9 May 2014

10 Abbotsford Street, West Leederville,
Western Australia, 6007
PO Box 480, South Perth
Western Australia 6951
Tel: 61 8 9318 5600 Fax: 61 8 9238 1380
Web: www.foxresources.com.au
Email: fxr@foxresources.com.au

ABN: 44 079 902 499

Dear Shareholder

**GENERAL MEETING OF SHAREHOLDERS**

Please find enclosed Fox Resources Limited's (**Fox** or **Company**) Notice of General Meeting of Shareholders to be held on Monday 9 June 2014 at 10 Abbotsford Street, West Leederville, Western Australia at 10:00am (WST).

At the General Meeting Shareholder approval will be sought to approve the underwriting of the recently announced non-renounceable entitlements issue by Jungle Creek Gold Mines Pty Ltd (**Jungle Creek**), an entity controlled by the Company's Chairman, Mr Terry Streeter, and approve the grant of a security interest over the Company's Queensland coal assets to Jungle Creek. Shareholder approval is also being sought to ratify previous security issues to restore the Company's share issue capacity.

Included in this envelope is:

1. **Shareholder Proxy Form**
   This form can be used to lodge your vote with the Company ahead of the meeting or to nominate a representative to attend, and vote, on your behalf.

2. **Notice of General Meeting**
   Details all resolutions being put to Shareholders at the meeting and provides an explanatory statement as to why Directors believe Shareholders should vote in favour of each resolution.

3. **BDO Corporate Finance Independent Expert's Report (IER)**
   This is an independent report prepared by BDO Corporate Finance (WA) Pty Ltd who opine that the Jungle Creek Underwriting and the Security Grant (each defined in the Notice of General Meeting) are not fair but reasonable and fair and reasonable respectively.

4. **Independent Valuation Report prepared by Agricola Mining Consultants Pty Ltd**
   This is an independent report confirming the net asset value of the Company's Projects (as outlined in the Notice of Meeting) is between 3.01 cents and 4.93 cents per share with a preferred value of 3.09 cents per share. This report is an annexure to the IER and is prepared in accordance with the VALMIN Code.

Shareholders are urged to read the Notice of General Meeting and accompanying reports in full.

Should you have any queries regarding any of the enclosed documents, please contact the Company or seek your own professional advice.

Yours sincerely,

Trish Farr
Company Secretary.

The Company Secretary
Fox Resources Limited

| | |
|---|---|
| Registered Office Address: | 10 Abbotsford Street, West Leederville, Western Australia, 6007 |
| Postal Address: | PO Box 480, South Perth, Western Australia 6951 |
| Telephone: | (08) 9318,5600 |
| Facsimile: | (08) 9238 1380 |
| Email: | fxr@foxresources.com.au |


## PROXY FORM

**Please mark ☒ to indicate your directions**

## Step 1: Appoint a Proxy to Vote on Your Behalf

**I/We being a member/s of Fox Resources Limited hereby appoint**

☐ **The Chairman of the Meeting** **OR** ______________________

**PLEASE NOTE**: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of the Company to be held at 10 Abbotsford Street, West Leederville, Western Australia on 9 June 2014 at 10.00am (WST) and at any adjournment of that meeting.

## Step 2: Items of Business

**PLEASE NOTE:** If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

| ORDINARY BUSINESS | For | Against | Abstain |
|---|---|---|---|
| Resolution 1 – Acquisition of relevant interest by Jungle Creek as Underwriter | ☐ | ☐ | ☐ |
| Resolution 2 – Grant of security to Jungle Creek | ☐ | ☐ | ☐ |
| Resolution 3 – Ratification of prior security issue | ☐ | ☐ | ☐ |
| Resolution 4 – Ratification of prior security issue | ☐ | ☐ | ☐ |

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. The Chair of the Meeting will not be the Company's Chairman.

## Step 3: Signature of Securityholder(s)

***This section MUST be completed***

| Individual or Securityholder 1 | Securityholder 2 | Securityholder 3 |
|---|---|---|
| | | |
| Sole Director and Sole Company Secretary | Director | Director/Company Secretary |

**Contact Name:** ______________ **Contact Daytime Telephone** ______________ **Date** ____/____/____

# Instructions for Completion of the Proxy Form

For your vote to be effective it must be received by **10am (WST) on 7 June 2014** by post, facsimile or email to the respective addresses stipulated in this proxy form.

**How to Vote on Items of Business**
All your securities will be voted in accordance with your directions.

**Appointment of Proxy**
A Shareholder entitled to attend and vote at the Meeting is entitled to appoint not more than two other persons (whether Shareholders or not) as proxy or proxies to attend in the Shareholder’s place at the Meeting. The proxy has the same right as the Shareholder to speak and vote at the Meeting. If you leave this section blank, the Chairman of the Meeting will be your proxy to vote your shares. The Chairman intends to vote in favour of all resolutions set out in the Notice of Meeting.

**Voting 100% of your holding**: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding**: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy**: You are entitled to appoint up to two proxies to attend the meeting and vote. 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.

A proxy need not be a securityholder of the Company.

**Attending the Meeting**
Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate evidence of appointment.

If you have any questions or comments for the Company, please write them on a separate sheet of paper and return with this form.

**Contact Telephone Number**
If you provide your contact telephone number, we can contact you if there are any problems with your proxy form (although the Company is not under an obligation to do so).

**Signature(s)**
The proxy form must be personally signed by the Shareholder or the Shareholder’s attorney. Proxies given by corporations must be executed in accordance with the Corporations Act. You must sign this form as follows in the spaces provided:

**Individual:** Where the holding is in one name, the security holder must sign.
**Joint Holding:** Where the holding is in more than one name, all of the security holders should sign.
**Power of Attorney:** If you are signing under a Power of Attorney, you must lodge an original or certified photocopy of the appropriate Power of Attorney with your completed Proxy Form.
**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign the appropriate place to indicate the office held. Delete titles as applicable.

# Notice of General Meeting

A General Meeting of Fox Resources Limited (ACN 079 902 499) will be held at 10 Abbotsford Street, West Leederville on Monday, 9 June 2014 at 10am (WST).

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

Shareholders should carefully consider the Independent Expert's Report prepared by BDO for the purposes of the Shareholder approval required:

(a) under section 611 (item 7) of the Corporations Act (Resolution 1). BDO has concluded that the acquisition of the relevant interest is not fair but reasonable.

(b) under Listing Rule 10.10 (Resolution 2). BDO has determined that the grant of the Security Interest is fair and reasonable to the non-associated Shareholders of the Company.

Please contact the Company Secretary on +61 8 9318 5600 or Trish.Farr@foxresources.com.au if you wish to discuss any matter concerning the Meeting.

# Fox Resources Limited
# ABN 44 079 902 499

## Notice of General Meeting

Notice is hereby given that a General Meeting of the Shareholders of Fox Resources Limited will be held at 10 Abbotsford Street, West Leederville on Monday, 9 June 2014 at 10am (Western Standard Time) (**Meeting**).

The Explanatory Memorandum to this Notice of Meeting provides additional information on matters to be considered at the Meeting. The Explanatory Memorandum and Proxy Form form part of this Notice of Meeting.

Shareholders are urged to vote by attending the Meeting in person or by returning a completed Proxy Form. Instructions on how to complete a Proxy Form are set out in the Explanatory Memorandum.

Proxy Forms must be received by no later than 10am (WST) on 7 June 2014.

Terms and abbreviations used in this Notice and Explanatory Memorandum are defined in Schedule 1 of the Explanatory Memorandum.

## Agenda

### 1 RESOLUTION 1 – ACQUISITION OF RELEVANT INTEREST BY JUNGLE CREEK AS UNDERWRITER

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

*"For the purpose of section 611 (item 7) of the Corporations Act and for all other purposes, Shareholders approve the acquisition by Jungle Creek Gold Mines Pty Ltd and its associates of a relevant interest in:*

(a) *up to 230,194,837 Shortfall Shares issued pursuant to the Underwriting Agreement under which Jungle Creek's maximum voting power of the Company may become 38.29%; and*

(b) *up to 230,194,837 Shares issued on exercise of New Options under which Jungle Creek's maximum voting power of the Company may become 51.50%,*

*and otherwise on the terms set out in the Explanatory Memorandum."*

**BDO has concluded that the acquisition is not fair but reasonable to the non-associated Shareholders of the Company.**

A voting exclusion statement is set out below.

## 2 RESOLUTION 2 – GRANT OF SECURITY TO JUNGLE CREEK

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

*"That for the purpose of Listing Rule 10.1 and for all other purposes, Shareholder approval is given for the Company to give Jungle Creek Gold Mines Pty Ltd the Security Interest over the Company's Queensland coal tenements on the terms set out in the Explanatory Memorandum."*

**BDO has determined that the transaction is fair and reasonable to the holders of the Company's ordinary securities whose votes are not to be disregarded.**

A voting exclusion statement is set out below.

## 3 RESOLUTION 3 – RATIFICATION OF PRIOR SECURITY ISSUE

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

*"That for the purpose of Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue 2,000,000 fully paid ordinary shares to the Murdoch Capital on the terms set out in the Explanatory Memorandum."*

A voting exclusion statement is set out below.

## 4 RESOLUTION 4 – RATIFICATION OF PRIOR SECURITY ISSUE

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

*"That for the purpose of Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue 12,179,487 fully paid ordinary shares and 7,935,897 unlisted Options to the Australian Special Opportunity Fund on the terms set out in the Explanatory Memorandum."*

A voting exclusion statement is set out below.

## 5 VOTING PROHIBITION AND EXCLUSION STATEMENTS

**Corporations Act**

The Corporations Act prohibits votes being cast (in any capacity) on the following resolutions by any of the following persons:

| Resolution | Persons Excluded from Voting |
|---|---|
| Resolution 1 - Acquisition of relevant interest by Jungle Creek as underwriter | The person proposing to make the acquisition (Jungle Creek) and its associates and the persons (if any) from whom the acquisition is to be made and their associates. |

**Listing Rule 14.11**

Under Listing Rule 14.11, the Company will disregard any votes cast on the following Resolutions by the following persons:

| Resolution | Persons excluded from voting |
|---|---|
| Resolution 2 – Grant of Security to Jungle Creek | A party to the transaction and any associate of those persons. |
| Resolutions 3 and 4 – Ratification of prior security issues | Persons who participated in the issues and any associate of those persons. |

However, the Company need not disregard a vote if:

(a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the direction on the Proxy Form; or

(b) it is cast by the person chairing the Meeting as proxy for the person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

By order of the Board of Directors

Trish Farr
Fox Resources Limited
9 May 2014

Fox Resources Limited
ABN 44 079 902 499

# Explanatory Memorandum

## 1 INTRODUCTION

This Explanatory Memorandum has been prepared for the information of Shareholders in connection with the business to be conducted at the Meeting to be held at 10 Abbotsford Street, West Leederville on Monday, 9 June 2014 at 10am (WST). The purpose of this Explanatory Memorandum is to provide information to Shareholders in deciding how to vote on the Resolutions set out in the Notice.

This Explanatory Memorandum should be read in conjunction with and forms part of the accompanying Notice, and includes the following:



A Proxy Form is located at the end of Explanatory Memorandum.

Please contact the Company Secretary on +61 8 9318 5600 or Trish.Farr@foxresources.com.au if you wish to discuss any matter concerning the Meeting.

## 2 ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders should read the Notice and this Explanatory Memorandum carefully before deciding how to vote on the Resolutions.

### 2.1 Proxies

All Shareholders are invited and encouraged to attend the Meeting. If a Shareholder is unable to attend in person, they can appoint a proxy to attend on their behalf by signing and returning the Proxy Form (attached to the Notice) to the Company in accordance with the instructions on the Proxy Form. The Company encourages Shareholders completing a Proxy Form to direct the proxy how to vote on each Resolution.

The Proxy Form must be received no later than 48 hours before the commencement of the Meeting, i.e. by no later than 10am (WST) on 7 June 2014. Any Proxy Form received after that time will not be valid for the Meeting.

A Proxy Form may be lodged in the following ways:

| | |
|---|---|
| By Mail | PO Box 480, South Perth, Western Australia 6951 |
| By Facsimile | (08) 9238 1380 |
| By Hand | 10 Abbotsford Street, West Leederville, Western Australia |
| By Email | Trish.Farr@foxresources.com.au |

Shareholders lodging a Proxy Form are not precluded from attending and voting in person at the Meeting.

### 2.2 Corporate representatives

Shareholders who are body corporates may appoint a person to act as their corporate representative at the Meeting by providing that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as the body corporate's representative. The authority may be sent to the Company and/or registry in advance of the Meeting or handed in at the Meeting when registering as a corporate representative.

An appointment of corporate representative form is available from the website of the Company's share registry (Advanced Share Registry Services Limited).

### 2.3 Eligibility to vote

The Directors have determined that, for the purposes of voting at the Meeting, Shareholders are those persons who are the registered holders of Shares at 4.00pm (WST) on 7 June 2014.

## 3 BACKGROUND TO THE JUNGLE CREEK TRANSACTIONS

### 3.1 Background

On 5 May 2014 the Company announced:

(a) a fully underwritten non-renounceable entitlement offer to Eligible Shareholders of 1 New Share for every 2 Shares held on the Record Date at an issue price of $0.015 per New Share with 1 free attaching New Option for every New Share subscribed for (**Entitlement Offer**);

(b) that, subject to Shareholder approval, Jungle Creek, an entity controlled by the Company's Chairman, Mr Terry Streeter, would partially underwrite the Entitlement Offer for up to 230,194,837 New Shares or $3,452,923, with its underwriting obligations to be set off against debts owed by the Company to Jungle Creek (**Jungle Creek Underwriting**); and

(c) that as required under the terms of the Letter of Comfort (as detailed below) and subject to Shareholder approval, grant Jungle Creek a security interest over the Company's Queensland Coal Assets (**Security Grant**).

(the Jungle Creek Underwriting and Security Grant are together the **Jungle Creek Transactions**).

Jungle Creek has for some time funded the Company, and the Company is reliant upon this support to continue its exploration activities and advance its projects. In doing so the Company is indebted to Jungle Creek and Mr Streeter for approximately $7.72 million (**Jungle Creek Debt**). The Board considers it prudent to reduce this through a debt for equity conversion. This will reduce the Company's debts by approximately $4.117 million, with a significant portion of the Company's debt will be reclassified as non-current, and reduce the Company's annual interest expense by approximately $280,000.

The rationale for the Entitlement Offer and Jungle Creek Underwriting is to offer Eligible Shareholders Shares at the same price which the Jungle Creek Debt will be converted to equity. The conversion also creates an opportunity for certain other of the Company's creditors to also convert their debts to equity, also at the same issue price as that offered to Eligible Shareholders and Jungle Creek.

BDO has prepared a valuation of the Company and has opined a net asset value per Share of between 3.01 cents and 4.93 cents with a preferred value of 3.09 cents. This is an attractive premium to the issue price under the Entitlement Offer of $0.015 per New Share.

The purpose of the Meeting is to seek Shareholder approval for the Jungle Creek Transactions. The Company will also seek Shareholder approval to ratify various security issues made since the last annual general meeting.

The Independent Directors have retained BDO to provide the Independent Expert's Report with respect to the Jungle Creek Transactions. BDO opine that the Jungle Creek Underwriting and Security Grant are not fair but reasonable and fair and reasonable respectively for non-associated Shareholders of the Company.

## 3.2 Entitlement Offer

Under the Entitlement Offer, the Company will make a non-renounceable offer of 1 New Share for every 2 Shares at an issue price of $0.015 per New Share with 1 free attaching New Option (exercisable at $0.04 and expiring on 30 June 2016) for every New Share subscribed.

Shareholders with a registered address in Australia and New Zealand on the Record Date of 16 June 2014 will be eligible to participate in the Entitlement Offer.

The purpose of the Entitlement Offer is to reduce the Company's existing debts (detailed in section 3.3) and funds raised under the Entitlement Offer will be applied as follows:

| | |
|---|---|
| Repayment of debt | $4,116,905 |
| Working capital | $47,000 |
| Entitlement Offer costs | $60,500 |

The Entitlement Offer is fully underwritten by certain of the Company's creditors and others, with underwriting commitments of $4,116,905 (including, subject to Shareholder approval, the Jungle Creek Underwriting for up to $3,452,923) to be set off against existing debt and underwriting commitments of $107,500 to be met through cash payments.

To maximise the amount of cash raised and minimise the increase in Mr Streeter's voting power, any Shortfall Shares will be first issued to Eligible Shareholders who apply for New Shares in addition to their Entitlement.

The proposed timetable for the Entitlement Offer is as follows:

| | |
|---|---|
| Lodgement of the Prospectus with ASIC | At least 4 business days prior to the Record Date |
| Ex date | 12 June 2014 |
| Record Date | 16 June 2014 |
| Dispatch date and opening of Entitlement Offer | 17 June 2014 |
| Closing date of the Entitlement Offer[1] | 26 June 2014 |
| Issue date of Shares under the Entitlement Offer | 30 June 2014 |

1 The Directors may extend the closing date by giving at least 3 business days' notice to ASX prior to the closing date, subject to such date being no later than 3 months after the date of the Prospectus (subject to extension by ASIC). As such the date New Shares are expected to commence trading on ASX may vary.

Further details on the Entitlement Offer will be set out in a prospectus to be lodged with ASIC at least 4 business days prior to the Record Date (**Prospectus**). The Prospectus will be announced to ASX and, together with a personalised acceptance form, sent to Eligible Shareholders shortly after the Record Date. Eligible Shareholders should consider the Prospectus in deciding whether to acquire New Shares and will need to complete the personalised acceptance form that will accompany the Prospectus.

### 3.3 The Company's financial position and support provided by Mr Terry Streeter

A balance sheet (unaudited) and pro forma balance sheet as at 31 March 2014 appears at schedule 2 of this Notice.

The Company's assets consist of the Bundaberg coking coal project, various tenements and joint venture interests in the West Pilbara area (including the Radio Hill nickel project and Mt Oscar Joint Venture) and the Star of Mangaroon gold project. For the purposes of preparing the Independent Expert's Report, BDO retained Agricola Mining Consultants Pty Ltd to prepare a valuation of the Company's projects in accordance with the VALMIN Code.

A copy of the report prepared by Agricola Mining Consultants Pty Ltd accompanies the Independent Expert's Report.

As at 31 March 2014, the Company had approximately $10.521 million in short term creditors and interest bearing liabilities. Of this, approximately $7.72 million is the Jungle Creek Debt. The Jungle Creek Debt arose through the following:

(a) Convertible loans, with an aggregate balance of $7,059,159.34 (including accrued interests) as at 31 March 2014. The key terms of the loans are as follows:

   (i) Issuer - The Company

   (ii) Holder - Jungle Creek

   (iii) Interest - The loan bears a coupon rate fixed at 8.00% per annum.

   (iv) Interest Payments - Quarterly in arrears payable in cash.

   (v) Security for the loan - Secured against the Company's tenements in Queensland as per Shareholder approval at an extraordinary general meeting to be held before the end of May 2014 (or such later date as the parties agree).

   (vi) Repayment – upon demand.

(b) A letter of comfort dated 19 September 2013 (**Letter of Comfort**), under which Mr Streeter:

   (i) agreed not to call for repayment of the convertible loans owed, except through the conversion to Shares or subsequent capital raising, until at least 30 September 2014;

   (ii) agreed to transfer funds to the Company for the purposes of enabling it to pay its debts (excluding convertible loans and notes entered into after 19 September 2013) as and when they fell due, should this be required, until an appropriate capital raising is completed, until at least 30 September 2014; and

   (iii) reserved the right to take security over the Company's assets at his discretion for up to 50% of the value of the outstanding amount owed by the Company to Mr Streeter and his controlled entities (**Security Interest**).

On 21 February 2014 and as entitled to under the convertible loans and Letter of Comfort Jungle Creek requested security over the Company's Queensland coal tenements.

### 3.4 Capital structure

The Company's capital structure, both currently and following the Entitlement Offer, are as follows:

| Security | Current | Following Entitlement Offer |
|---|---|---|
| Shares | 563,254,056 | 844,881,084 |
| Unlisted Options exercisable at $0.15 on or before 1 June 2014 | 2,120,000 | No change |
| Unlisted Options exercisable at $0.0261 on or before 2 October 2015 | 4,000,000 | No change[1] |
| Unlisted Options exercisable at $0.0156 on or before 1 November 2015 | 769,231 | No change[1] |
| Unlisted Options exercisable at $0.0144 on or before 3 December 2015 | 833,333 | No change[1] |
| Unlisted Options exercisable at $0.0144 on or before 27 December 2015 | 833,333 | No change[1] |
| Unlisted Options exercisable at $0.06 on or before 30 June 2017 | 4,000,000 | No change[1] |
| Unlisted Options exercisable at $0.0144 on or before 31 January 2016 | 833,333 | No change[1] |
| Unlisted Options exercisable at $0.0072 on or before 27 February 2016 | 1,666,667 | No change[1] |
| Unlisted Options exercisable at $0.0072 on or before 31 March 2016 | 3,000,000 | No change[1] |
| $250,000 convertible loan repayable on or before 30 September 2014 | 1 | No change |
| New Options issued under the Entitlement Offer exercisable at $0.04 on or before 30 June 2016 | Nil | 281,627,028 |

[1] The exercise price of these Options will be adjusted in accordance with Listing Rule 6.22.2 at completion of the Entitlement Offer. The Company will announce the new exercise price for Options in due course.

### 3.5 Mr Streeter's existing voting power in the Company and the Jungle Creek Underwriting

Jungle Creek currently has a relevant interest in 93,283,587 Shares, and a voting power of $16.56% in the Company.

