mineral Resources to Ore Reserves. These include, but are not restricted to, mining, processing, metallurgical, infrastructure, economic, marketing, legal, environmental, social and governmental factors. (JORC 2012)
- **'Scoping Study'** A Scoping Study is an order of magnitude technical and economic study of the potential viability of Mineral Resources. It includes appropriate assessments of realistically assumed Modifying Factors together with any other relevant operational factors that are necessary to demonstrate at the time of reporting that progress to a Pre-Feasibility Study can be reasonably justified. A Scoping Study must not be used as the basis for estimation of Ore Reserves. (*JORC 2012*)
- 'Pre Feasibility Study' A Preliminary Feasibility Study (Pre-Feasibility Study) is a comprehensive study of a range of options for the technical and economic viability of a mineral project that has advanced to a stage where a preferred mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, is established and an effective method of mineral processing is determined. It includes a financial analysis based on reasonable assumptions on the Modifying Factors and the evaluation of any other relevant factors which are sufficient for a Competent Person, acting reasonably, to determine if all or part of the Mineral Resources may be converted to an Ore Reserve at the time of reporting. A Pre- Feasibility Study is at a lower confidence level than a Feasibility Study. (JORC 2012)
- 'Feasibility Study' A Feasibility Study is a comprehensive technical and economic study of the

selected development option for a mineral project that includes appropriately detailed assessments of applicable Modifying Factors together with any other relevant operational factors and detailed financial analysis that are necessary to demonstrate at the time of reporting that extraction is reasonably justified (economically mineable). The results of the study may reasonably serve as the basis for a final decision by a proponent or financial institution to proceed with, or finance, the development of the project. The confidence level of the study will be higher than that of a Pre- Feasibility Study. (*JORC 2012*)

VALMIN CODE

- 'Mineral(s)' Any naturally occurring material found in or on the Earth's crust, that is useful to and/or has a value placed on it by mankind. The term specifically includes coal, shale and materials used in building and construction, but excludes crude oil and natural gas (VALMIN Code).
- 'Mineral Asset(s)' (Resource Assets or Mineral Properties) All property including, but not limited to 'Real Property', intellectual property, mining and exploration tenements held or acquired in connection with the exploration, the development of and the production from those tenements; together with all plant, equipment and infrastructure owned or acquired for the development, extraction and processing of Minerals in connection with those tenements. Most can be classified as 'Exploration Areas', 'Advanced Exploration Areas', 'Pre-Development Projects', 'Development Projects' or 'Operating Mines' (VALMIN Code).
- 'Operating Mines' Mineral Properties, particularly mines and processing plants, which have been fully commissioned and are in production (VALMIN Code).
- 'Development Projects' Mineral Properties which have been committed to production, but which are not yet commissioned or not operating at design levels (VALMIN Code).
- 'Advanced Exploration Areas' and 'Pre-development Projects' Mineral Properties where Mineral Resources have been identified and their extent estimated (possibly incompletely) but where a positive development decision has not been made. Mineral Properties at the early assessment stage, those for which a development decision has been negative, those on care and maintenance and those held on retention titles are all included in this category if Mineral Resources have been identified. This is even if no further valuation or technical assessment work, delineation or advanced exploration is being undertaken (VALMIN Code).
- **'Exploration Areas'** Mineral Properties where mineralisation may or may not have been identified, but where a Mineral Resource has not been identified (VALMIN Code).
- 'Fair Market Value' (Market Value or Value) The object and result of the Valuation. It is the estimated amount of money (or the cash equivalent of some other consideration) for which the 'Mineral Asset' should change hands on the 'Valuation Date'. It must be between a willing buyer and a willing seller in an 'arm's length' transaction in which each party has acted knowledgeably, prudently and without compulsion. It is usually comprised of two components, the underlying or 'Technical Value' and a premium or discount, relating to market, strategic or other considerations (VALMIN Code,).
- 'Technical Value' An assessment of a 'Mineral Asset's' future net economic benefit at the 'Valuation Date' under a set of assumptions deemed most appropriate by the 'Valuer', excluding any premium or discount to account for market, strategic or other considerations (VALMIN Code,).
- **'Expert'** Means a **'Competent'** (and **'Independent'**, where relevant) natural person who prepares and has overall responsibility for the Valuation Report. He/she must have at least 10 years of relevant **'Minerals Industry'** experience, using a relevant **'Specialist'** for specific tasks in which he/she is not **'Competent'**. An **'Expert'** must be a corporate member of an appropriate,

recognised professional association having an enforceable Code of Ethics, or explain why not (VALMIN Code).

'Specialist' – Means a 'Competent' (and 'Independent', where relevant) natural person who is retained by the 'Expert' to provide subsidiary reports (or sections of the Valuation Report) on matters on which the 'Expert' is not personally expert. He/she must have at least 5 years of suitable and preferably recent 'Minerals Industry' experience relevant to the subject matter on which he/she contributes. A 'Specialist' must be corporate member of appropriate, recognised professional association having an enforceable Code of Ethics, or explain why not (VALMIN Code).

'Material/Materiality' - with respect to the contents and conclusions of a relevant Report, it means data and information of such importance that the inclusion or omission of the data or information concerned might result in a reader of the Report reaching a different conclusion than might otherwise be the case. 'Material' data (or information) is that which would reasonably be required in order to make an informed assessment of the subject of the Report. The Australian Society of Accountants' Standard AAS5 indicates that 'Material' data (or information) is such that the omission or inclusion of it could lead to changes in total value of greater than 10% (between 5% and 10% it is discretionary). Also the Supreme Court of New South Wales has stated that something is 'Material' if it is significant in formulating a decision about whether or not to make an investment or accept an offer (VALMIN Code).

'Transparent/Transparency' - as applied to a valuation it means, as in the Concise Oxford Dictionary, "easily seen through, of motive, quality, etc". It applies to the factual information used, the assumptions made and the methodologies applied, all of which must be made plain in the Report (VALMIN Code).

'Competence' – it means having relevant expertise, qualifications and experience (technical or commercial), as well as, by implication, the professional reputation so as to give authority to statements made in relation to particular matters. (*VALMIN Code*).

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