The extent to which Jungle Creek's voting power will increase as a result of the Jungle Creek Underwriting will depend upon the extent to which Shareholders take up their Entitlement and apply for Shortfall Shares.

Following is a table that sets out Jungle Creek's relevant interest and voting power, based upon various levels of take up by Eligible Shareholders.

| | Following the Entitlement Offer | | Following exercise of New Options[1] | |
|---|---|---|---|---|
| Take up[2] | Shares | % | Shares | % |
| Assume nil take up by Eligible Shareholders | 323,478,423 | 38.29% | 553,673,259 | 51.5% |
| Assume 20% take up by Eligible Shareholders | 267,153,017 | 31.62% | 441,022,448 | 43.29% |
| Assume 40% take up by Eligible Shareholders | 210,827,612 | 24.95% | 328,371,637 | 34.12% |
| Assume 60% take up by Eligible Shareholders | 154,502,206 | 18.29% | 215,720,825 | 23.81% |
| Assume 80% take up by Eligible Shareholders | 139,925,381 | 16.56% | 186,567,174 | 20.93% |
| Assume 100% take up by Eligible Shareholders | 139,925,381 | 16.56% | 186,567,174 | 20.93% |

1 This assumes no Options are exercised, other than by Jungle Creek.

2 This includes any Shortfall Shares issued to Eligible Shareholders. As set out in section 3.7, any Shortfall Shares will be issued to Eligible Shareholders in priority to Underwriters.

Whilst Mr Streeter and Jungle Creek may rely upon the underwriting exception to the prohibition contained in the Corporations Act to increasing voting power from 20% or below to more than 20%, the Company and Jungle Creek have decided to seek Shareholder approval under item 7 of section 611 of the *Corporations Act* to allow Jungle Creek to increase its voting power in the Company as a result of the Jungle Creek Underwriting. This will allow Shareholders to, with the benefit of the Independent Expert's Report, consider and approve the Jungle Creek Underwriting and possible increase in Mr Streeter's voting power.

### 3.6 Material terms of implementation agreement

On 30 April 2014 the Company, Jungle Creek and Mr Streeter signed an implementation agreement. A summary of the material terms of the implementation agreement is as follows:

(a) The parties acknowledged that, as at 31 March 2014, the Company was indebted to Jungle Creek for $7,059,159 and Mr Streeter for $659,032.

(b) The terms of the convertible loans and Jungle Creek Debt were varied so that the Company would repay the Jungle Creek Debt by the earlier of:

  (i) 30 days after the occurrence of any of the following events:

    (A) it selling its Queensland coal tenements;

    (B) Shareholders not approving the Jungle Creek Transactions; or

    (C) the Entitlement Offer being withdrawn;

  (ii) the Company being insolvent (as defined in the Underwriting Agreement); and

  (iii) 19 September 2015.

(c) The Company would seek Shareholder approval for the Jungle Creek Transactions.

### 3.7 Material terms of the Jungle Creek Underwriting

A summary of the material terms of the Underwriting Agreement is as follows:

(a) Jungle Creek has agreed to subscribe for up to 230,194,837 Shortfall Shares under the Entitlement Offer. The obligation for Jungle Creek to subscribe for the Shortfall Shares may be set off against the Jungle Creek Debt.

(b) Any Shortfall Shares and free attaching New Options will be allocated:

  (i) firstly to Eligible Shareholders who apply for Shortfall Shares under the Prospectus in addition to their Entitlement;

  (ii) then, secondly to the underwriters other than Jungle Creek (**Other Underwriters**) who do not have the right to set off their underwriting obligation against debts owed to those Other Underwriters on a pro rata basis;

  (iii) then, thirdly to the Other Underwriters who have the right to set off their underwriting obligation against debts owed to those Other Underwriters on a pro rata basis; and

(iv) finally, to Jungle Creek.

(c) Jungle Creek will not be paid a fee for underwriting the Entitlement Offer.

(d) As is customary with these types of arrangements:

(i) the Company has (subject to certain limitations, including where the loss arises through Jungle Creek performing their underwriting obligation) agreed to indemnify Jungle Creek, its officers, employees, advisers and related bodies corporate, against losses suffered or incurred in connection with the Entitlement Offer;

(ii) the Company and Jungle Creek have given representations, warranties and undertakings in connection with (among other things) the conduct of the Entitlement Offer; and

(iii) Jungle Creek may (in certain circumstances, including having regard to the materiality of the relevant event) terminate the Underwriting Agreement and be released from its obligations under it on the occurrence of certain events, including (but not limited to) where:

(A) the Prospectus is misleading or contains an omission;

(B) ASIC commences an investigation into the Entitlement Offer;

(C) the Company withdraws the Entitlement Offer.

## 3.8 Material terms of the Security Interest

A summary of the material terms of the Security Interest are as follows:

(a) The Company grants a first ranking security interest over its Queensland coal tenements in favor of Jungle Creek to secure 50% of all amounts owing to Jungle Creek by the Company.

(b) Upon default by the Company, Jungle Creek may, amongst other things, appoint a receiver to take possession and sell the Queensland coal tenements. The events of default are events typically found in a security document of this nature and include (but are not limited to):

(i) a breach of any obligation;

(ii) change of control;

(iv) suspension for a certain period of time; and

(v) the Company's insolvency (including but not limited to the appointment of an administrator or liquidator).

(c) The net proceeds of sale, after reasonable costs to sell the Queensland coal tenements, from any enforcement will be payable to Jungle Creek until 50% of the then balance of the Jungle Creek Debt is repaid. Jungle Creek will then share the balance of proceeds (if any) pro rata with other unsecured creditors subject to applicable laws.

## 3.9 Jungle Creek's intentions

As set out in section 3.5, the extent to which Jungle Creek will increase its interest in the Company will depend on the extent to which Eligible Shareholders apply for New Shares under the Entitlement Offer.

Jungle Creek and Mr Streeter have informed the Company that, if Shareholders approve the Jungle Creek Underwriting, they have no current intentions to:

(a) change the business of the Company;

(b) inject future capital into the Company, other than in accordance with the Letter of Comfort;

(c) change the future employment of present employees of the Company;

(d) implement any proposal where assets will be transferred between the Company and Jungle Creek or its associates, other than under the Security Interest;

(e) otherwise redeploy the fixed assets of the Company; or

(f) change the financial or dividend distribution policies of the Company.

The Jungle Creek Transactions will not result in any change to the Letter of Comfort (other than an extension of the due date for repayment to 30 September 2015).

Jungle Creek may only exercise its rights under the Security Interest if an event of default occurs under the Security Interest. Jungle Creek's rights include the right to take possession of, and sell, the Queensland coal assets.

## 3.10 Impact of the Entitlement Offer, Jungle Creek Transactions on the Company's financial position and pro forma balance sheet

The Entitlement Offer and Jungle Creek Underwriting will have the following impacts:

(a) No cash will be raised under the Jungle Creek Underwriting and only limited cash will be raised under the Entitlement Offer. However, the Company will repay up to $3,452,923 from the Jungle Creek Debt and have the due date of the balance of the Jungle Creek Debt extended to 30 September 2015.

(b) Shareholders who do not take up their full Entitlement under the Entitlement Offer will have their holding diluted.

Giving the Security Interest will give Jungle Creek certain rights over the Queensland coal assets, including the power of sale, in the event the Company fails to repay the Jungle Creek Debt by 30 September 2015.

### 3.11 Reasons why Shareholders should approve the Jungle Creek Transactions

The Independent Directors consider the following reasons why Shareholders should approve the Jungle Creek Transactions:

(a) As a result of the Entitlement Offer and Jungle Creek Transactions, the Company's debts will be reduced by approximately $4.117 million and $3,856,236 in debts reclassified as non-current. The reduction will result in the Company saving approximately $280,000 a year in interest and give it sufficient time to extract significant value for all Shareholders from the Queensland coal tenements through either a joint venture, offtake partner or an outright sale.

(b) The Company has not identified any alternative short-term funding and the Company is reliant upon Jungle Creek to continue operating and advancing its projects. Continued support of Jungle Creek has been assured should the Jungle Creek Transactions complete. If the Security Interest is not approved, the Company might not be able to develop its projects until a further source of funding is arranged which may also have a negative impact on its Share price.

(c) The Jungle Creek Debt will become due if Shareholders do not approve the Jungle Creek Transactions.

(d) The Entitlement Offer is structured to minimise dilution and is priced at an attractive discount to the net asset value per Share estimated by the Independent Expert's Report of between 3.01 cents and 4.93 cents with a preferred value of 3.09 cents.

(e) The Independent Expert has opined that the Jungle Creek Underwriting is not fair but reasonable and the Security Grant is fair and reasonable.

### 3.12 Reasons why Shareholders should not approve the Jungle Creek Transactions

The Independent Directors consider the following reasons why Shareholders should not approve the Jungle Creek Transactions:

(a) Jungle Creek's voting power in the Company will increase from approximately 16.6% to up to 38.29%.

(b) Shareholders who do not take up their Entitlement will have their holding in the Company diluted.

(c) The last traded price for a Share was $0.015. There is no guarantee that Shares will trade at this price following the Entitlement Offer.

(d) Jungle Creek will be granted the Security Interest over the Company's Queensland coal tenements. As a result, the Company could not freely utilise or dispose of these coal tenements as it requires because of the constraints imposed by the Security Interest.

(e) The Company will be under severe funding constraints if the Company is unable to repay the Jungle Creek Debt by 30 September 2014.

### 3.13 Independent Expert's Report

As required by the Corporations Act and Listing Rules, the Company has obtained the Independent Expert's Report. The report opines that the Jungle Creek Underwriting and Security Grant are not fair but reasonable and fair and reasonable respectively.

### 3.14 Directors' recommendation

Having regard to the above, the Independent Directors believe that the interests of non-associated Shareholders are best served by approving the Jungle Creek Transactions (Resolutions 1 and 2).

The Directors each recommend that Shareholders approve Resolutions 3 and 4 (which seek ratification of previous share issues).

## 4 RESOLUTION 1 – APPROVAL OF JUNGLE CREEK UNDERWRITING

### 4.1 Requirement for Shareholder approval

(a) Section 611 of the Corporations Act

Section 606 of the Corporations Act prohibits a person acquiring a relevant interest in the issued voting shares of a company if, because of the acquisition, that person's or another person's voting power in the company increases to more than 20%, unless an exception applies. By underwriting the Entitlement Offer, Mr Streeter's voting power in the Company will increase from 16.56% to a maximum of approximately 38.29% prior to any exercise of Options.

Section 611 of the Corporations Act sets out certain exceptions to the general prohibition and permits an increase in voting power over 20%, including under an underwriting arrangement or if a company's shareholders approve the acquisition of shares which results in the increased voting power.

As noted in section 3.5 above, Mr Streeter may potentially rely on the underwriting exception to increase his voting power in the Company above 20%. Nevertheless, the Company and Jungle Creek have agreed to seek Shareholder approval for the increase and it is a condition of Jungle Creek underwriting the Entitlement Offer.

Section 611 of the Corporations Act and ASIC Regulatory Guide 74: *Acquisitions Approved by Members* set out the information to be given to shareholders in seeking approval under section 611 of the Corporations Act.

(b) Chapter 2E of the Corporations Act

The Independent Directors considered the acquisition of Shares by Mr Streeter to be reasonable in the circumstances if the Company and Jungle Creek were dealing at arm's length, so that Shareholder approval was not required under Chapter 2E of the Corporations Act.

## 4.2 Information required by Item 7 of Section 611 of the *Corporations Act*

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

The person proposing to make the acquisition is Jungle Creek Gold Mines Pty Ltd, an entity controlled by Mr Streeter, the Chairman of the Company. Jungle Creek has informed the Company that, as at the date of this Notice, it is associated with Mr Streeter and Velsberry Pty Ltd, another entity controlled by Mr Streeter.

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

See section 3.5 above.

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

See section 3.5 above.

(d) The maximum extent of the increase in the voting power of each of that person's associates that would result from the acquisition

See section 3.5 above.

(e) The voting power that each of that person's associates would have as a result of the acquisition

See section 3.5 above.

## 4.3 Additional information required by ASIC Regulatory Guide 74: Acquisitions approved by members

(a) An explanation of the reasons for the proposed acquisition

See section 3.1 above.

(b) When the proposed acquisition is to occur

The issue of any New Shares under the Jungle Creek Underwriting is likely to take place on or about 30 June 2014.

(c) The material terms of the proposed acquisition

See section 3.7 for details of the Jungle Creek Underwriting.

(d) Details of the terms of any other relevant agreement between Jungle Creek and the Company (or any of their associates) that are conditional on (or directly or indirectly depends on) members' approval of the proposed acquisition

Details of the loan agreements between Jungle Creek and the Company are set out in section 3.3. The extension of the due date for repayment under those agreements is conditional upon Shareholders approving the Jungle Creek Transactions.

There are no other relevant agreements between Jungle Creek and the Company (or any of their associates) that are conditional on (or directly or indirectly depends on) members' approval of the proposed acquisition.

(e) A statement of Jungle Creek's and its associate's intentions regarding the future of the Company if Shareholders approve the acquisition.

See section 3.9 above.

(f) Any intention of Jungle Creek or Mr Streeter to change the financial or dividend distribution policies of the Company

See section 3.9 above.

(g) The interests that any director has in the acquisition or any relevant agreement disclosed in 4.3(d)

Mr Streeter is an associate of Jungle Creek and therefore will have an increase in his control of the Company as a result of the acquisition if Resolution 1 is passed. See section 3.5 for more details.

(h) The identity, associations (with the subscriber, purchaser or vendor and with any of their associates) and qualifications of any person who it is intended will become a director if the shareholders approve the acquisition

No additional Directors will be appointed if the Shareholders agree to the acquisition by Jungle Creek of New Shares under the Jungle Creek Underwriting.

### 4.4 Independent Experts Report

Under ASIC Regulatory Guide 74: *Acquisitions Approved by Members*, an independent expert's report is required for Resolution 1. The report must analyse whether the transaction is fair and reasonable and state the expert's opinion.

The Company has retained BDO to prepare this report and BDO has concluded that the Jungle Creek Underwriting is not fair but reasonable to the Company's non-associated Shareholders. See section 3.13 for details.

## 5 RESOLUTION 2 – GRANT OF SECURITY TO JUNGLE CREEK

### 5.1 Requirement for Shareholder approval

(a) Application of Listing Rule 10.1

Listing Rule 10.1 provides that approval of holders of an entity's ordinary securities is required where an entity disposes of a substantial asset to a related party. "Dispose" is defined to include granting a security over one of the Company's assets.

Jungle Creek is an entity controlled by Mr Streeter, the Chairman of the Company therefore a related party of the Company.

An asset is a substantial asset if its value, or the value of the consideration for it, is 5% or more of the equity interests of the company as set out in the latest accounts of the company given to ASX under the Listing Rules.

The value of the Company's Queensland coal tenements will exceed 5% of the Company's equity interests as shown in its last consolidated financial statements for the half year ended 31 December 2013.

(b) Chapter 2E of the Corporations Act

The Independent Directors considered the grant of the Security Interest to be reasonable in the circumstances if the Company and Jungle Creek were dealing at arm's length, so that Shareholder approval was not required under Chapter 2E of the Corporations Act.

### 5.2 Independent Experts Report

Under Listing Rule 10.10, an independent expert's report is required for Resolution 2. The report must state the expert's opinion as to whether the transaction is fair and reasonable to holders of the entity's ordinary securities whose votes are not to be disregarded.

The Company has retained BDO to prepare this report and BDO has concluded that the grant of the Security Interest is fair and reasonable to the Company's non-associated Shareholders. See section 3.13 for details.

### 5.3 Directors' recommendations

The Board (other than Mr Streeter) determined that the approval of the Security Interests is in the best interests of the Company and the Board unanimously recommends that Shareholders vote in favour of Resolution 2.

## 6 RESOLUTION 3 – RATIFICATION OF PRIOR SECURITIES ISSUE

### 6.1 Introduction

On 9 December 2013 and on 10 January 2014 the Company issued 1,000,000 Shares to Murdoch Capital (**Murdoch**). These Shares were issued as consideration for an extension of a loan agreement between the Company and Murdoch as announced on 15 November 2013.

These securities were issued to unrelated parties of the Company and within the 15% annual limit permitted by Listing Rule 7.1; and therefore without the need for Shareholder approval. The effect of Shareholders passing Resolution 3 and ratifying the issue will be to restore the Company's ability to issue further capital to the maximum 15% limit during the next 12 months.

### 6.2 Information required by Listing Rule 7.5

For the purposes of Listing Rule 7.5, the following information is provided about the issue:

(a) The number of securities issued by the Company was 2,000,000 (1,000,000 Shares on each date).

(b) The price at which the securities were issued was nil.

(c) The securities issued are Shares.

(d) The securities were issued to Murdoch.

(e) The issue is as consideration for an extension of a $500,000 loan.

(f) A voting exclusion statement is included in the Notice.

### 6.3 Directors' recommendation

The Board unanimously recommends that Shareholders vote in favour of Resolution 3. This will restore the 15% annual limit permitted by Listing Rule 7.1 and allow the Company to issue further securities without Shareholder approval.

## 7 RESOLUTION 4 – RATIFICATION OF PRIOR SECURITIES ISSUE

### 7.1 Introduction

Between 1 November 2013 and 1 April 2014 the Company has issued Shares and unlisted Options to the Australian Special Opportunity Fund in accordance with the Share Purchase and Convertible Security Agreement announced to ASX on 2 October 2013.

These securities were issued to unrelated parties of the Company and within the 15% annual limit permitted by Listing Rule 7.1; and therefore without the need for Shareholder approval. The effect of Shareholders passing Resolution 4 and ratifying the issue will be to restore the Company's ability to issue further capital to the maximum 15% limit during the next 12 months.

### 7.2 Information required by Listing Rule 7.5

For the purposes of Listing Rule 7.5, the following information is provided about the issue:

(a) The number of:

(i) Shares issued by the Company was 12,179,487; and

(ii) unlisted Options issued by the Company was 7,935,897.

(b) 8,333,333 Shares were issued at $0.006 each on 28 February 2014 and 3,846,154 Shares were issued at $0.013 on 1 November 2013 and Options were granted in accordance with the Share Purchase and Convertible Security Agreement announced to ASX on 2 October 2013.

(c) The terms of the securities issued are:

  (i) Shares; and

  (ii) 3,000,000 unlisted Options exercisable at $0.0072 and expiring 31 March 2016;

  (iii) 1,666,667 unlisted Options exercisable at $0.0072 and expiring 27 February 2016;

  (iv) 833,333 unlisted Options are exercisable at $0.0144 and expire on 31 January 2016;

  (v) 833,333 unlisted Options are exercisable at $0.0144 and expire on 27 December 2015;

  (vi) 833,333 unlisted Options are exercisable at $0.0144 and expire 3 December 2015; and

  (vii) 769,231 unlisted Options are exercisable at $0.0156 and expire 1 November 2015.

  The remaining terms of the Options are set out in the notice of meeting of the Company dated 16 October 2013.

(d) The securities were issued to the Australian Special Opportunity Fund.

(e) The issue was in accordance with the Share Purchase and Convertible Security Agreement announced to ASX on 2 October 2013 and the funds raised from the issues were used to progress the Company's planned exploration program on its 100% owned Queensland coal tenements and for additional working capital and corporate purposes.

(f) A voting exclusion statement is included in the Notice.

### 7.3 Directors' recommendation

The Board unanimously recommends that Shareholders vote in favour of Resolution 4. This will restore the 15% annual limit permitted by Listing Rule 7.1 and allow the Company to issue further securities without Shareholder approval.

## 1 DEFINITIONS

In this Notice and Explanatory Memorandum:

| | |
|---|---|
| **ASX** | means ASX Limited or the Australian Securities Exchange operated by ASX Limited, as the context requires. |
| **ASIC** | means the Australian Securities & Investments Commission. |
| **Board** | means the board of Directors. |
| **BDO** | means BDO Corporate Finance (WA) Pty Ltd. |
| **Company** | means Fox Resources Limited (ACN 079 902 499). |
| **Constitution** | means the constitution of the Company as amended. |
| **Corporations Act** | means the *Corporations Act 2001* (Cth) as amended. |
| **Director** | means a director of the Company. |
| **Eligible Shareholders** | means Shareholders on the Record Date with an address in Australia or New Zealand. |
| **Entitlement** | means the number of New Shares each Shareholder is entitled to under the Entitlement Offer. |
| **Entitlement Offer** | has the meaning given in section 3.1 of the Explanatory Memorandum. |
| **Explanatory Memorandum** | means this explanatory memorandum. |
| **Independent Directors** | means Mr Paul Dunbar and Mr Garry East. |
| **Independent Expert's Report** | means the independent expert's report prepared by BDO for the purposes of Resolutions 1 and 2. |
| **Jungle Creek** | means Jungle Creek Gold Mines Pty Ltd (ACN 008 795 033). |
| **Jungle Creek Debt** | has the meaning given in section 3.1 of the Explanatory Memorandum. |
| **Jungle Creek Transactions** | has the meaning given in section 3.1 of the Explanatory Memorandum. |
| **Jungle Creek Underwriting** | has the meaning given in section 3.1 of the Explanatory Memorandum. |
| **Letter of Comfort** | has the meaning given in section 3.3 of the Explanatory |

| | |
|---|---|
| | Memorandum. |
| **Listing Rules** | means the listing rules of the ASX. |
| **Meeting or General Meeting** | means the meeting convened by this Notice (as adjourned from time to time). |
| **New Share** | means a new Share offered under the Entitlement Offer. |
| **New Options** | means the Options offered under the Entitlement Offer on the terms set out in Schedule 3. |
| **Notice** | means this notice of meeting. |
| **Option** | means an option to be issued a Share. |
| **Prospectus** | means the prospectus lodged with ASIC for the Entitlement Offer. |
| **Proxy Form** | means the proxy form attached to this Notice. |
| **Record Date** | has the meaning given in section 3.2 of the Explanatory Memorandum. |
| **Resolution** | means a resolution set out in the Notice. |
| **Security Interest** | has the meaning given in section 3.3 of the Explanatory Memorandum. |
| **Security Grant** | has the meaning given in section 3.1 of the Explanatory Memorandum. |
| **Share** | means a fully paid ordinary share in the capital of the Company. |
| **Shareholder** | means a holder of a Share. |
| **Shortfall Shares** | means New Shares for which valid applications have not been received by the closing date of the Entitlement Offer. |
| **Underwriting Agreement** | means the agreement between Jungle Creek and the Company executed on 30 April 2014 pursuant to which Jungle Creek will be issued up to 230,194,837 Shortfall Shares. |
| **VALMIN Code** | means the Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports. |
| **WST** | means Western Standard Time. |

## 2 PRO FORMA BALANCE SHEET AS AT 31 MARCH 2014

| - | 31 March 2014 $ | Changes Due To Capital Raising $ | After Capital Raising $ | |
|---|---|---|---|---|
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | 37,452 | 377,000 | 414,452 | * |
| Trade and other receivables | 145,721 | | 145,721 | |
| Prepayments | - | 25,485 | 25,485 | ** |
| Inventories | - | | - | |
| Other financial assets | 78,503 | | 78,503 | |
| **TOTAL CURRENT ASSETS** | 261,676 | 402,485 | 664,161 | |
| **NON-CURRENT ASSETS** | | | | |
| Property, plant and equipment | 1,777,117 | | 1,777,117 | |
| Exploration and evaluation expenditure | 21,208,509 | | 21,208,509 | |
| Other financial assets | 80,000 | | 80,000 | |
| **TOTAL NON-CURRENT ASSETS** | 23,065,626 | - | 23,065,626 | |
| **TOTAL ASSETS** | 23,327,302 | 402,485 | 23,729,787 | |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | 2,853,497 | (433,498) | 2,419,999 | |
| Interest bearing liabilities | 7,677,997 | (7,184,158) | 493,839 | **** |
| Provisions | 27,892 | | 27,892 | |
| **TOTAL CURRENT LIABILITIES** | 10,559,386 | (7,617,656) | 2,941,730 | |
| **NON CURRENT LIABILITIES** | | | | |
| Interest bearing liabilities | 264,851 | 3,856,236 | 4,121,087 | *** |
| Derivative Liability | 46,694 | | 46,694 | |
| Provisions | 3,783,506 | | 3,783,506 | |
| **TOTAL NON CURRENT LIABILITIES** | 4,095,051 | 3,856,236 | 7,951,287 | |
| **TOTAL LIABILITIES** | 14,654,437 | (3,761,420) | 10,893,017 | |
| **NET ASSETS** | 8,672,865 | 4,163,905 | 12,836,770 | |
| **EQUITY** | | | | |
| Issued capital | 121,764,472 | 4,163,905 | 125,928,377 | |
| Reserves | 132,330 | | 132,330 | |
| Accumulated losses | (113,223,937) | | (113,223,937) | |
| **TOTAL EQUITY** | 8,672,865 | 4,163,905 | 12,836,770 | |

*Includes a $250,000 loan from Jungle Creek Gold Mines and $80,000 short term loan from other underwriters received in April 2014. Assumes offer costs of $60,500.

** Relates to a prepayment of Director fees to Garry East from 1 April 2014 to 30 June 2014.

*** Includes the $250,000 loan from Jungle Creek Gold Mines in April 2014.

**** Includes transfer of Jungle Creek Gold Mines loan from current to non-current.

## 3 TERMS OF THE NEW OPTIONS

The terms of the issue of the New Options are:

1. The Options will be issued for no consideration.
2. Each Option entitles the holder to one Share.
3. The exercise price of the Options is $0.04 each.
4. The expiry date of the Options is 30 June 2016.
5. The Options may be exercised at any time prior to the expiry date, in whole or in part, upon payment of the exercise price per Option.
6. The Options are transferable and application will be made for the Options to be quoted on ASX.
7. The Company will provide to each Option holder a notice that is to be completed when exercising the Options (**Notice of Exercise**). Options may be exercised by the Option holder in whole or in part by completing the Notice of Exercise and forwarding the same to the Secretary of the Company to be received prior to the expiry date. The Notice of Exercise must state the number of Options exercised, the consequent number of Shares to be issued and the identity of the proposed subscribers. The Notice of Exercise by an Option holder must be accompanied by payment in full for the relevant number of Shares being subscribed, being an amount of the exercise price per Share.
8. All Shares issued upon the exercise of the Options will rank equally in all respects with the Company's then issued Shares. The Company must apply to the ASX in accordance with the Listing Rules for all Shares pursuant to the exercise of Options to be admitted to quotation.
9. There are no participating rights or entitlements inherent in the Options and the holders will not be entitled to participate in new issues or pro-rata issues of capital to Shareholders during the term of the Options. Thereby, the Option holder has no rights to a change in:

   (a) the exercise price of the Option; or

   (b) except in the event of a Bonus Issue (defined below), a change to the number of underlying securities over which the Option can be exercised.

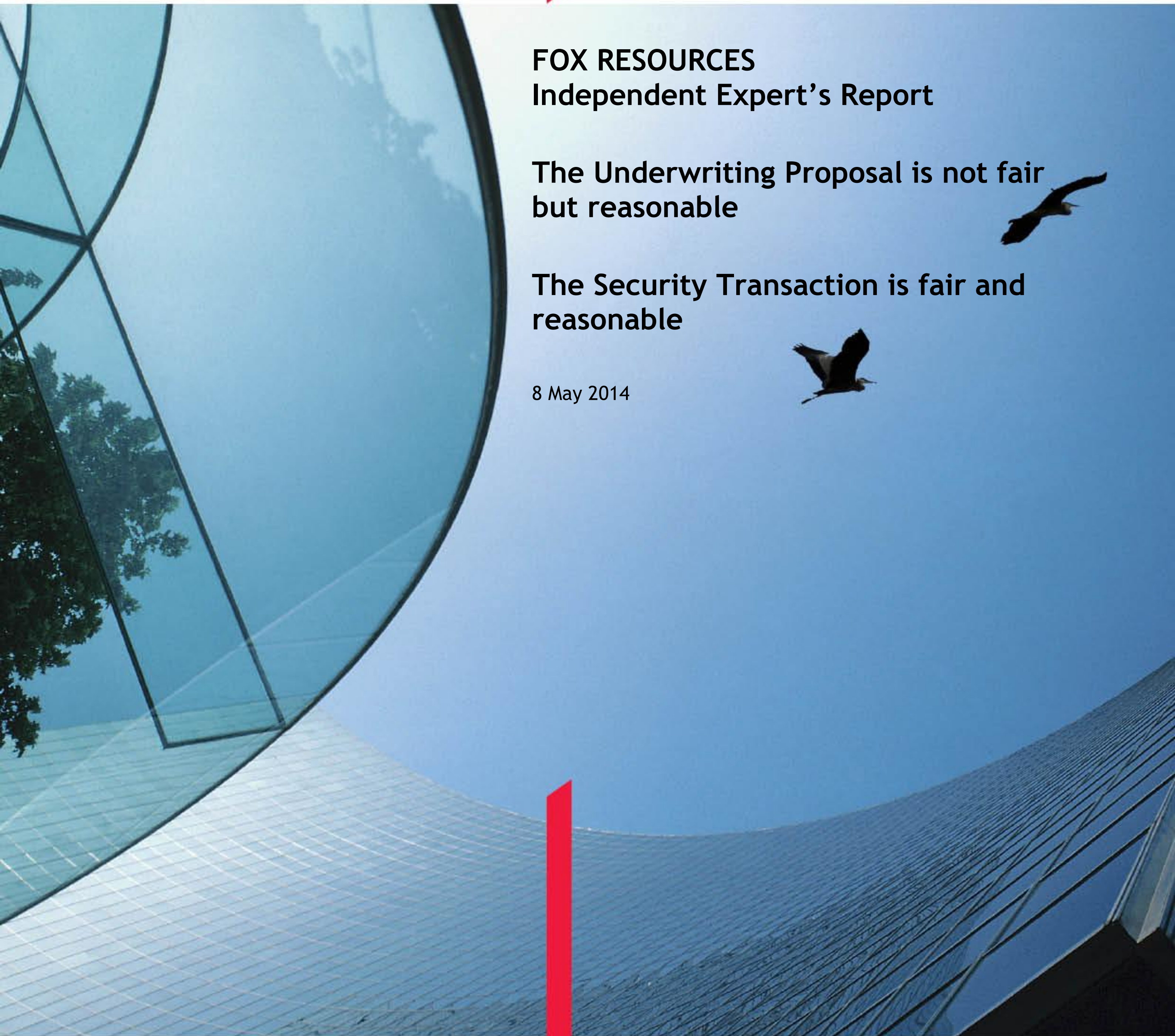
   The Company will ensure, for the purposes of determining entitlements to any issue, that Option holder will be notified of a proposed issue after the issue is announced. This will give Option holders the opportunity to exercise their Options prior to the date for determining entitlements to participate in such issues.
10. If from time to time on or prior to the Expiry Date the Company makes a bonus issue of securities to holders of Shares in the Company (**Bonus Issue**), then upon exercise of his or her Options a holder will be entitled to have issued to him or her (in addition to the Shares which he or she is otherwise entitled to have issued to him or her upon such exercise) the number of securities which would have been issued to him or her under that Bonus Issue if the Options had been exercised before the record date for the Bonus Issue.
11. In the event of any reconstruction (including consolidation, subdivisions, reduction or return) of the authorised or issued capital of the Company, all rights of the Option holder shall be reconstructed (as appropriate) in accordance with the ASX Listing Rules.

# FOX RESOURCES
# Independent Expert's Report

## The Underwriting Proposal is not fair but reasonable

## The Security Transaction is fair and reasonable

8 May 2014



# Financial Services Guide

8 May 2014

**BDO Corporate Finance (WA) Pty Ltd** ABN 27 124 031 045 (‘**we**’ or ‘**us**’ or ‘**ours**’ as appropriate) has been engaged by Fox Resources Limited (‘Fox’) to provide an independent expert’s report on the proposal to approve the conversion of debt to equity by Jungle Creek and the granting of security over assets of Fox to Jungle Creek. You will be provided with a copy of our report as a retail client because you are a shareholder of Fox.

**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.

**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 $25,000.

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.

**Other Assignments** - In the past 2 years BDO has undertaken valuation reports in respect of options and convertible securities for Fox Resources Limited fees of $3,468 were charged for these reports.

**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 Fox Resources Limited 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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Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

8 May 2014

The Directors
Fox Resources
10 Abbotsford Street
West Leederville
Western Australia 6007

Dear Directors

# INDEPENDENT EXPERT'S REPORT

## 1. Introduction

On 5 May 2014, Fox Resources Limited ('**Fox**' or '**the Company**') announced the intention to raise approximately $4.224 million through a conditional, fully underwritten non-renounceable entitlement offer on the basis of one new share for every two shares held at an issue price of $0.015 per new share, with one free attaching $0.04 two year option for every new share subscribed for ('**the Offer**'). It is Proposed that the Offer will be partially underwritten by Jungle Creek Gold Mines Pty Ltd ('**Jungle Creek**'), which is an entity controlled by the Company's Chairman, Mr Terry Streeter ('**the Underwriting Proposal**').

The Company also announced its intention to seek shareholder approval to grant security over its Queensland coal tenements in relation to debts owed by the Company to Jungle Creek ('**Security Transaction**').

For the purposes of this report we will refer to the Underwriting Proposal and Security Transaction collectively as the Transactions.

## 2. Summary and Opinion

### 2.1 Purpose of the report

The directors of Fox 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 Transactions are fair and reasonable to the non associated shareholders of Fox ('**Shareholders**').

Our Report is prepared pursuant to ASX listing rule 10.1, in relation to the Security Transaction and section 611 of the Corporations Act in relation to the Proposal and is to be included in the Explanatory Memorandum for Fox in order to assist the Shareholders in their decision whether to approve the Transactions.

## 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 Transactions as outlined in the body of this report.

In arriving at our opinion relating to the Underwriting Proposal we have considered:

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

The granting of security over a company's assets is considered to be a disposal of those assets for the purposes of Listing Rules 10.1. In arriving at our opinion relating to the Security Transaction we have considered:

- How the value of the proceeds of the sale of the secured assets that would be provided to Jungle Creek in the event of a default compare to the value of the liabilities that would be settled;
- The likelihood of a superior alternative offer being available to Fox;
- The consequences of rejecting the Security Transaction;
- The advantages and disadvantages of approving the Security Transaction;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Security Transaction; and
- The position of Shareholders should the Security Transaction not proceed

## 2.3 Opinion

### Underwriting Proposal

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

In our opinion, the Underwriting Proposal is not fair because the value of a Fox share on a controlling basis prior to the Underwriting Proposal is higher than the value of a Fox share on a minority interest basis following the Underwriting Proposal. However, we consider the Underwriting Proposal to be reasonable because the advantages of the Underwriting Proposal to Shareholders are greater than the disadvantages. In particular, the shares to be acquired by Jungle Creek are to be first offered to other Shareholders. Furthermore, the ongoing financial support of Jungle Creek is assured if the Underwriting Proposal is approved, which will enable the Company to continue its activities without the need to secure alternative sources of funding in the short term.

## Security Transaction

We have considered the terms of the Security Transaction as outlined in the body of this report and have concluded that, in the absence of a superior offer, the Security Transaction is fair and reasonable to Shareholders.

### 2.4 Fairness

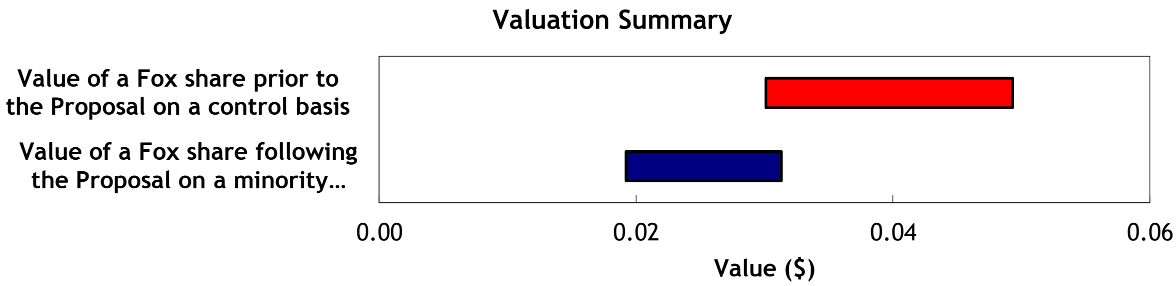
## Underwriting Proposal

In section 10.1 we determined that the the value of a Fox share following the Underwriting Proposal on a minority interest basis is less than the value of a Fox share prior to the Underwriting Proposal on a controlling interest basis as detailed below.

| | Ref | Low<br>$ | Preferred<br>$ | High<br>$ |
|---|---|---|---|---|
| Value of a Fox share prior to the Underwriting Proposal on a control basis | 8.3 | 0.0301 | 0.0309 | 0.0493 |
| Value of a Fox share following the Underwriting Proposal on a minority basis | 9 | 0.0192 | 0.0245 | 0.0313 |

**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 Underwriting Proposal is not fair for Shareholders.

## Security Transaction

The terms of the Security Transaction state that if there is an event of default, then Jungle Creek is only entitled to be repaid 50% of the principal and interest outstanding under the Security Transaction, and then ranks alongside other unsecured creditors. We consider that the Security Transaction is fair as it is not possible for Jungle Creek to recover more than it is owed under any circumstances. This can be summarised as follows:

| Scenario | | | Consequence | | | Fairness |
|---|---|---|---|---|---|---|
| Secured Assets | > | 50% Liabilities to be settled | Security provided | = | 50% Liabilities Settled remainder to settle unsecured creditors | Fair |
| Secured Assets | = | 50% Liabilities to be settled | Security provided | = | 50% Liabilities Settled | Fair |
| Secured Assets | < | 50% Liabilities to be settled | Security provided | < | 50% Liabilities Settled | Fair |

**Source:** BDO analysis

## 2.5 Reasonableness

We have considered the analysis in section 11 of this report, in terms of both

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

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

The respective advantages and disadvantages considered are summarised below:

| ADVANTAGES AND DISADVANTAGES | | | |
|---|---|---|---|
| **Section** | **Advantages** | **Section** | **Disadvantages** |
| **Underwriting Proposal (acquisition of relevant interest by Jungle Creek as a result of underwriting the Offer)** | | | |
| 11.4 | Reduction in Company's debt position resulting in savings in interest expense | 11.5 | The Underwriting Proposal is not fair |
| 11.4 | Favourable structure enabling shortfall shares to be subscribed for by Shareholders prior to Jungle Creek | 11.5 | Potential loss of control |
| 11.4 | Extension of the due date for repayment of the debts owed to Jungle Creek and Mr Streeter to 30 September 2015 | 11.5 | Dilution of Shareholders interests due to issue of new shares and options |
| 11.4 | On a pre and post minority interest basis the Underwriting Proposal would be fair | | |

| ADVANTAGES AND DISADVANTAGES | | | |
|---|---|---|---|
| **Section** | **Advantages** | **Section** | **Disadvantages** |
| **Security Transaction** | | | |
| 11.4 | The Security Transaction is fair. RG 111 states that an offer is reasonable if it is fair. | 11.5 | May impact on the ability of the Company to attract other sources of debt funding |
| 11.4 | The provision of security enables the Company to renegotiate the debt funding that it requires and the provision of security for debt funding purposes is not unusual | | |

Other key matters we have considered include:

| Section | Description |
|---|---|
| 11.3 | If the Transactions are not approved the debts owed to Jungle Creek and Mr Streeter become payable within 30 days. The Company does not have cash available to repay these loans. |
| 11.3 | If the rights issue is not underwritten by Jungle Creek the full issue may not proceed. The Company may be limited in its ability to secure alternative funding due to the high level of debt in the Company. This will continue to be the case if the Underwriting Proposal is not approved. |
| 11.3 | If the Transactions are not approved the ongoing support of Jungle Creek and Mr Streeter are not assured. |
| 11.3 | The Company had limited cash as at 31 March 2014. Alternative sources of funding will need to be secured in the event of the Transactions not being approved. |

# 3. Scope of the Report

## 3.1 Purpose of the Report

### 3.1.1 Underwriting Proposal

The Offer relates to a non-renounceable entitlement offer of one new share for every two shares held at an issue price of $0.015 with 1 free attaching option for every new share subscribed for. The Underwriting Proposal relates to the partial underwriting of the Offer by Jungle Creek for up to 230,194,837 new shares, with its underwriting obligations to be set off against debts owed by the Company to Jungle Creek.

Jungle Creek currently has a relevant interest in 16.56% of the shares of the Company. The extent to which its shareholding may increase as a result of the Underwriting Proposal is dependent on the extent to which Shareholders take up their entitlement under the rights offer, and apply for shortfall shares. In the event that there is no take up by eligible shareholders, the interests of Jungle Creek could increase to 38.29% as a result of the Underwriting Proposal. Furthermore, if the options attaching to the new shares are exercised, Jungle Creek could potentially increase its shareholding to 52%. This level of dilution would only occur if Jungle Creek exercised its options but no other Shareholders exercised their options. This is an unlikely scenario considering that the exercise price of the options being granted to Jungle Creek is considerably higher than other options currently on issue.

Section 606 of the Corporations Act Regulations ('**the Act**') expressly prohibits the acquisition of shares by a party if that acquisition will result in that person (or someone else) holding an interest in 20% or more of the issued shares of a public company, unless a full takeover offer is made to all shareholders.

Section 611 of the Corporations Act sets out certain exceptions to the general prohibition and permits an increase in voting power over 20%, including in the event of an underwriting arrangement. As such, Jungle Creek could rely on the underwriting exception; however the Company has chosen to seek Shareholder approval in any event.

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

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

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

### 3.1.2 Security Transaction

ASX Listing Rule 10.1 requires that a listed entity must obtain shareholders' approval before it acquires or disposes of a substantial asset to a related party, 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. ASX deems the granting of a security interest over an asset to be a disposal of that asset. Jungle Creek is an entity controlled by Mr Terry Streeter who is the Chairman of Fox and as such is a related party of Fox.

The granting of security over the Company's Queensland Coal Assets in favour of Jungle Creek will be deemed under ASX Listing Rule 10.1 to be a disposal of those assets.

An independent technical valuation of the Secured Asset has been prepared by Agricola Mining Consultants Pty Ltd ('**Agricola**'), which concludes that the value of the Company's Queensland coal tenements is in the region of $16.22 million and $22.93 million. Therefore, the value of the assets being provided as security exceed 5% of the equity interests of Fox as at the date of the last reviewed accounts, being 31 December 2013.

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 ("**Non-associated shareholders**").

Accordingly, an independent experts' report is required for the Security Transaction

## 3.2 Regulatory guidance

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

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

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

We do not consider the Security Transaction to be a control transaction. As such, we have used RG 111 as a guide for our analysis but have considered the Security Transaction as if it were not a control transaction.

## 3.3 Adopted basis of evaluation

### 3.3.1 Underwriting Proposal

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

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

- A comparison between value of a Fox share prior to the Underwriting Proposal on a control basis and the value of a Fox share following the Underwriting Proposal on a minority basis (fairness – see Section 10 'Are the Transactions Fair?'); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolutions, after reference to the value derived above (reasonableness – see Section 11 'Are the Transactions Reasonable?').

### 3.3.2 Security Transaction

The Security Transaction is not a control transaction and we have therefore completed the comparison as follows:

- A comparison between the value of the assets over which security is being granted, and the amount which could be recoverable by Jungle Creek in the event of a default by the Company.

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 Transactions

On 5 May 2014 the Company announced:

(a) a fully underwritten non-renounceable entitlement offer to Eligible Shareholders of 1 New Share for every 2 Shares held at an issue price of $0.015 per New Share with 1 free attaching New Option for every New Share subscribed for.

(b) that, subject to Shareholder approval, Jungle Creek, an entity controlled by the Company's Chairman, Mr Terry Streeter, would partially underwrite the Entitlement Offer for up to 230,194,837 New Shares or $3,452,923, with its underwriting obligations to be set off against debts owed by the Company to Jungle Creek and

(c) that as required under the terms of the Letter of Comfort (as detailed in the Notice of Meeting) and subject to Shareholder approval, grant Jungle Creek a security interest over the Company's Queensland Coal Assets.

Jungle Creek has for some time funded the Company, in doing so the Company is indebted to Jungle Creek and Mr Streeter for approximately $7.72 million.

## 5. Profile of Fox Resources Limited

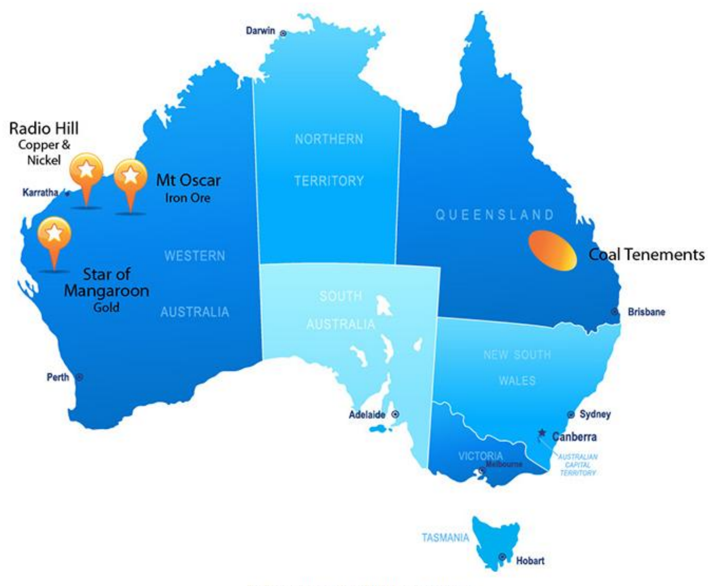
### 5.1 History

Fox is an exploration company operating in central Queensland and the Pilbara region of Western Australia, with its head office located in West Leederville, Western Australia. Fox's exploration program targets prospective base metals, gold, iron ore, and coal deposits. The Company's current projects comprise the Radio Hill and Sholl heap leaching project located south of Karratha, a magnetite project at Mt Oscar located south of the port at Cape Lambert, and the Ayshia deposits and a number of Coal exploration tenements in Queensland. Fox listed on the Australian Securities Exchange ('**ASX**') on 26 April 2002 following the issue of approximately 13 million shares at an issue price of $0.20 per share to raise $2million before costs.

The Company's current board members and senior management are shown below:

- Mr Terry Streeter – Chairman and Non-Executive Director;
- Mr Garry East – Non-Executive Director;
- Mr Paul Dunbar – Chief Executive Officer and Managing Director; and
- Ms Trish Farr – Company Secretary

The map below shows the location of Fox's projects.




Fox Resources Key Project Overview

### 5.2 Base Metal Exploration

Fox owns 100 per cent of a number of base metal exploration tenements in Western Australia being: Radio Hill; Whundo; Ayshia deposits; Bertram; Munni Munni North; Yerwararron Hill; Ruth Well; and Baynton

### 5.2.1 Radio Hill and Sholl

In late 2002, Fox acquired the Radio Hill Project located 35km south of Karratha, Western Australia which produced nickel and copper concentrates before being placed on care and maintenance in 2008.

The Sholl deposit is located approximately 10km north east of Radio Hill and consists of Sholl A1 and BI deposits.

### 5.2.2 Mt Oscar Magnetite Iron Project

The Mt Oscar Magnetite Iron Project, a joint venture between Fox and Magnetic South Pty Ltd, is located 25km south of the port of Cape Lambert. The funding of the exploration at Mt Oscar is provided by Magnetic South Pty Ltd as part of their earn-in to acquire 60 per cent of the project by spending $18 million over a period of ten years.

### 5.2.3 Pilbara Minerals Joint Venture (PLS Joint Venture)

The Pilbara Minerals Joint Venture was entered into in January 2013 for the development of 10 of Pilbara Mineral's 14 exploration tenements in the West Pilbara region of Western Australia. Exploration activity is undertaken by Fox Resources as part of their earn-in to acquire 80 per cent interest in the tenements over a period of three years.

The PLS Joint Venture extended Fox's current exploration prospects in the northwest Pilbara region from 1,142km$^2$ to 2,140km$^2$. An application for drilling targets at the PLS Joint Venture was lodged with the Department of Mines and Petroleum which was unsuccessful. As a result, Fox is currently modifying its exploration plan.

### 5.2.4 Mt Marie Joint Venture

Mt Marie Joint Venture is considered prospective by the Company for base metals comprising three tenements, E47/1806, E47/1807 and E47/1878. Fox Resources originally had a 60 per cent interest with Artemis Resources holding the other 40 percent. In May 2013, Artiemis Resources discontinued their earn-in for the Joint Venture, leaving Fox to resume management of the project.

Fox is currently negotiating a New Heritage Agreement with Ngarluma Aboriginal Corporation in order to allow Fox to undertake the required earthworks and drill tests.

### 5.2.5 Gold Exploration

Fox Resources has three gold exploration projects in the region of Western Australia, as outlined below.

- The Mangaroon project is located in the Gascoyne region of Western Australia. The project comprises one granted exploration license, one pending exploration license, one granted prospecting license and the old Star of Mangaroon gold mine;
- Mt Regal is located west of the Ruth Well deposit and north of the Sholl deposit; and
- Railway Bore is located 15km south east of Radio Hill.

### 5.2.6 Coal Exploration

Fox Resources acquired a 100 per cent interest in 16 coal exploration permits (EPCs) and one EPC under application, as announced on the ASX on 21 December 2012. These permits are primarily located in the

Styx, Bowen, Maryborough and Galilee basins in central and eastern Queensland, covering an area of more than 10,000 $km^2$.

The coal exploration projects are: the Bundaberg Project; Styx Project; Emerald Project; Springsure Project; Alpha Project; Eromanga Project; and the Barcomba Project.

### 5.2.7 Bundaberg Coking Coal Project

The Bundaberg Coking Coal Project is located in the Maryborough basin in southeast Queensland. The project has an inferred resource estimate of 101.2Mt. Exploration within the Bundaberg tenement commenced in December 2013.

During the March 2014 quarter, Fox Resources and International Coal Limited (ICX) announced a data sharing and confidentiality arrangement regarding the Bundaberg coking coal project. The arrangement allows Fox to cost effectively undertake the resource estimate within Bundaberg.

## 5.3 Historical Balance Sheet

| Statement of Financial Position | Reviewed as at 31-Dec-13 $ | Audited as at 30-Jun-13 $ | Audited as at 30-Jun-12 $ |
|---|---|---|---|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 1,091,465 | 129,842 | 238,450 |
| Trade and other receivables | 75,241 | 635,887 | 214,210 |
| Inventory | - | 8,844 | 17,848 |
| Other financial assets | 79,036 | 74,392 | 249,510 |
| TOTAL CURRENT ASSETS | 1,245,742 | 848,965 | 720,018 |
| | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 1,877,308 | 1,948,338 | 4,942,168 |
| Exploration and evaluation expenditure | 20,530,505 | 19,497,144 | 29,073,101 |
| Other financial assets | 80,000 | 1,233,527 | 1,121,245 |
| TOTAL NON-CURRENT ASSETS | 22,487,813 | 22,679,009 | 35,136,514 |
| TOTAL ASSETS | 23,733,555 | 23,527,974 | 35,856,532 |
| | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 2,821,459 | 2,831,117 | 1,882,303 |
| Interest bearing liabilities | 7,598,433 | 7,336,779 | 4,103,906 |
| Provisions | 50,771 | 170,155 | 374,990 |
| TOTAL CURRENT LIABILITIES | 10,470,663 | 10,338,051 | 6,361,199 |
| | | | |
| NON-CURRENT LIABILITIES | | | |

| | | | |
|---|---|---|---|
| Interest bearing liabilities | 259,079 | - | - |
| Derivative Liability | 46,694 | - | - |
| Provisions | 3,787,436 | 3,783,506 | 3,727,406 |
| TOTAL NON-CURRENT LIABILITIES | 4,093,209 | 3,783,506 | 3,727,406 |
| TOTAL LIABILITIES | 14,563,872 | 14,121,557 | 10,088,605 |
| NET ASSETS | 9,169,683 | 9,406,417 | 25,767,927 |
| EQUITY | | | |
| Issued capital | 121,648,473 | 119,966,397 | 117,599,362 |
| Other reserves | 117,064 | 36,180 | 36,180 |
| Accumulated losses | (112,595,854) | (110,596,160) | (91,867,615) |
| TOTAL UNIT HOLDERS EQUITY | 9,169,683 | 9,406,417 | 25,767,927 |

**Source:** Fox's 2013 Annual Report and reviewed 31 December 2013 half-year financial statements

- We note the following in relation to Fox's Statement of Financial Position: The 31 December review opinion contained an emphasis of matter in relation to going concern. The Company identified a range of actions that would be reviewed by the Directors to meet the obligations of the Company including raising capital.
- As at 31 December 2013, Cash at hand was $1.1 million, with the following significant items noted:
  - Fox successfully raised $597,000 from a share purchase plan issuing 24.5 million fully paid ordinary shares at $0.025 per share in August 2013.
  - Fox secured up $3.8 million exploration and working capital funding for the Bundaberg Coking Coal Project through a Share Purchase and Convertible Security Agreement with The Australian Special Opportunities Fund;
  - Research and Development rebate totalled $310,000;
  - Environment bonds totalling $1.16 million on various tenements associated with Mt Oscar Joint Venture and the Radio Hill Project, were returned to Fox in late December 2013;
- Other current financial assets for the half year ended 31 December 2013 and the financial year ended 30 June 2013 primarily relates to prepayments as shown below. Other financial assets of $192,371 for the year ended 30 June 2012 represents the bonds for office premises and credit cards.

| Other financial assets | Half year ended 31-Dec-13 $ | Year ended 30-Jun-13 $ | Year ended 30-Jun-12 $ |
|---|---|---|---|
| Other financial assets | - | - | 192,371 |
| Prepayments | 79,036 | 74,392 | 57,139 |
| **Total Current Other financial assets** | 515,183 | 74,392 | 249,510 |

- Other non-current financial assets represent the bonds for mineral tenements and the Radio Hill accommodation village. The bonds are secured to cover guarantees and are treated as non-current as they are not expected to mature in the twelve months to 30 June 2014.
- In September 2013, Fox announced that 16 coal tenements in Queensland were to be transferred into their wholly owned coal subsidiary, Waterford Coal Pty Ltd. As consideration for the Queensland coal tenements, Fox paid $1 million in cash to the vendors and agreed to issue 16.6 million fully paid ordinary shares at $0.0436 per share, worth $725,000 to XLX Exploration Pty Ltd. Exploration and evaluation expenditure is show below.

| Exploration and Evaluation expenditure | Half year ended 31-Dec-13 $ | Year ended 30-Jun-13 $ | Year ended 30-Jun-12 $ |
|---|---|---|---|
| Balance at the beginning of the year | 19,497,144 | 29,073,101 | 24,069,209 |
| Acquisitions | 725,000 | 1,000,000 | - |
| Expenditure incurred | 920,816 | 2,247,512 | 2,108,486 |
| Expenditure written off | (612,455) | (178,964) | - |
| Movement in provision for rehabilitation | - | (56,100) | - |
| Provision for impairment | - | (12,588,405) | - |
| **Total Exploration and evaluation expenditure** | 20,530,505 | 19,497,144 | 29,073,101 |

- Current interest bearing liabilities increased significantly from $4,103,906 for the financial year ended 30 June 2012 to $7,336,779 for the financial year ended 30 June 2013. This primarily relates to the increase in Related and Third Party Loans provided by Jungle Creek Gold Mines Pty Ltd, Zashvin Pty Ltd, R&D White and Alan Greenwell, as shown below.

| Current interest bearing liabilities | Year ended 30-Jun-13 $ | Year ended 30-Jun-12 $ |
|---|---|---|
| Related and Third Party Loans | 5,993,158 | 2,015,719 |
| Insurance Premium Funding | 80,680 | 61,939 |
| Hire Purchase | 752,969 | 1,484,769 |
| Other Loan | 509,972 | 505,479 |
| **Total Current interest bearing liabilities** | 7,336,779 | 4,103,906 |

- Current Provisions relate to employee entitlements and non-current provisions relate to rehabilitation.
- Non-current interest bearing liabilities of $259,079 as at 31 December 2013 relates to the convertible security issued by Fox in October 2013 to the Australian Special Opportunity Fund LP to raise funding for an advanced exploration at the Bundaberg Coking Coal Project.

- Total shareholder equity decreased from $25.8 million for the financial year ended 30 June 2012 to $9.4 million for the financial year ended 30 June 2013 .

## 5.4 Historical Statement of Comprehensive Income

| Statement of Comprehensive Income | Reviewed for the half year ended 31-Dec-13 $ | Audited for the year ended 30-Jun-13 $ | Audited for the year ended 30-Jun-12 $ |
|---|---|---|---|
| **Revenue** | | | |
| Other income | 515,183 | 1,962,247 | 2,220,352 |
| **Expenses** | | | |
| Other expenses | (2,472,245) | (5,929,478) | (8,067,308) |
| Impairment loss on exploration and evaluation | - | (12,588,405) | - |
| Impairment loss on capital work in progress | - | (2,404,595) | - |
| Finance costs | (353,001) | (564,384) | (283,276) |
| **Loss from continuing operations before income tax** | (2,310,063) | (19,524,615) | (6,130,232) |
| Income tax credit/(expense) | 310,369 | 796,070 | 805,365 |
| **Loss from continuing operations after income tax** | **(1,999,694)** | **(18,728,545)** | **(5,324,867)** |
| **Total comprehensive loss for the year** | **(1,999,694)** | **(18,728,545)** | **(5,324,867)** |

Source: Fox's 2013 Annual Report and reviewed 31 December 2013 half-year financial statements

- Other income comprises the following:

| Other Income | Half year ended 31-Dec-13 $ | Year ended 30-Jun-13 $ | Year ended 30-Jun-12 $ |
|---|---|---|---|
| Finance revenue – bank interest | 24,570 | 86,455 | 90,007 |
| Accommodation camp rental Income | 490,613 | 1,394,065 | 2,089,250 |
| Net gain/(loss) on sale of property, plant and equipment | - | - | 39,216 |
| Other | - | 481,727 | 1,879 |
| **Total Other Income** | 515,183 | 1,962,247 | 2,220,352 |

- Other expenses comprise the following:

| Other Expenses | Half year ended 31-Dec-13 $ | Year ended 30-Jun-13 $ | Year ended 30-Jun-12 $ |
|---|---|---|---|
| Administration and exploration | 1,321,041 | 4,818,078 | 6,289,842 |
| Convertible security commencement fee | 125,000 | - | - |
| Share based payment expense | 212,844 | - | 41,980 |
| Depreciation – plant and equipment | 200,905 | 477,835 | 666,804 |

| | | | |
|---|---|---|---|
| Exploration & evaluation write off | 612,455 | 178,964 | - |
| Net loss on sale of property, plant and equipment | - | 122,532 | - |
| Heap leach development expense | - | 332,069 | 1,068,682 |
| **Total Expenses** | 2,472,245 | 5,929,478 | 8,067,308 |

- Finance costs comprise the following:

| Finance Cost | Half year ended 31-Dec-13 $ | Year ended 30-Jun-13 $ | Year ended 30-Jun-12 $ |
|---|---|---|---|
| Interest on loan from director-related entities | 331,060 | 454,310 | 102,200 |
| Finance charges payable under hire purchase contracts | 21,941 | 110,074 | 181,076 |
| **Total Finance Cost** | 353,001 | 564,384 | 283,276 |

- Income tax benefit for the half year ended 31 December 2013 purely relates to the Research and Development Tax offset. For the financial year ended 30 June 2013, $211,847 of income tax benefit relates to the Research and Development Tax Offset. No tax offset was received for Research and Development for the financial year ended 30 June 2012.

## 5.5 Capital Structure

The share structure of Fox as at 5 May 2014 is outlined below:

| | Number |
|---|---|
| Total Ordinary Shares on Issue | 563,254,056 |
| Top 20 Shareholders | 354,049,741 |
| Top 20 Shareholders - % of shares on issue | 62.86% |

Source: Share Registry information provided by the Company

The range of shares held in Fox as at 5 May 2014 is as follows:

| Range of Shares Held | No. of Ordinary Shareholders | No. of Ordinary Shares | %Issued Capital |
|---|---|---|---|
| 1-1,000 | 317 | 186,798 | 0.03% |
| 1,001-5,000 | 834 | 2,480,142 | 0.44% |
| 5,001-10,000 | 582 | 4,797,416 | 0.85% |
| 10,001-100,000 | 1,143 | 43,434,574 | 7.71% |
| 100,001 - and over | 419 | 512,355,126 | 90.96% |
| **TOTAL** | **3,295** | **563,254,056** | **100.00%** |

Source: Share Registry information provided by the Company

The ordinary shares held by the most significant shareholders as at 5 May 2014 are detailed below:

| Name | No of Ordinary Shares Held | Percentage of Issued Shares (%) |
|---|---|---|
| Jungle Creek Gold Mines Pty Ltd and associated entities | 93,283,587 | 16.56% |
| Breeton Pty Ltd | 47,282,762 | 8.39% |
| Zashvin Pty Ltd | 44,803,000 | 7.95% |
| GTE Superannuation Pty Ltd | 38,100,000 | 6.76% |
| Jinchuan Group Ltd | 32,900,000 | 5.84% |
| **Total Top 5** | **256,369,349** | **45.50%** |
| Others | 306,884,707 | 54.50% |
| **Total Ordinary Shares on Issue** | **563,254,056** | **100.00%** |

Source: Share Registry information provided by the Company

## 6. Economic analysis

Growth in the global economy was a bit below trend in 2013, but there are reasonable prospects of a better outcome this year, helped by firmer conditions in the advanced countries. China's growth appears to have slowed a little in early 2014 but remains generally in line with policymakers' objectives. Commodity prices in historical terms remain high, though some of those important to Australia have softened further of late.

Financial conditions overall remain very accommodative. Long-term interest rates and most risk spreads remain low. Equity and credit markets are well placed to provide adequate funding.

In Australia, the economy grew at a below-trend pace in 2013. Recent information suggests moderate growth is occurring in consumer demand and foreshadows a strong expansion in housing construction. Some indicators of business conditions and confidence have improved from a year ago and exports are rising. But at the same time, resources sector investment spending is set to decline significantly and, at this stage, signs of improvement in investment intentions in other sectors are only tentative, as firms wait for more evidence of improved conditions before committing to expansion plans. Public spending is scheduled to be subdued.

The demand for labour has been weak over the past year and, as a result, the rate of unemployment has risen somewhat. More recently, there has been some improvement in indicators for the labour market, but it will probably be some time yet before unemployment declines consistently. Growth in wages has declined noticeably and this has been reflected more clearly in the latest price data, which show a moderation in growth in prices for non-traded goods and services. As a result, inflation is consistent with the target. If domestic costs remain contained, that should continue to be the case over the next one to two years, even with lower levels of the exchange rate.

Monetary policy remains accommodative. Interest rates are very low and savers continue to look for higher returns in response to low rates on safe instruments. Credit growth has picked up a little, while dwelling prices have increased significantly over the past year. The decline in the exchange rate from its highs a year ago will assist in achieving balanced growth in the economy, but less so than previously as a result of the rise over the past few months. The exchange rate remains high by historical standards.

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

**Source:** www.rba.gov.au *Statement by Glenn Stevens, Governor: Monetary Policy Decision 6 May 2014*

An Industry analysis has been included in Appendix 3.

# 7. 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 Fox shares we have chosen to employ the following methodologies:

- NAV on a going concern basis as our primary valuation; and
- QMP as our secondary valuation.

We have chosen these methodologies for the following reasons:

- Being an exploration company, the core value of Fox is in the exploration assets it holds. We have instructed Agricola Mining Consultants Pty Ltd (‘**Agricola**’) to act as independent specialist to value the Company’s exploration assets and have considered this in the context of Fox’s other assets and liabilities on a NAV basis.
- The QMP basis is a relevant methodology to consider because Fox’s shares are listed on the ASX. This means there is a regulated and observable market where Fox’s shares can be traded. However, in order for QMP to be considered appropriate, the company’s shares should be liquid and the market should be fully informed as to its activities. We have considered these factors in Section 8.2.

- Fox does not generate regular trading income. Therefore there are no historic profits that could be used to represent future earnings. This means that the FME valuation approach is not appropriate.
- Fox has no foreseeable future net cash inflows and therefore the application of the DCF valuation approach is not appropriate. Under RG111, it is considered that it is only appropriate to use a DCF where Reserves are present. Fox is yet to delineate Reserves.

# 8. Valuation of Fox prior to the Underwriting Proposal

## 8.1 Net Asset Valuation of Fox

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

| | As at 31 March 2014 $ | Low valuation $ | Preferred valuation $ | High valuation $ |
|---|---|---|---|---|
| Current Assets | | | | |
| Cash and cash equivalents | 37,452 | 37,452 | 37,452 | 37,452 |
| Trade and other receivables | 145,721 | 145,721 | 145,721 | 145,721 |
| Other financial assets | 78,503 | 78,503 | 78,503 | 78,503 |
| Total Current Assets | 261,676 | 261,676 | 261,676 | 261,676 |
| Non Current Assets | | | | |
| Property, plant and equipment | 1,777,117 | 1,777,117 | 1,777,117 | 1,777,117 |
| Exploration and evaluation expenditure | 21,208,509 | 29,510,000 | 34,340,000 | 40,330,000 |
| Other financial assets | 80,000 | 80,000 | 80,000 | 80,000 |
| Total non-current assets | 23,065,626 | 23,065,626 | 23,065,626 | 23,065,626 |
| Total assets | 23,327,302 | 31,628,793 | 36,458,793 | 42,448,793 |
| Liabilities | | | | |
| Trade and other payables | 2,853,497 | 2,853,497 | 2,853,497 | 2,853,497 |
| Interest bearing liabilities | 7,677,997 | 7,677,997 | 7,677,997 | 7,677,997 |
| Provisions | 27,892 | 27,892 | 27,892 | 27,892 |
| Total current liabilities | 10,559,386 | 10,559,386 | 10,559,386 | 10,559,386 |
| Non Current liabilities | | | | |
| Interest bearing liabilities | 264,851 | 264,851 | 264,851 | 264,851 |
| Derivative liability | 46,694 | 46,694 | 46,694 | 46,694 |
| Provisions | 3,783,506 | 3,783,506 | 3,783,506 | 3,783,506 |
| Total non current liabilities | 4,095,051 | 4,095,051 | 4,095,051 | 4,095,051 |
| Total Liabilities | 14,654,437 | 14,654,437 | 14,654,437 | 14,654,437 |
| | | | | |
| Net Assets | 8,672,865 | 16,974,356 | 21,804,356 | 27,794,356 |
| Shares on issue | 563,254,056 | 563,254,056 | 563,254,056 | 563,254,056 |
| Value of a Fox share | 0.0154 | 0.0301 | 0.0309 | 0.0493 |

**Source:** BDO analysis

The values above are based on the unaudited balance sheet as at 31 March 2014. There has not been a significant change in the net assets of Fox between the reviewed half year accounts and the 31 March 2014. The table above indicates the net asset value of a Fox share is between $0.0301 and $0.0493, with a preferred value of $0.309.

We have analysed the balance sheet of Fox as at 31 March to determine if adjustments are required for our valuation. Where no valuation adjustment has been made we determined that due to the nature of the balance and the activities of the Company there was no material movement. The following adjustments were made to the net assets of Fox as at 31 March 2014 in arriving at our valuation.

## Valuation of Fox's mineral assets

We instructed Agricola to provide an independent market valuation of the exploration assets held by Fox. Agricola considered a number of different valuation methods when valuing the exploration assets of Fox.

Agricola applied the Comparable transaction method to the Radio Hill, Mt Oscar and Bundaberg coal projects, all of which have estimated mineral resources in the Measured, Indicated and Inferred categories for nickel, copper, zinc, magnetite iron and coal. The method requires allocating a dollar value to the mineral resource in the ground and applying appropriate discounts for JORC Category, operating factors and average acquisition cost for mineral projects. Contained metal is calculated from the deposit tonnes and grade in the categories of the JORC code. The estimated contained value for the Inferred Resource is estimated based on current metal prices, which are estimated based on averages over the last six months. The projects are then ranked against comparable transactions to determine a market value.

The remainder of the Western Australian and Queensland Projects, are exploration projects. 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. 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.

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 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 selected the 'Geo-factor Rating' method of valuation for Fox's exploration tenements as it focuses on the future prospectivity of the area.

In arriving at fair market value for Fox's tenements, Agricola has considered the current market for exploration properties in Australia and overseas and applied a discount to the technical value of the exploration potential of the tenements.

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

| Mineral Resources | Low Value<br>$m | Preferred Value<br>$m | High Value<br>$m |
|---|---|---|---|
| **Mineral Resources** | | | |
| Radio Hill and Sholl | 3.41 | 3.90 | 4.36 |
| West Whundo and Whundo | 0.41 | 0.47 | 0.52 |
| Wundo and Ayshia | 0.40 | 0.46 | 0.52 |
| Mt Oscar | 8.44 | 9.74 | 11.04 |
| Bundaberg | 15.54 | 17.93 | 21.51 |
| **Exploration Potential** | | | |
| Radio Hill | 0.22 | 0.28 | 0.35 |
| Pilbara Minerals JV | 0.14 | 0.18 | 0.21 |
| Mt Marie JV #3 | 0.06 | 0.07 | 0.09 |
| Star of Mangaroon | 0.21 | 0.26 | 0.31 |
| Queensland Coal | 0.68 | 1.05 | 1.42 |
| **Total** | **29.51** | **34.34** | **40.33** |

Source: Independent valuation of the mineral assets in Western Australia and Queensland held by Fox Resources Limited prepared by Agricola Mining Consultants Pty Ltd

## 8.2 Quoted Market Prices for Fox Securities

To provide a comparison to the valuation of Fox in Section 8.1, we have also assessed the quoted market price for a Fox share.

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

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

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

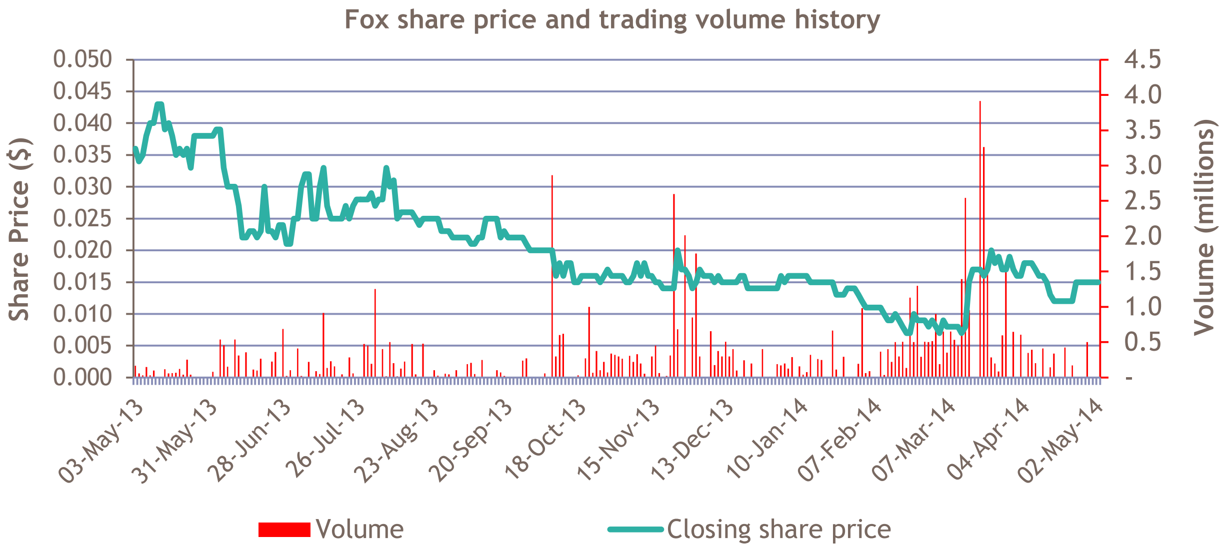
Whilst Jungle Creek will not be obtaining 100% of Fox, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. RG 111.13 states that the expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness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

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

## Minority interest value

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

Information on the Offer was announced to the market on 5 May 2014. Therefore, the following chart provides a summary of the share price movement over the 12 months to 2 May 2014 which was the last trading day prior to the announcement.




**Source:** Bloomberg

The daily price of Fox shares from 2 May 2013 to the 2 May 2014 has ranged from a low of $0.007 on 13 March 2014 to a high of $0.045 on 8 May 2013. The share price showed a relatively consistent downward trend over the period May 2013 to March 2014 and trading was sporadic with several days of no trades noted. Between May 2013 and October 2013 the volumes traded were minimal and accounted for only 30% of the total trades in the review period. The Fox share price recovered from its lows in March 2014 following positive announcements, which resulted in the highest month of trading volume for the year.

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<br>$ (movement) | | | | Closing Share Price Three Days After Announcement<br>$ (movement) | | |
|---|---|---|---|---|---|---|---|---|
| 2/05/2014 | Suspension from Official Quotation | 0.015 | □ | 0% | | 0.000 | □ | 100% |
| 30/04/2014 | Quarterly Cashflow Report | 0.015 | □ | 0% | | 1.1.1.1 N/A | □ | N/A |
| 30/04/2014 | Quarterly Activities Report | 0.015 | □ | 0% | | NA | □ | N/A |
| 30/04/2014 | Trading Halt | 0.015 | □ | 0% | | N/A | □ | N/A |
| 16/04/2014 | Conclusion of Funding Agreement | 0.012 | □ | 8% | | 0.012 | □ | 0% |
| 2/04/2014 | ICX: ICX announces 41Mt Inferred Resource at Bundaberg | 0.016 | □ | 6% | | 0.018 | □ | 13% |
| 1/04/2014 | Exploration Target identified at Bundaberg | 0.017 | □ | 11% | | 0.018 | □ | 6% |
| 20/03/2014 | Reinstatement to Official Quotation | 0.016 | □ | 6% | | 0.018 | □ | 13% |
| 20/03/2014 | 101.2Mt Inferred Resource at Bundaberg Project | 0.016 | □ | 6% | | 0.018 | □ | 13% |
| 20/03/2014 | Suspension from Official Quotation | 0.016 | □ | 6% | | 0.018 | □ | 13% |
| 18/03/2014 | Trading Halt | 0.017 | □ | 0% | | 0.017 | □ | 0% |
| 14/03/2014 | High Quality Coking Coal Confirmed at Fox 6 | 0.015 | □ | 88% | | 0.017 | □ | 13% |
| 4/03/2014 | FXR & ICX to collaborate on Bundaberg Coking Coal Project | 0.007 | □ | 13% | | 0.008 | □ | 14% |
| 20/02/2014 | Bundaberg Coking Coal Project - Exploration Update | 0.007 | □ | 0% | | 0.009 | □ | 29% |
| 31/01/2014 | Quarterly Activities & Cashflow Report | 0.013 | □ | 7% | | 0.011 | □ | 15% |
| 24/01/2014 | Bundaberg Exploration Update | 0.013 | □ | 0% | | 0.014 | □ | 8% |
| 31/12/2013 | Fox receives $1.16M from bond refund | 0.014 | □ | 0% | | 0.015 | □ | 7% |
| 23/12/2013 | Diamond core confirms coal at Bundaberg coking coal project | 0.014 | □ | 0% | | 0.014 | □ | 0% |
| 9/12/2013 | Coal intersected at Bundaberg Coking Coal Project | 0.015 | □ | 6% | | 0.015 | □ | 0% |
| 5/12/2013 | Trading Halt | 0.016 | □ | 0% | | 0.016 | □ | 0% |
| 29/11/2013 | Drilling commences at Bundabery Coking Coal Project | 0.014 | □ | 13% | | 0.016 | □ | 14% |
| 15/11/2013 | Response to ASX Appendix 5B Query | 0.015 | □ | 6% | | 0.014 | □ | 7% |
| 4/11/2013 | Approvals gained Bundaberg coking coal project | 0.016 | □ | 0% | | 0.016 | □ | 0% |
| 31/10/2013 | Quarterly Activities Report | 0.016 | □ | 0% | | 0.015 | □ | 6% |
| 24/10/2013 | Quarterly Cashflow Report | 0.016 | □ | 0% | | 0.017 | □ | 6% |
| 2/10/2013 | FXR secures up to $3.8m in funding | 0.020 | □ | 0% | | 0.020 | □ | 0% |
| 2/10/2013 | Trading Halt | 0.020 | □ | 0% | | 0.020 | □ | 0% |
| 17/09/2013 | Fox finalises transfer of Queensland coal assets | 0.025 | □ | 0% | | 0.022 | □ | 12% |
| 5/09/2013 | Mount Oscar Joint Venture Progress Report | 0.022 | □ | 0% | | 0.022 | □ | 0% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 30/08/2013 | Appointment of CEO/Managing Director | 0.022 | □ | 4% | 0.022 | □ | 0% |
| 12/08/2013 | Resignation of CFO, Company Secretary, Interim CEO | 0.026 | □ | 4% | 0.026 | □ | 0% |
| 1/08/2013 | Bundaberg Coking Coal Project Tender Process In Final Stages | 0.027 | □ | 7% | 0.033 | □ | 22% |
| 12/07/2013 | Fox Share Purchase Plan Announcement | 0.033 | □ | 10% | 0.025 | □ | 24% |
| 12/07/2013 | Fox Resources June Quarterly Activity and Cash Flow Report | 0.033 | □ | 10% | 0.025 | □ | 24% |
| 11/07/2013 | 1200 km VTEM Survey, and MT Oscar Drilling | 0.030 | □ | 20% | 0.025 | □ | 17% |
| 30/05/2013 | Mt Oscar Drilling Update and Extension of Loan Agreement | 0.038 | □ | 0% | 0.039 | □ | 3% |
| 15/05/2013 | Mt Oscar $1.83m Drilling Program Commences | 0.040 | □ | 3% | 0.036 | □ | 10% |
| 8/05/2013 | Sale Agreement with Quarry Operators at Mt Regal | 0.040 | □ | 5% | 0.043 | □ | 7% |

On 1 August 2013 Fox announced that the tender process for the Bundaberg Coking Coal Project was in its final stages. The market reacted positively to the announced progression, with the share price increasing 22% in the three days following the announcement

On 20 February 2014 Fox announced an exploration update on the Bundaberg Coking Coal Project. Four out of the six drill holes completed intersected coal. The share price rose 29% in the three days following the announcement.

On 14 March 2014 Fox announced the existence of high quality coking coal contained in its Fox 6 prospect. The market reacted positively to the news with the share price increasing sharply by 88% on the day of the announcement, and a further 13% in the three days following.

On 20 March 2014 Fox announced a maiden inferred resource at its Bundaberg Coking Coal Project. The share price initially fell by 6%, before recovering to increase 13% in the three days following the announcement.

To provide further analysis of the market prices for an Fox share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 2 May 2014.

| | 2 May 2014 | 10 Days | 30 Days | 60 Days | 90 Days |
|---|---|---|---|---|---|
| Closing price | $0.015 | | | | |
| Volume weighted average price (VWAP) | | $0.012 | $0.017 | $0.014 | $0.014 |

**Source:** Bloomberg, BDO analysis

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

An analysis of the volume of trading in Fox shares for the twelve months to 2 May 2014 is set out below:

| Trading days | Share price low | Share price high | Cumulative volume traded | As a % of Issued capital |
|---|---|---|---|---|
| 1 Day | $0.015 | $0.015 | - | 0.00% |
| 10 Days | $0.011 | $0.015 | 1,096,241 | 0.19% |
| 30 Days | $0.011 | $0.021 | 8,451,045 | 1.50% |
| 60 Days | $0.007 | $0.025 | 31,435,807 | 5.58% |
| 90 Days | $0.007 | $0.025 | 35,928,269 | 6.38% |
| 180 Days | $0.007 | $0.025 | 59,608,015 | 10.58% |
| 1 Year | $0.007 | $0.045 | 72,761,848 | 12.92% |

**Source:** Bloomberg, BDO analysis

This table indicates that Fox's shares display a low level of liquidity, with 12.92% of the Company's current issued capital being traded in a twelve month period. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

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

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

In the case of Fox, we do not consider the market to be deep. Fox only traded 12.92% of its shares on issue over the last twelve months and 28% of the total volume traded occurred in March 2014. There were also large fluctuations in the volume of securities traded with numerous days with no trades.

Our assessment is that a range of values for Fox shares based on market pricing, after disregarding post announcement pricing, is between $0.014 and $0.018.

## Control Premium

We have reviewed the announced 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 (%) |
|---|---|---|---|
| 2013 | 13 | 56.43 | 55.41 |
| 2012 | 19 | 135.78 | 42.67 |
| 2011 | 20 | 634.68 | 31.40 |
| 2010 | 23 | 755.97 | 45.04 |
| 2009 | 29 | 86.80 | 39.23 |
| 2008 | 8 | 553.76 | 38.87 |
| 2007 | 25 | 541.21 | 28.20 |
| 2006 | 20 | 70.15 | 31.11 |
| | **Median** | **338.49** | **39.05** |
| | **Mean** | **354.35** | **38.99** |

**Source:** Bloomberg, 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 there has been an increasing trend of control premia paid by acquirers of mining companies since 2006. Based on the analysis above we believe that an appropriate control premium is between 25% and 40%. Additionally to this, we reviewed the announced control premiums relating to companies with coal assets. Since 2009 there have been 24 transactions with announced control premiums in the coal sector, with an average identifiable premium of 38.30%. This premium is consistent and within the identified range for ASX listed mining companies.

Fox has a range of exploration projects that require funding to develop further. Currently the balance sheet of Fox lacks the liquid assets needed to be able to fund the development of these projects. This need for capital is evident with the directors required to undertake the entitlements offer at 1.5 cents per share with free attaching options. Based on these factors a more appropriate control premium for Fox would be between 20% and 30%.

### Quoted market price including control premium

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

| | Low<br>$ | Midpoint<br>$ | High<br>$ |
|---|---|---|---|
| Quoted market price value | 0.014 | 0.016 | 0.018 |
| Control premium | 20 | 25 | 30 |
| **Quoted market price valuation including a premium for control** | **0.017** | **0.020** | **0.023** |

**Source:** BDO analysis

Therefore, our valuation of a Fox share based on the quoted market price method and including a premium for control is between $0.017 and $0.023, with a midpoint value of $0.020.

## 8.3 Assessment of Fox Value before the Underwriting Proposal

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

| | Low<br>$ | Preferred<br>$ | High<br>$ |
|---|---|---|---|
| Net asset value (Section 8.1) | 0.0301 | 0.0309 | 0.0493 |
| ASX market prices (Section 8.2) | 0.017 | 0.020 | 0.023 |

**Source:** BDO analysis

We consider the net asset value to be the most appropriate methodology, given that the core value of the Company is in the exploration assets it holds. We have instructed an independent specialist to value Fox's projects, which we have included in our net asset value.

We have relied on our NAV methodology as we do not consider there to be a deep market for the Company's shares with only 12.92% of the Company's issued capital being traded in the twelve months prior to the Transaction. Therefore, we have relied on the QMP methodology as a cross check to our net asset value. Based on the results above we consider the value of a Fox share on a control basis to be between $0.0301 and $0.0493, with a preferred value of $0.0309.

# 9. Valuation of Fox following the Underwriting Proposal

### Assessing non-cash consideration in control transactions

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

(a) the acquirer is obtaining or increasing control of the target; and

(b) the security holders in the target will be receiving scrip constituting minority interests in the combined entity.

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

(a) the depth of the market for those securities;

(b) the volatility of the market price; and

(c) whether or not the market value is likely to represent the value if the takeover bid is successful.

Under RG 111.34 it is noted that if, in a scrip bid, the target is likely to become a controlled entity of the bidder, the bidder's securities can also be valued using a notionally combined entity. However, it should still be noted that the accepting holders are likely to hold minority interests in that combined entity. Therefore we have assessed the quoted market price for a Fox share on a minority interest basis.

The value of a share in Fox following the Transaction on a going concern basis is set out below:

| NAV following the Transaction | Note | Low value $ | Preferred value $ | High value $ |
|---|---|---|---|---|
| Net Assets of Fox prior to the Transaction | | 16,974,356 | 21,804,356 | 27,794,356 |
| Cash raised pursuant to the Rights Issue | a | 377,000 | 377,000 | 377,000 |
| Prepayment of director fees | b | 25,485 | 25,485 | 25,485 |
| Reduction in total liabilities | c | 3,761,420 | 3,761,420 | 3,761,420 |
| **Net Assets of Fox following the Transaction** | | 21,138,261 | 25,968,261 | 31,958,261 |
| Number of shares on issue (post Transaction) | a | 844,881,084 | 844,881,084 | 844,881,084 |
| **Value per share pre Transaction ($) (control basis)** | | 0.0250 | 0.0307 | 0.0378 |
| Minority discount | d | 23% | 20% | 17% |
| **Value per share post Transaction (minority basis)** | | **0.0192** | **0.0245** | **0.0313** |

## Note a)

The cash raised pursuant to the rights issue is based upon the following:

| | |
|---|---|
| Funds raised as a result of the Offer | 107,050 |
| Underwriters loan | 80,000 |
| Loan from Jungle Creek | 250,000 |
| Costs of the offer | (60,050) |
| **Cash adjustment** | **377,000** |
| Shares on issue prior to the Offer | 563,254,056 |
| Shares issued under the Offer | 281,627,028 |
| **Shares on issue following the Offer** | **844,881,084** |

## Note b)

Relates to a prepayment of Director fees to Garry East from 1 April 2014 to 30 June 2014 which has been settled by an equity issue.

## Note c)

The reduction in total liabilities is made up of the following:

| | |
|---|---|
| Reduction in trade and other payables | 639,127 |
| Conversion of Jungle Creek and Terry Streeter debt to equity | 3,452,293 |
| Advance of loans from underwriters | (330,000) |
| **Total reduction in total liabilities** | **3,761,420** |

## Note d)

The net asset value of a Fox share following the Transactions is reflective of a controlling interest. This suggests that the acquirer obtains an interest in the company which allows them to have an individual influence in the operations and value of that company. Therefore, if the Underwriting Proposal is approved Shareholders may become minority interest shareholders in Fox as Jungle Creek will hold a controlling interest, meaning that their individual holding will not be considered significant enough to have an individual influence in the operations and value of the Company.

Therefore, we have adjusted our valuation of a Fox share following the Underwriting Proposal, 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 in Section 8.2, we consider an appropriate control premium for Fox to be in the range of 20% to 30%, giving rise to a minority interest discount in the range of 17% to 23%.

## Note e) options

The Company has a number of Options on issue as set out below:

| Exercise date (on or before) | Number | Exercise price |
|---|---|---|
| 1 June 2014 | 2,120,000 | $0.15 |
| 2 October 2015 | 4,000,000 | $0.0261 |
| 1 November 2015 | 769,231 | $0.0156 |
| 3 December 2015 | 833,333 | $0.0144 |
| 27 December 2015 | 833,333 | $0.0144 |
| 30 June 2017 | 4,000,000 | $0.06 |
| 31 January 2016 | 833,333 | $0.0144 |
| 27 February 2016 | 1,666,667 | $0.0072 |
| 31 March 2016 | 3,000,000 | $0.0072 |

A number of these options are considered to be 'in the money' when referenced to our NTA valuation. However, the exercise price of these options will be adjusted in accordance with Listing Rule 6.22.2 at completion of the Offer. We have therefore not shown the impact of any dilution as a result of the potential exercise of these options as we would be unable to determine the impact of their exercise on the cash balance.

# 10. Are the Transactions fair?

## 10.1 Underwriting Proposal

The value of a Fox share prior to the Underwriting Proposal on a controlling interest basis compared to the value of a Fox share following the Underwriting Proposal on a minority interest basis is compared below:

| | Ref | Low<br>$ | Preferred<br>$ | High<br>$ |
|---|---|---|---|---|
| Value of a Fox share prior to the Underwriting Proposal on a control basis | 9 | 0.0301 | 0.0309 | 0.0493 |
| Value of a Fox share following the Underwriting Proposal on a minority basis | 8.3 | 0.0192 | 0.0245 | 0.0313 |

We note from the table above that the value of a Fox share following the Underwriting Proposal on a minority interest basis is less than the value of a Fox share prior to the Underwriting Proposal on a controlling interest basis. Therefore, we consider that the Underwriting Proposal is not fair for Shareholders.

## 10.2 Security Transaction

As stated in section 2.2, the Security Transaction is fair if the value of the security provided is equal to or less than the value of the liabilities settled in the event of default.

In the scenario that the value of the secured assets is greater than or equal to the amounts owed to Jungle Creek, and there is an event of default, then Jungle Creek would only be entitled to recover the principal and interest in relation to 50% of the outstanding liability. Thereafter Jungle Creek would rank alongside other unsecured creditors

In a scenario that the value of secured assets is less than the amounts owed to Jungle Creek, in an event of default, then the secured assets would be sold and the proceeds provided to Jungle Creek. This can be summarised as follows:

| Scenario | | | Consequence | | | Fairness |
|---|---|---|---|---|---|---|
| Secured Assets | > | 50% Liabilities to be settled | Security provided | = | 50% Liabilities Settled remainder to settle unsecured creditors | Fair |
| Secured Assets | = | 50% Liabilities to be settled | Security provided | = | 50% Liabilities Settled | Fair |
| Secured Assets | < | 50% Liabilities to be settled | Security provided | < | 50% Liabilities Settled | Fair |

**Source:** BDO analysis

Therefore on the terms of the Funding Package, specifically if there is an event of default, then Jungle Creek is only entitled to be repaid 50% of the principal and interest outstanding under the Funding Package, and then ranks alongside other unsecured creditors, we consider that the Security Transaction is fair in all scenarios.

# 11. Are the Transactions reasonable?

## 11.1 Alternative Proposal

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

## 11.2 Practical Level of Control

If the Underwriting Proposal is approved then Jungle Creek will hold an interest of approximately 38.29% in Fox. When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution required 75% of shares on issue to be voted in favour to approve a matter. If the Underwriting Proposal is approved (and dependent on the extent to which eligible shareholders take up their entitlement) then Jungle Creek may potentially be able to block special resolutions and general resolutions and potentially also pass general resolutions if Jungle Creek exercised its options and no other options were exercised.

## 11.3 Consequences of not Approving the Transactions

### Repayment of loans

On 30 April 2014 the Company entered into an implementation agreement with Jungle Creek and Mr Streeter. Under the implementation agreement the terms of the loans owed by the Company to Jungle Creek and Mr Streeter were varied so that the Company would repay the Jungle Creek Debt by the earlier of:

- 30 days after the occurrence of any of the following events:
  - it selling its Queensland coal tenements;
  - Shareholders not approving the Jungle Creek Transactions; or
  - the Offer being withdrawn;
- the Company being insolvent; and
- 30 September 2015.

The repayment date of the loans was previously 30 September 2014. Whilst this variation means that term of the loans are extended by a year if the Transactions are approved, the consequences of the

Transactions not being approved are that the loans become repayable in 30 days which is earlier than the original term. The Company does not have the capacity to repay these loans.

### Cash position

The Company had only $37,452 cash available as at 31 March 2014. The Company has not identified any alternative short term funding. Inability to access cash will inhibit Fox from being able to advance its projects.

### Ability to raise additional capital

If the Underwriting Proposal is not approved, and the rights issue is not underwritten by Jungle Creek, the full issue is unlikely to be taken up. The Company may be limited in its ability to secure alternative funding due to the high level of debt in the Company.

### Ongoing support of Jungle Creek and Mr Streeter

The Company has been reliant upon Jungle Creek and Mr Streeter to continue operating and advancing its projects. If the Transactions are not approved, there is no guarantee that this support will be ongoing and the Company may have to seek alternative sources of funding to develop its projects. The withdrawal of this support may also have a detrimental impact on the Company's share price.

### Impact on share price

The Transactions were announced to the market on 5 May 2014. There has been no significant movement in share price since the announcement therefore the direct impact is not substantial, however it is likely that if the Transactions are not approved and the loans become repayable within 30 days the share price would be adversely impacted.

## 11.4 Advantages of Approving the Transactions

We have considered the following advantages when assessing whether the Transactions are reasonable.

| Advantage | Description |
|---|---|
| Reduction in Company's debt position resulting in savings in interest expense | The Company is currently indebted to Jungle Creek for $7,059,159. If the Underwriting Proposal is approved, and there is nil take up of the rights issue by eligible shareholders, then $3,452,923 of this debt will be converted to equity. This will result in a significant reduction of the debt position of the company. This debt currently carries an interest rate of 8%. The conversion of this debt to equity will result in a saving of approximately $280,000 |
| Favourable structure of Offer | The Offer is structured such that any shortfall shares will be issued to eligible shareholders who apply for new shares in addition to their entitlement, before being allotted to Jungle Creek or Mr Streeter. This would have the effect of maximising the cash raised and minimising the increase in Mr Streeter's voting power. |
| Extension of the due date for repayment of the | The due date for the repayment of the debt to Jungle Creek and Mr |

| | |
|---|---|
| debts owed to Jungle Creek and Mr Streeter to 30 September 2015 | Streeter was 30 September 2014, however this has been extended to 30 June 2015 as a result of the Implementation Agreement. This avoids the Company having to secure alternative funding in four months time. Approving the Underwriting Proposal ensures that the clause in the Implementation Agreement requiring repayment of these debts within 30 days is not invoked. |
| The Security Transaction is fair. RG 111 states that an offer is reasonable if it is fair. | As the value recovered in the event that the security is called on never exceeds the debt that is to be extinguished the Security Transaction is fair. |
| Debt funding can be renegoatiated | The provision of security enables the Company to renegotiate the debt funding that it requires and the provision of security for debt funding purposes is not unusual |
| On a minority basis pre and post the Underwriting Proposal is fair | Applying a minority discount to the value of a Fox share results in a range of $0.0232 to $0.0409 with a preferred value of $0.0247. As there is significant overlap of the range and the preferred value of post Underwriting Proposal is higher than the value on a minority basis pre Underwriting Proposal it would be considered fair, however under RG 111 we must consider a controlling interest pre Underwriting Proposal and a minority interest post Underwriting Proposal. |

## 11.5 Disadvantages of Approving the Transactions

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

| Disadvantage | Description |
|---|---|
| The Underwriting Proposal is not fair | As set out in Section 10.1 the Underwriting Proposal is not fair |
| Potential loss of control | Jungle Creek currently has a relevant interest in 93,283,587 shares and a voting power of 16.56% in the Company. The extent to which Jungle Creek's voting power will increase as a result of the Underwriting Proposal is dependant upon the extent to which Shareholders take up their entitlement and apply for shortfall shares. However, assuming a nil take up by eligible shareholders, the voting power of Jungle Creek in the Company would increase to 38.29%. Furthermore, Jungle Creek could further increase its shareholding by exercising the options attaching to the new shares (assuming no other shares are issued). The extent to which the voting power could be increased as a result of the exercise of options is dependent upon whether any of the other existing options in the company were also exercised. Based on the assumption that Jungle Creek exercised its options and no other options were exercised, Jungle Creek could potentially increase its shareholding to 52%. This scenario is unlikely however as the exercise price of the options attaching to the new shares is higher |

| | |
|---|---|
| | than the exercise price of the existing options. |
| Potential dilution of existing Shareholders | Existing shareholders who do not take up their entitlement to subscribe for new shares under the Offer will have their shareholdings in the Company diluted. |
| May impact on the ability of the Company to attract other sources of debt funding | As security is being granted over the Coal assets this may limit the ability of the Company to attract other providers of debt funding. |

## 12. Conclusion

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

We have considered the terms of the Security Transaction as outlined in the body of this report and have concluded that the Security Transaction is fair and reasonable to the Shareholders of Fox.

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Audited financial statements of Fox for the year ended 30 June 2013 and reviewed as at 31 December 2013
- Unaudited management accounts of Fox for the period ended 31 March 2014;
- Independent Valuation Report of Fox's mineral assets dated 6 May 2014 performed by Agricola Mining Consultants Pty Ltd;
- Share registry information;
- Information in the public domain; and
- Discussions with Directors and Management of Fox.

## 13. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of $25,000 (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 Fox in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by Fox, 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 Fox and Jungle Creek 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 Fox and Jungle Creek and their respective associates.

A draft of this report was provided to Fox 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).

## 14. Qualifications

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

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

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

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

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

## 15. Disclaimers and consents

This report has been prepared at the request of Fox for inclusion in the Explanatory Memorandum which will be sent to all Fox Shareholders. Fox engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider a conditional, fully underwritten non-renounceable entitlement offer on the basis of one new share for every two shares held at an issue price of $0.015 per new share, with one free attaching $0.04 two year option for every new share subscribed for ('**the Offer**'). The Offer will be underwritten by Jungle Creek Gold Mines Pty Ltd ('**Jungle Creek**'), which is an entity controlled by the Company's Chairman, Mr Terry Streeter('**the Underwriting Proposal**'). The Company is also seeking shareholder approval to grant security over its Queensland coal tenements in relation to debts owed by the Company to Jungle Creek ('**Security Transaction**').

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

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

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Fox. 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 Transactions, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Fox, or any other party.

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

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**

Director

**Adam Myers**

Director

# Appendix 1 – Glossary of Terms

| Reference | Definition |
|---|---|
| The Act | The Corporations Act |
| APES 225 | Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' |
| ASIC | Australian Securities and Investments Commission |
| ASX | Australian Securities Exchange |
| BDO | BDO Corporate Finance (WA) Pty Ltd |
| The Company | Fox Resources Limited |
| DCF | Discounted Future Cash Flows |
| EBIT | Earnings before interest and tax |
| EBITDA | Earnings before interest, tax, depreciation and amortisation |
| FME | Future Maintainable Earnings |
| JORC Code | The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves |
| NAV | Net Asset Value |
| Our Report | This Independent Expert's Report prepared by BDO |
| RG 74 | Acquisitions approved by Members (December 2011) |
| RG 111 | Content of expert reports (March 2011) |
| RG 112 | Independence of experts (March 2011) |
| The Offer | A fully underwritten non-renounceable entitlement offer on the basis of one new share for every two shares held at an issue price of $0.015 per new share, with one free attaching $0.04 two year option for every new share subscribed for |
| The Underwriting Proposal | The proposal that the Offer will be underwritten by Jungle Creek, an entity controlled by the Company's Chairman, Mr Terry Streeter |
| The Security Transaction | The granting of security over the Company's Queensland coal tenements in relation to debts owed by the Company to Jungle Creek |

| | |
|---|---|
| Shareholders | Shareholders of Fox not associated with Jungle Creek |
| 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. |
| Valuer | Agricola Mining Consultants Pty Ltd |
| VWAP | Volume Weighted Average Price |

# Appendix 2 – Valuation Methodologies

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

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

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

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

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

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

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a 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.

# Appendix 3 – Industry Analysis

## 1.1 Coal

Coal deposits are found below the earth's surface with the quality of a coal deposit determined by the length of time in formation, commonly known as its 'organic maturity', temperature and pressure. The rank of coal refers to the physical and chemical properties that coals of different maturities possess. Lower rank coals such as lignite generally possess a much lower organic maturity, have a soft texture, a dull earthly appearance and are characterized by high moisture levels and low energy (carbon) content. Higher ranked coals such as Anthracite, which is the highest ranking coal, are harder, stronger, contain less moisture, and produce more energy.

To date coal has been mined by two broad methods, opencast mining and underground mining, the choice of extraction method determined by the geology of the coal deposit.

The two major coal types are coking coal and thermal coal. Coking coal is used for the production of metallurgical coke, which is used as a reductant in the production of both iron and steel. It is primarily used because of its high carbon content and coking characteristics, however it is also used for the smelting and casting of base metals. Of the different types of coking coal, hard coal is the most valuable as it produces the highest quality coke. Semi soft coking coal and Pulverised Coal Injection are used more in blending with hard coking coal to be used as an auxiliary fuel source to increase the effectiveness of blast furnaces.

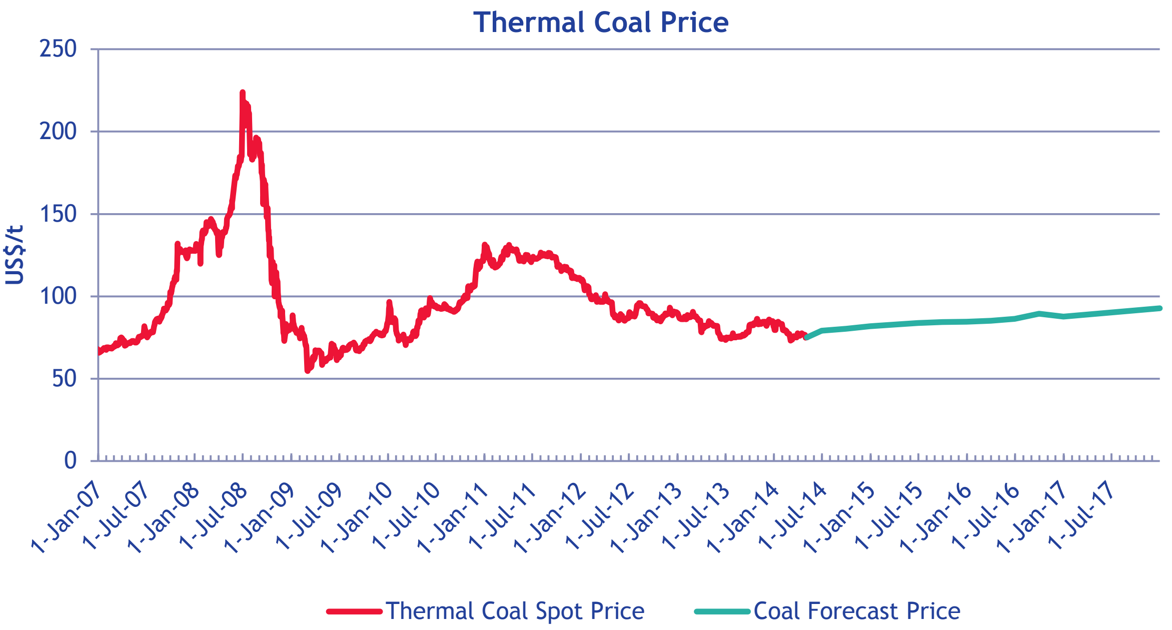
Thermal coal, also referred to as steaming coal generally contains less carbon than coking coal therefore it cannot be used in the production of steel. It is therefore primarily used as an energy source for coal fired power plants. The major producers of thermal coal are China, USA and India, with the largest importers being China, Japan and South Korea.

### Prices

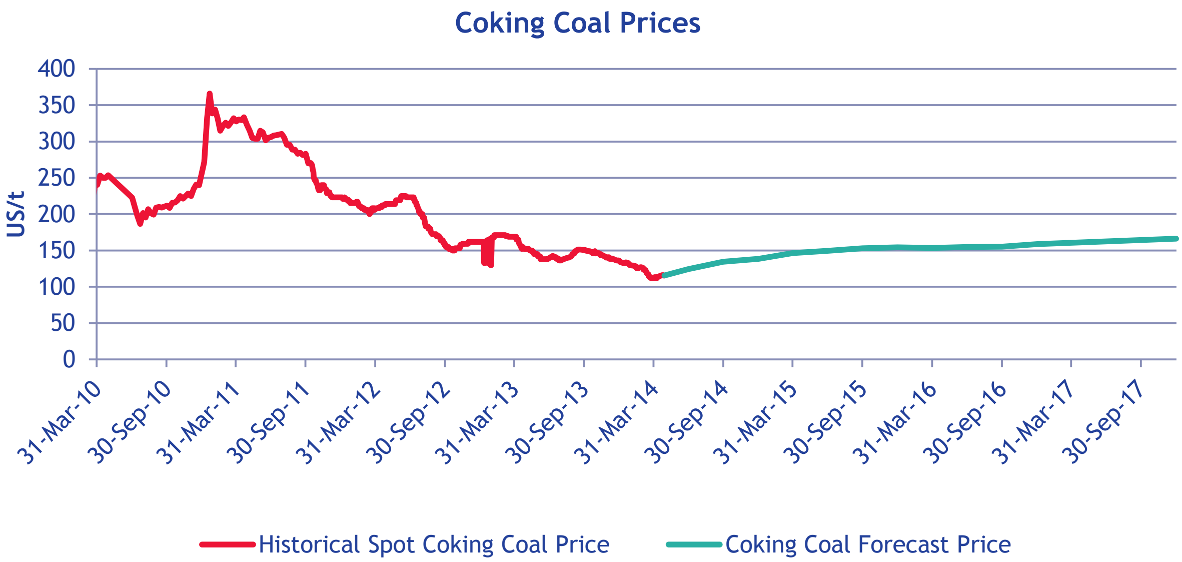
Coal is a global commodity and, as such, prices are determined by global supply and demand factors. With both the international community and the world's dependency on energy growing, fuel products are the single most important input affecting global economic growth.

The continued growth of emerging nations such as India and China are key drivers for the coal demand. In particular, the demand for electricity in these emerging nations is considered to be a key determinant for the current performance of the industry. Worldwide, electricity generators account for over 41.0% of coal consumption. The demand for coking coal is inextricably linked to the demand for coke as an input into iron ore production via blast furnaces. The demand for coking coal is implicitly linked to changes in blast furnace technology, whereby improvements may reduce the requirement for coking coal and thus reduce demand.

During 2007-2008, elevated demand for coal as the cheapest source of power caused prices to increase by around 200%. This diverged from historical trends where coal has generally traded at a lower, more stable price than more volatile commodities such as oil and gas. Speculation about sustainability of prices in light of the economic slowdown and a slackening steel market caused the correction from the highs experienced, however in comparison to an average between US$20/t to US$40/t throughout the 1990's, the current price is still well above historical levels.




**Source:** Bloomberg & Consensus Economics




Source: Bloomberg & Consensus

Coal prices have retracted substantially since the commodity boom during 2007 and 2008. This spike was not only fuelled by the surge in demand from developing economies such as China but was also exacerbated by supply side factors. Disruptions to global supply occurred as a result of extremely heavy snowfall in China and long term power shortages in South Africa.

Prices are expected to remain fairly stable at current levels as is shown by the consensus forecast in the chart above. China and India's coal demand growth is forecast to be slower in this decade than it has been in the last decade driven by efficiency improvements and a movement towards less coal intensive economic activities.

## Outlook

Growing imports are expected to drive further expansion and integration of global coal markets. The international trade of thermal coal is expected to be at the forefront of this movement and should continue to support the demand for electricity. The coal industry is forecast to increase at an annualised rate of 6.4% over the next five years. In 2014, revenue is forecast to increase by 7.8% due to rising output.

Demand for coal will be constrained to the extent that countries, both developed and emerging, shift towards alternative sources of energy. For example countries such as Japan and other European nations are focused on reducing greenhouse gas emissions. This view is also supported by forecast pressures on downstream demand for coal as there is a push towards energy sources like natural gas. The fastest growing alternative sources of fuels are forecast to be renewable, nuclear and hydro.

The coal industry is considered to be a mature industry. This is reflected by higher levels of consolidation evident in the industry. There is an expected trend towards achieving economies of scale and extracting synergies via a merger and acquisition strategy.

Source: IBIS World & BDO Analysis

### 1.2 Iron Ore

Iron ores are rocks from which metallic iron can be economically extracted. The principal iron ores are hematite ($Fe_2O_3$) and magnetite ($Fe_3O_4$).

Hematite is a pure iron oxide mineral, with pure hematite mineral containing 69.9 % iron. Hematite ores dominate the world production of iron ores with approximately 96% of Australia's iron ore exports being high grade hematite. High grade hematite ore involves a relatively simple crushing and screening process before being exported. Australia's hematite averages from 56% to 62% iron.

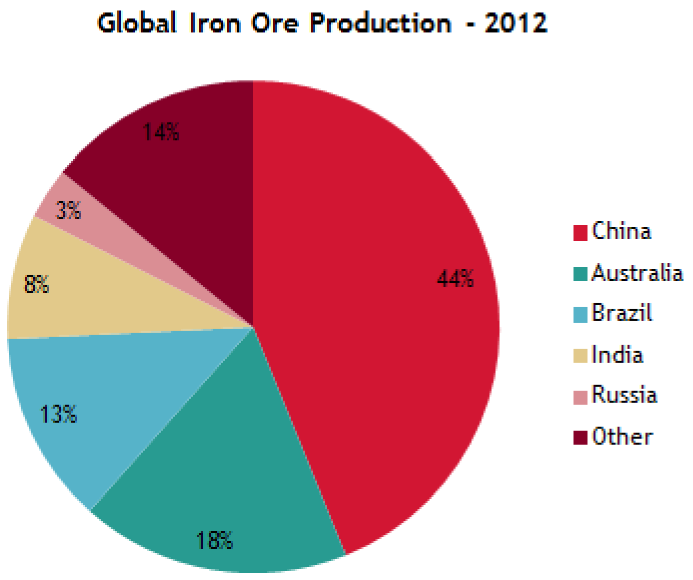
Magnetite is an iron oxide mineral containing 72.4% iron. While the iron ore content is higher than hematite, the presences of impurities results in a lower ore grade, making it more costly to produce the concentrates.

Iron is the world's most used metal with approximately 98% of world iron ore production being used to make steel. It is primarily used in structural engineering, automobiles and other general industrial applications. Commercial development of iron ore deposits are largely constrained by the position of the iron ore relative to its market and the cost of establishing proper transportation infrastructure such as ports and railways.

There are three main categories of iron ore exports:

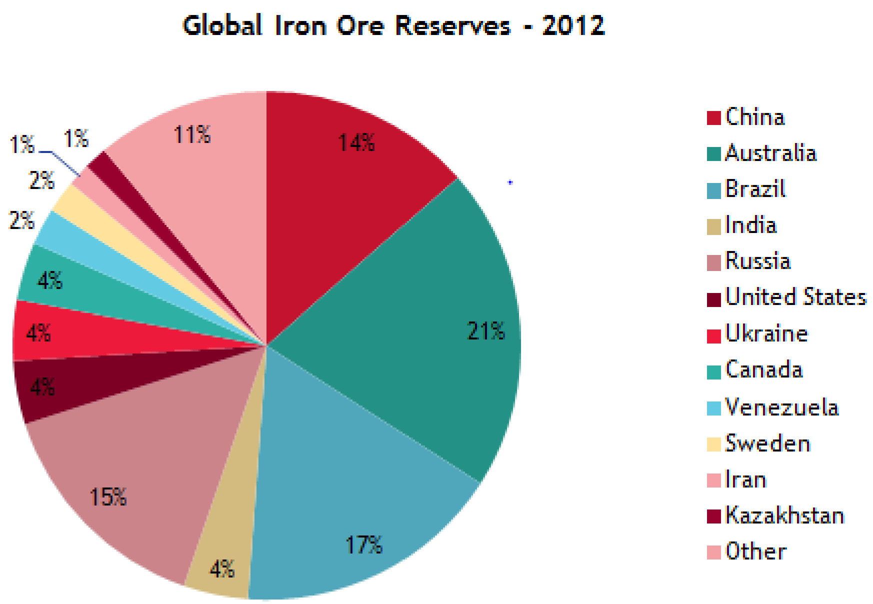
- **Fines**: fines are the smallest size category and typically have a granular size less than 9.50mm. They are the most heavily traded category of iron ore;
- **Lump Ore**: lump ore consists of golf ball sized pieces, and generally has a higher iron content than fines; and
- **Pellets**: particle sizes range from 9.50mm to 16.00mm. Pellets are made by agglomeration of finely ground and concentrated ore.

In 2012, an estimated 3 billion metric tonnes of iron ore was produced. The chart below shows the countries in which the majority of iron ore was produced in 2012:




Source: US Geological Survey

The chart below shows the location of the world's iron ore reserves, the majority of which are located in Australia:

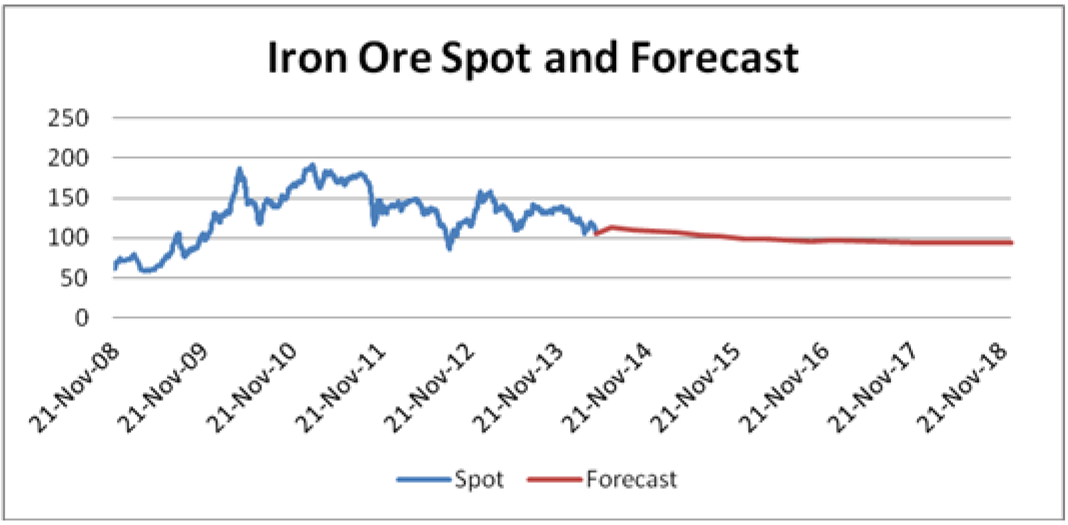



Source: US Geological Survey

Recent trends show a majority of the demand for iron ore being sourced from China, which has led some analysts to believe that Chinese steel demand has peaked after reaching and exceeding levels experienced by some of the largest OECD countries. There is however, still considerable scope for an expansion in steel consumption in China's interior and more distant provinces albeit at a slower rate compared to the larger

Chinese cities such as Beijing and Tianjin. The central government is focusing its attention on developing these outer parts of China, and with the expansion of business to these areas to take advantage of low cost labour, it is inevitable that Chinese demand for iron ore will continue to expand. Other countries such as Brazil, India and Indonesia are likely to follow on China's development path, albeit on a smaller scale.

Historical iron ore prices and forecasts to 2018 are illustrated in the chart below.




**Source:** Bloomberg, BDO Analysis and Consensus Economics

## Historical prices

The sharp increase in iron ore price movements over the period from March 2008 to March 2009 was marked by a surge in Chinese, Japanese and Korean steel mill demand. During that period, annual iron ore price contracts increased by 65% to 97% compared to the previous year. Iron ore prices subsequently fell during the global financial crisis with a reduction in world market sentiment and hence demand for iron ore. April 2010 saw an increase in price as miners moved to quarterly pricing and global economies began to recover.

Additionally, iron ore experienced a sharp rise in price in mid-2010 when Indian state Karnataka banned all iron ore exports. India is currently the world's third largest iron ore supplier with approximately a quarter of its 100+ million tonnes of exports originating from Karnataka. The iron ore price increased in mid 2011 on the back of anticipated ore shortages which prompted restocking by the world's larger steel mills. The above observed decline in the iron ore price in late 2011 can be attributable to the slow in Chinese ore demand. Chinese imports decreased at the end 2011 which is reflective of falling steel prices over the same period.

In 2013, iron ore prices fluctuated between US$110.4 and US$158.9 in May 2013 and February 2013 respectively. After the decrease in prices in May, iron ore prices recovered in July 2013.The increase in the price of iron ore was driven by heavy steel re-stocking in China following improvements in the Chinese property sector and miscalculations from Chinese steel makers. Steel makers often run down their stockpiles in the hope that the price of steel will fall and they can buy at a cheaper rate, however when the price did not fall the steel makers were caught out and had to purchase significant amounts of steel. This increased demand caused the price to rise during July 2013. Adding to this increase in demand was a decrease in supply as bad weather in Brazil slowed production.

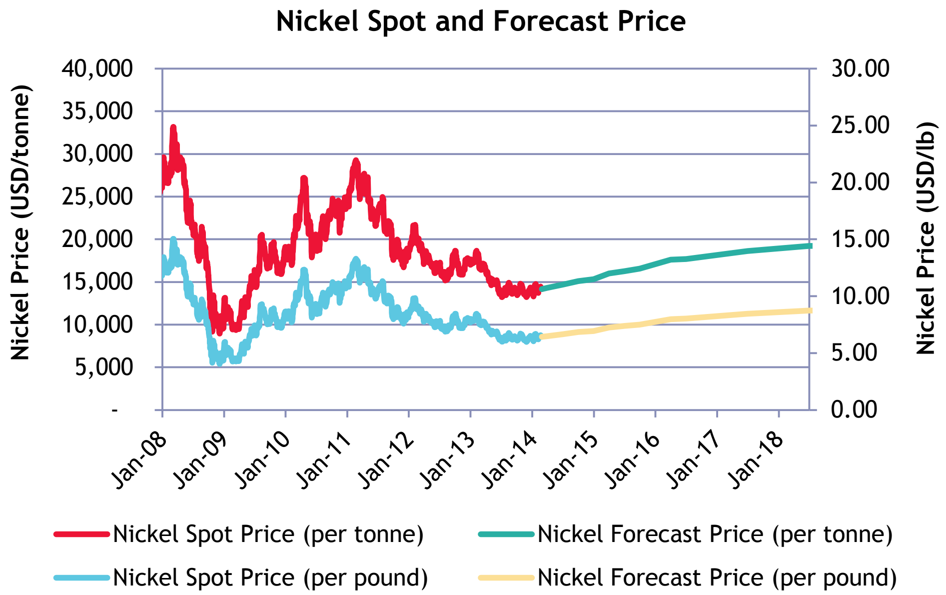
## Forecast prices

The iron ore price closed at US$105.4 on 30 April 2014. Iron ore prices are forecast to trend downwards over the coming years and are expected to fall below US$100 per metric tonne in 2016. Despite the fact Indian iron ore production is expected to decrease due to restrictions on mining, the largest producers have all proceeded with a number of expansions. While Chinese steel smelting companies will continue to require high iron ore volumes to meet demand, higher production and output from Australian mines along with increases in output from Brazil and West Africa are expected to lead to oversupply and weakened prices.

### 1.3 Nickel

The success of the nickel mining industry in Australia is dependent upon the prices of nickel, the exchange rate between United States Dollar ('**US$**') and Australian Dollar, nickel output and general demand and supply for the metal.  Nickel is primarily used in the manufacturing of stainless steel products.  Stainless steel accounts for nearly two-thirds of the consumption of nickel worldwide. There are expected to be two main drivers for the demand of stainless steel and hence nickel through to 2018-19. The first is government spending on infrastructure such as road and rail networks, which is heavily dependent on stainless steel during construction. The second is consumer durable spending on steel-intensive products such as white goods and TVs, underpinned by growing wealth and increasing urbanisation.

The global demand for nickel is currently being driven by the economic conditions in China, which currently accounts for about 41% of total consumption. Demand from China is expected to rise over the next five years alongside other developing countries, such as India. The figure below describes the fluctuations in nickel spot prices from 1 January 2008 through until 1 February 2014. It also shows Consensus forecasts for nickel prices through to 2018.



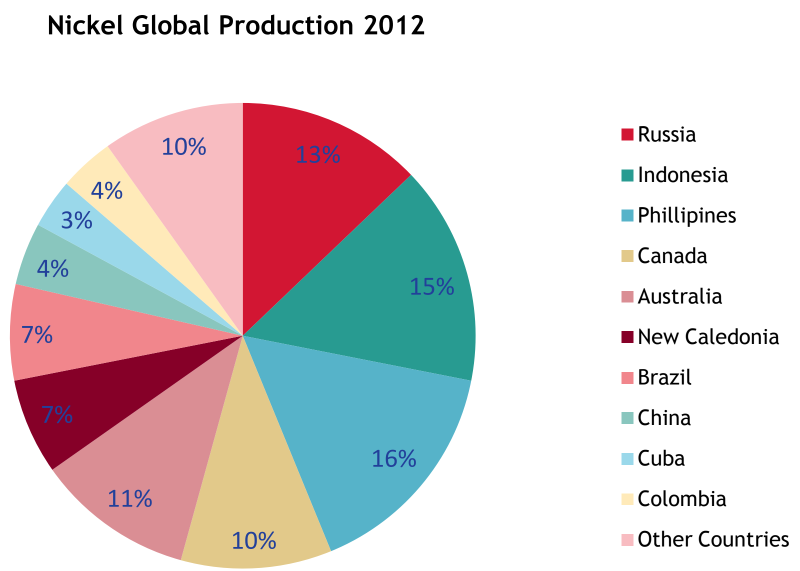

Source: Bloomberg & Consensus Economics

The figure above illustrates that nickel prices did not respond well during the economic recession that occurred as a result of the global financial crisis. Since then, there has been a general improvement in the health of the economy, which has seen the demand for nickel as well as prices increase. The continued recovery and firming global economic activity is therefore expected to set the scene for higher nickel prices through to 2018-19.

Although global output of nickel is expected to be sufficient to meet demand, more production will come from higher cost lateritic ore, creating a floor under nickel prices. In addition, Australian producers will benefit from the expected continued slide of the local currency against the United States Dollar.

Nickel can be found in two different geological states, nickel sulphide and nickel laterite. The latter is associated with more complex mining processes and is therefore generally mined at newer mining sites. In Australia, approximately 80% of Nickel is mined from its nickel sulphide geological state.

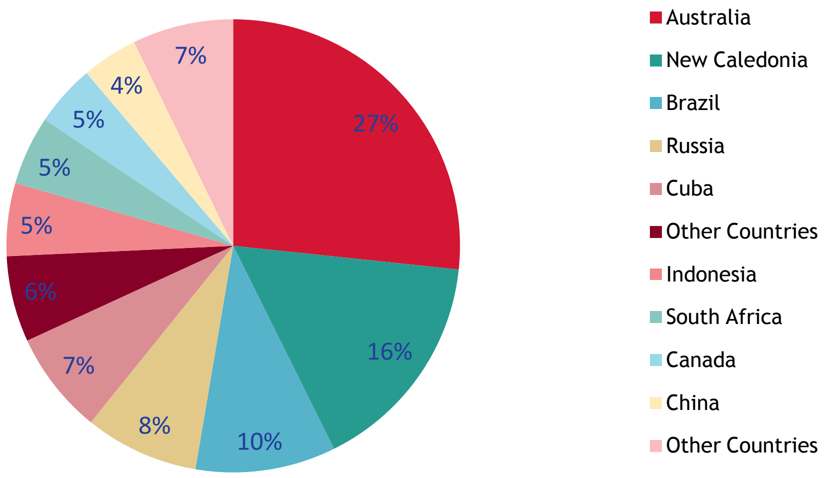
Total world production for nickel increased from 2011 to 2012. According to the US Geological Survey, nickel production in Australia increased from 215,000 to 230,000 metric tonnes over this period, making it the fourth largest producer in the world. This is reflected in the figure below, which provides a breakdown of total world production by country in 2012.




Source: US Geological Survey

The potential output and rate of production of nickel are key factors in deciding whether or not Australian nickel mining companies will be able to compete globally. The figure below indicates the nickel resource potential in Australia. Australia has the largest nickel reserve holding approximately 27% of the world's total nickel reserves. Production of nickel in Australia is expected to increase by 1.2% in 2013-14 after higher cost operations were cut back in line with declining nickel prices.

## Global Nickel Reserves 2012




Source: US Geological Survey

Worldwide, the output of nickel is expected to grow over the five years through 2018-19. China, the major nickel consumer, is also expected to account for an increasing proportion of processed nickel output. Nickel ore exports from Australia are forecast to increase at an annualised 2.0% to $1.2 billion in 2018-19 to account for 30.1% of industry revenue for the year.

Australia's nickel output is also poised to grow in later years. This increased output is likely to come from BHP Billiton, Glencore Xstrata and the Ravensthorpe mine, which has been restarted by Canada's First Quantum Minerals Limited. Similarly, output from Norilsk Nickel's restarted mines will grow during the next five years. Overall, by 2018-19, Australia's production of nickel is expected to be about 255,700 tonnes per year.

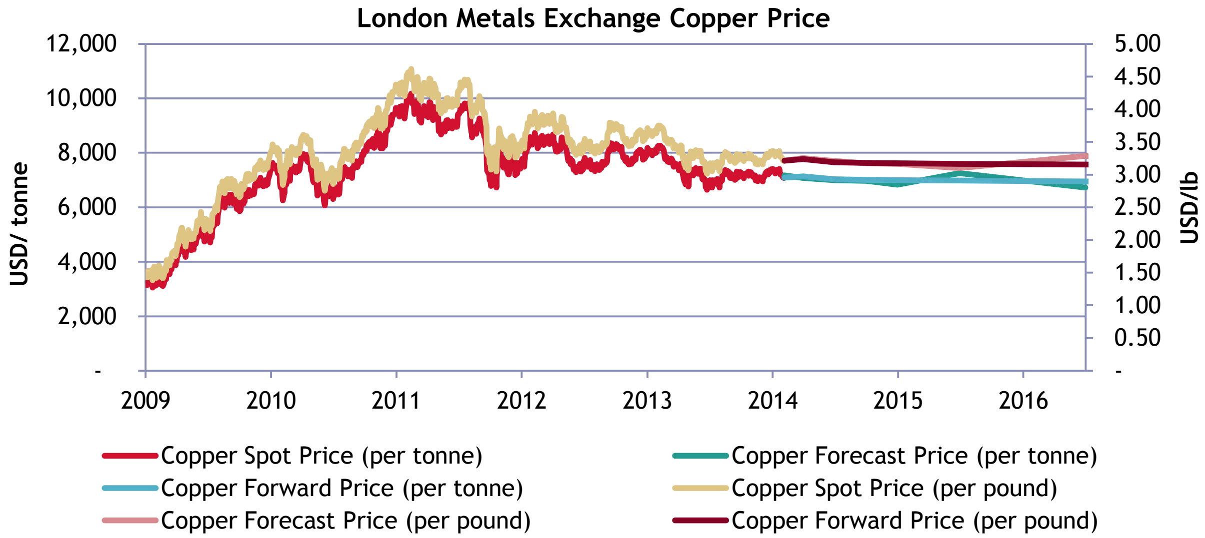
## 1.4 Copper

Copper is a soft malleable, ductile metal used primarily for its excellent electrical and thermal conductive properties and its resistance to corrosion. As well as electrical and electronic applications, copper is utilised extensively as an alloy. Copper is produced from an oxide or sulphide ore from which it is converted to copper metal.

The majority of copper ore bodies can be classified as either porphyries (where copper occurs in igneous rock), strata bound ore bodies (sedimentary rock), and volcanic hosted massive sulphide deposits (volcanic rock along with other base metal sulphides). In these deposits copper is mined in very low concentrations and consequently is a volume intensive process. For this reason open pit mining is the preferred method of extraction, however underground mining and leach mining are also used in limited circumstances.

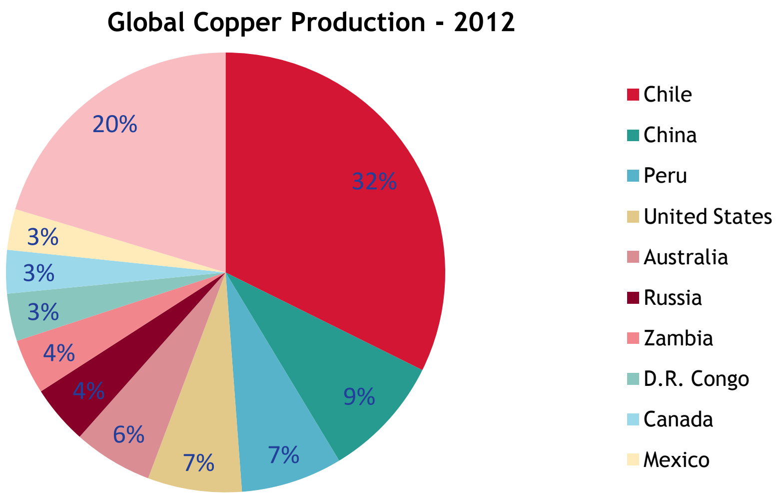
Copper is a global commodity and, as such, prices are determined by global supply and demand factors. Due to this, copper prices have historically reflected global economic cycles and experienced major fluctuations reflecting equity market movements. At the beginning of 2008, supply concerns, falling inventories and increased demand from emerging economies provoked a significant and accelerated rise in the copper price. As with most commodities, prices fell during the global financial crisis. Prices have since overtaken the increases which occurred in 2008, occurring during the latter half of 2010 and throughout the beginning of 2011, reaching a peak of just over US$10,000/Mt in February 2011. Since that peak, prices stabilised at around $8,000 per tonne in 2012 before declining to around $7,000 per tonne in 2013.

The average copper price for December 2013 was US$7,203/Mt, up from the November 2013 average of US$7,066/Mt. Copper prices during 2013 ranged from a low of US$6,638/Mt on 24 June 2013 to a high of US$8,243/Mt on 5 February 2013. Looking forward, the recovering global economy is expected to support the copper price through growth in world usage resulting in an increase in demand. The consensus view is for copper prices to stay at approximately $7,000/Mt for the short to medium term.




**Source:** Bloomberg and BDO Analysis

Most of the world's copper comes from South and Central America, particularly in Chile and Peru. In 2012, Chile and Peru accounted for 40% of the world's copper production. The graph below shows the split between the different country's productions for the year 2012.




**Source:** U.S. Geological Survey

According to the International Copper Study Group, in the first ten months of 2013, world apparent usage grew by 3.8% compared with that in the same period of 2012. Chinese apparent demand in this period increased 8.2% over the previous period. Excluding China, year-on-year world usage increased by 0.6% with growth in the United States, the Gulf Countries, Brazil and Russia offsetting declines in Japan, South Korea and the European Union.

China's apparent usage growth was based on an increase in refined production which more than offset a decline in net imports of copper. Anecdotal evidence suggests that the decline in import levels in the first half of 2013 was accompanied by a decrease in inventories held in bonded warehouses.

In the first ten months of 2013, world mine production increased by 8.4% compared with production in the same period of 2012. Concentrate production increased by 10% while solvent extraction-electrowinning (SX-EW) was up by 2.7%. On a regional basis, production rose by 27% in Africa, 7% in the Americas, 10% in Asia, 2% in Europe, and 5% in Oceania.

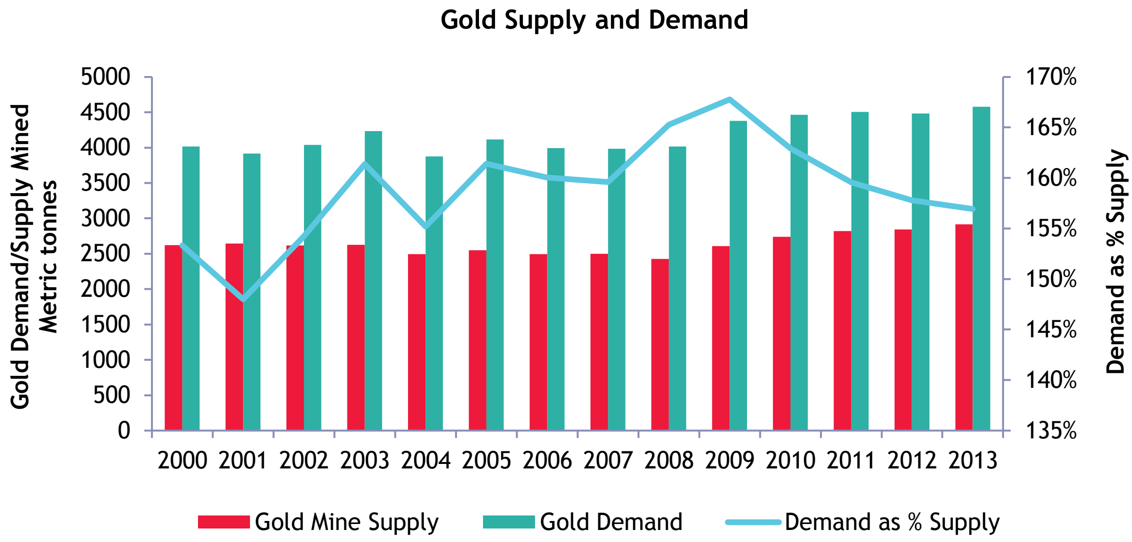
World refined production increased by 6.2% in the first ten months of 2013 compared with refined production in the same period of 2012. Primary production was up by 5% and secondary production (from scrap) increased by 11.5%. The main contributors to growth were China, Brazil, the DRC and Zambia.

**Source:** International Copper Study Group

## 1.5 Gold

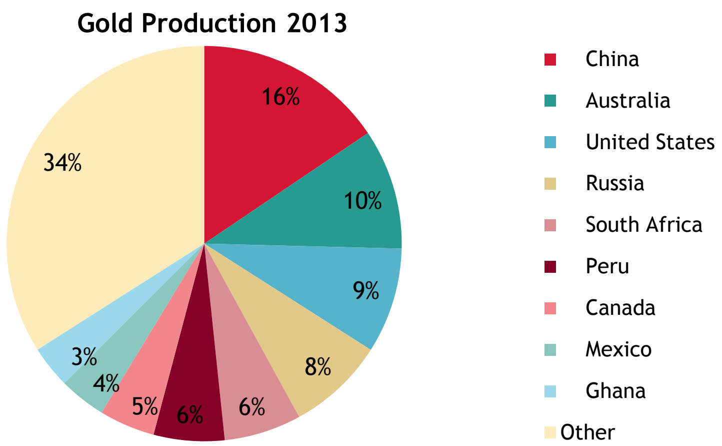
Gold is both a commodity and an international store of monetary value. Once mined, gold continues to exist indefinitely, often melted down and recycled to produce alternative or replacement products. This characteristic means that gold demand is supported by both mine production and gold recycling.

As illustrated in the chart below, gold mine production was approximately 2,917 metric tonnes in 2013 and gold consumption was 4,578 metric tonnes. Demand for gold has consistently exceeded supply over the last 10 years, and the escalated level of economic and financial uncertainly during recent years has caused investors to move capital from risky assets to gold assets, which are perceived to be a good store of monetary value. As a result, total gold demand increased by approximately 14% between 2008 and 2013, with demand as a percentage of supply remaining at over 150% for the same period.




**Source**: Bloomberg and BDO Analysis

Until the late 1980's, South Africa produced approximately half of the total gold produced. More recently however, gold production has become geographically segmented, as shown in the chart below, with production dominated by China, Australia and the United States.

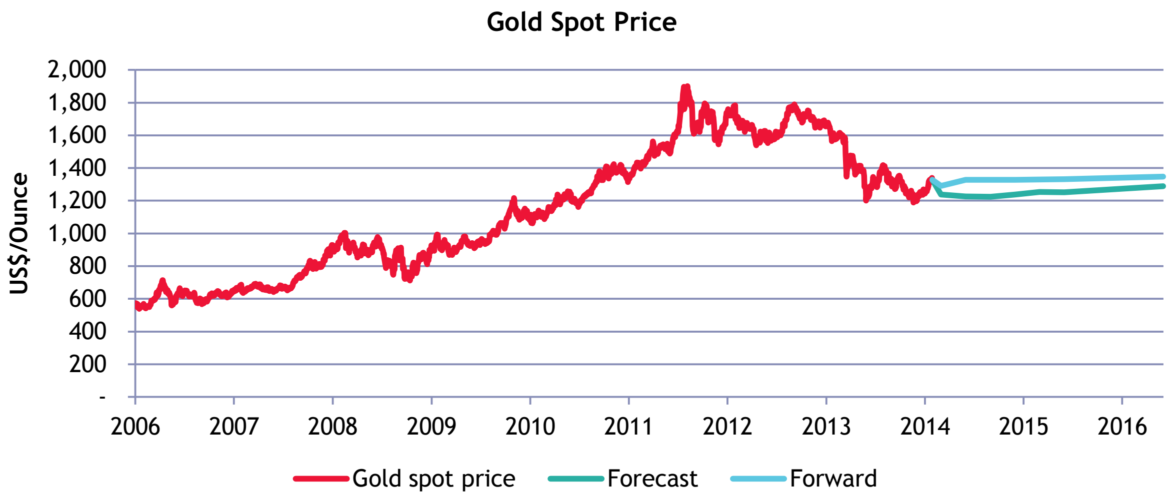



**Source:** Bloomberg and BDO Analysis

## Gold prices

The price of gold fluctuates on a daily basis depending on global demand and supply factors. The softening of gold prices over the last two years is reflective of the recovery of global economic conditions. The value of gold peaked at US$1,900 per ounce on 5 September 2011. This peak was largely caused by the debt market crisis in Europe, but it was also driven by the Standard and Poor's downgrade of the US credit rating. This sent global stock markets tumbling and a flood of investors towards safer havens such as gold. Prices contracted in December 2011 reaching a low of US$1,545 per ounce followed by a recovery in 2012, reaching US$1,790 per ounce on 4 October 2012 before declining to US$1,675 per ounce at 31 December 2012. Gold prices have declined in 2013 and most recently was US$1,329 per ounce on 27 February 2014.

According to Bloomberg forecasts and consensus economics, gold prices are forecast to stabilise in the coming years, with the long term forecast around US$1,318.




**Source:** Bloomberg, Consensus Economics and BDO Analysis

Malcolm Castle
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Email: mcastle@castleconsulting.com.au
ABN: 84 274 218 871

6 May 2014

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

Dear Sirs,

**Re: INDEPENDENT VALUATION OF THE MINERAL ASSETS in WESTERN AUSTRALIA and QUEENSLAND HELD BY FOX RESOURCES LIMITED**

We have been commissioned by the Directors of BDO Corporate Finance (WA) Pty Ltd ("BDO") to provide a Mineral Asset Valuation Report ("Report") of the Mineral Assets in Western Australia and Queensland held by Fox Resources Limited (the "Company"). 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 Western Australia and Queensland is based on information made available by the Company and verified by us by reference to the Department of Mines and Petroleum, Western Australia and the Department of Mines, Queensland. The Report has been prepared on the assumption that the tenements are lawfully accessible for evaluation.

***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.

Under the definition provided by the VALMIN Code, the property is classified as an 'advanced exploration area' with identified mineral resources, which is inherently speculative in nature. The property is considered to be sufficiently prospective, subject to varying degrees of risk, to warrant further exploration and development of its 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. I have 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 BDO and the Company, along with a written request to identify any material errors or omissions prior to lodgement.

In compiling this report, I did not carry out a site visit to any of the Company's Project areas. Based on my professional knowledge, experience, previous visits to the general area and the availability of extensive databases and technical reports made available by various Government Agencies, I consider 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. I have 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 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.

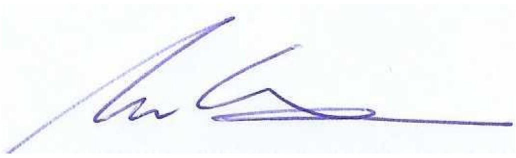
***Competent Persons Statement***

The information in this report that relates to Exploration Results and Mineral Resources of the Company is based on information compiled by the Company and reviewed by Malcolm Castle, a competent person who is a member of the Australasian Institute of Mining and Metallurgy. Malcolm Castle is a consultant geologist employed by Agricola Mining Consultants Pty Ltd. 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***

I am 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.

Yours faithfully



***Malcolm Castle***

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

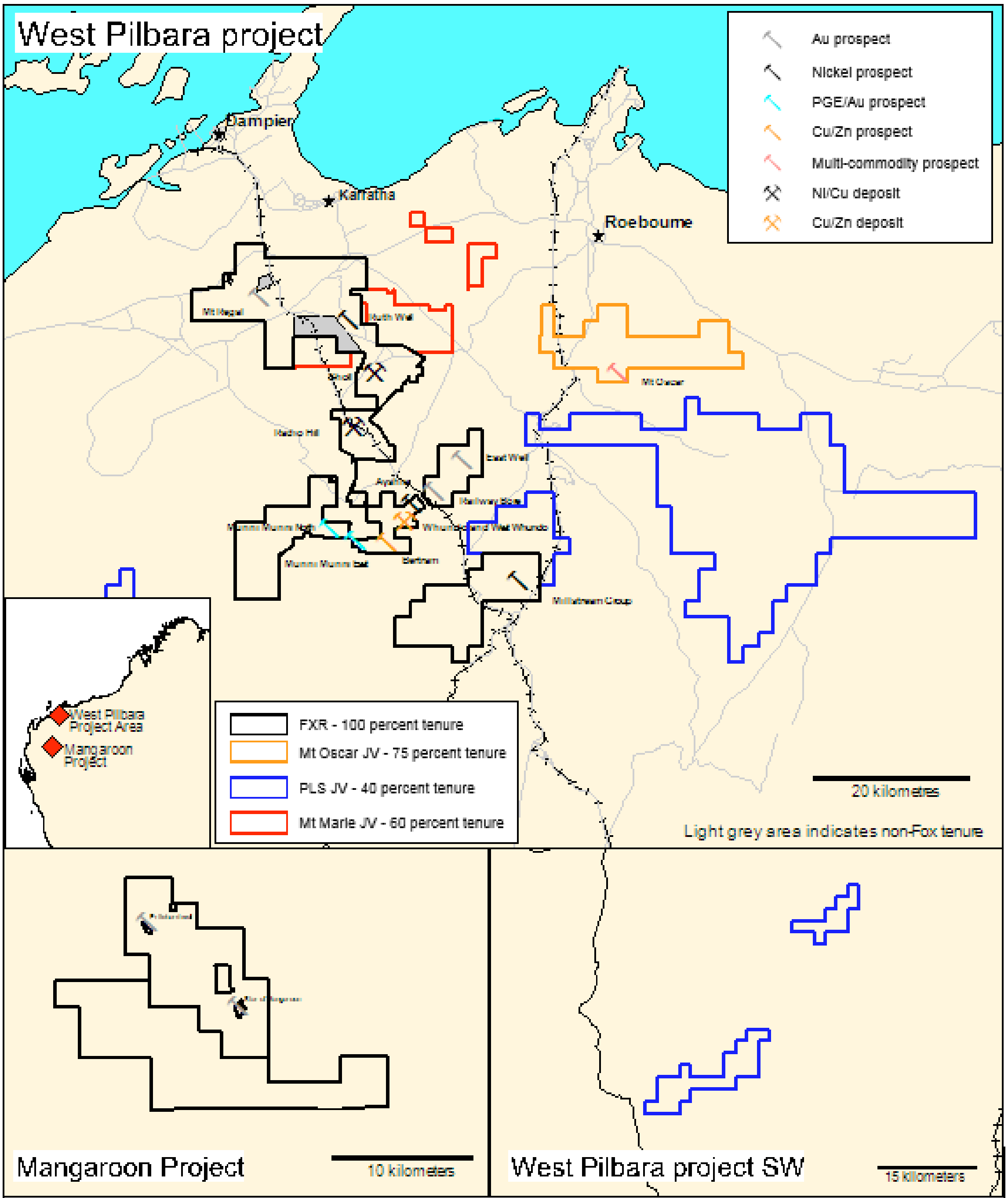
## TENEMENT SCHEDULE

**Western Australian Tenements**

| Project | State | Registered Owner | Tenement Reference | Interest at end of Quarter | Area |
|---|---|---|---|---|---|
| Radio Hill | W A. | FOX RESOURCES | E47/1202 | 100% | 55BL |
| Radio Hill | W A. | FOX RESOURCES | E47/1223 | 100% | 12BL |
| Radio Hill | W A. | FOX RESOURCES | E47/2328 | 100% | 35BL |
| Radio Hill | W A. | FOX RADIO HILL | ELA47/121 4 | 100% | 3BL |
| Radio Hill | W A. | FOX RADIO HILL | E47/1216 | 100% | 6BL |
| Radio Hill | W A. | FOX RADIO HILL | E47/1758 | 100% | 29BL |
| Radio Hill | W A. | FOX RADIO HILL | L47/93 | 100% | 7Ha |
| Radio Hill | W A. | FOX RADIO HILL | L47/163 | 100% | 5Ha |
| Radio Hill | W A. | FOX RADIO HILL | R47/5 | 100% | 944Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/7 | 100% | 935Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/9 | 100% | 5Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/161 | 100% | 991Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/207 | 100% | 581Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/252 | 100% | 429Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/253 | 100% | 296Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/254 | 100% | 101Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/275 | 100% | 232Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/337 | 100% | 183Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/344 | 100% | 982Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/345 | 100% | 981Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/346 | 100% | 996Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/347 | 100% | 966Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/348 | 100% | 996Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/349 | 100% | 980Ha |
| Radio Hill | W A. | FOX RADIO HILL | M47/350 | 100% | 890Ha |
| Mt Oscar JV [#1] | W A. | FOX RADIO HILL | E47/1217-I | 75% | 37BL |
| Pilbara Minerals JV[#2] | W A. | Pilbara Minerals | E47/1093 | 40% | 25BL |
| Pilbara Minerals JV[#2] | W A. | Pilbara Minerals | E47/1094 | 40% | 25BL |
| Pilbara Minerals JV[#2] | W A. | Pilbara Minerals | E47/1097 | 40% | 35BL |
| Pilbara Minerals JV[#2] | W A. | Pilbara Minerals | E47/1813 | 40% | 32BL |
| Pilbara Minerals JV[#2] | W A. | Pilbara Minerals | E47/1814 | 40% | 30BL |
| Pilbara Minerals JV[#2] | W A. | Pilbara Minerals | E47/1815 | 40% | 30BL |
| Pilbara Minerals JV[#2] | W A. | Pilbara Minerals | E47/2261 | 40% | 13BL |
| Mt Marie JV[#3] | W A. | FOX RADIO HILL | E47/1806 | 60% | 4BL |

| | | | | | |
|---|---|---|---|---|---|
| Mt Marie JV[#3] | W A. | FOX RADIO HILL | E47/1807-I | 60% | 21BL |
| Mt Marie JV[#3] | W A. | FOX RADIO HILL | E47/1878-I | 60% | 7BL |
| Star of Mangaroon | W A. | Gascoyne Mines | E09/1081 | 100% | 24BL |
| Star of Mangaroon | W A. | Gascoyne Mines | E09/1813 | 100% | 32BL |

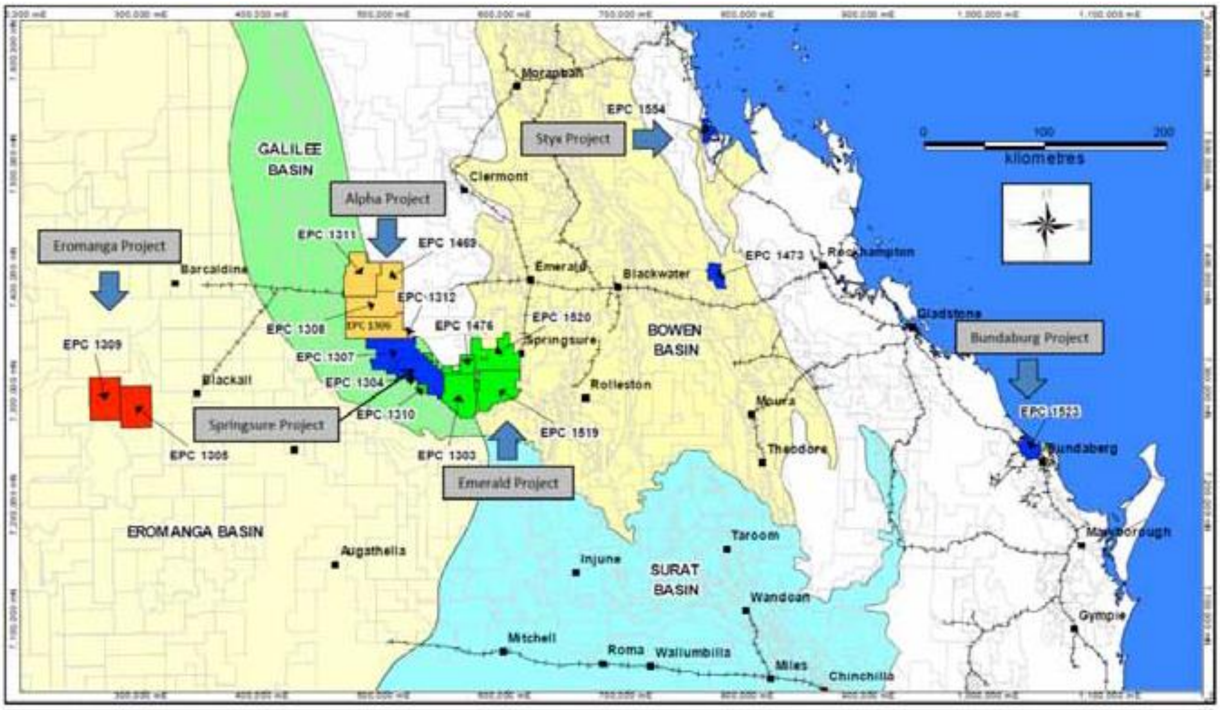
[#1] Mt Oscar Joint Venture Fox Resources 75% diluting to 40%,
[#2] Pilbara Minerals Joint Venture Fox Resources earning up to 80%,
[#3] Mt Marie Joint Venture Fox Resources 60%, Artemis Resources 40% contributing




# FOX RESOURCES PROJECT LOCATION

**Queensland Tenements**

| Project | State | Registered Owner | Tenement Reference | Interest at end of Quarter | Area |
|---|---|---|---|---|---|
| Emerald | QLD | FOX RESOURCES | EPC1303 | 100% | 237BL |
| Springsure | QLD | FOX RESOURCES | EPC1304 | 100% | 221 BL |
| Eromanga | QLD | FOX RESOURCES | EPC1305 | 100% | 300 BL |
| Springsure | QLD | FOX RESOURCES | EPC1307 | 100% | 294 BL |
| Alpha | QLD | FOX RESOURCES | EPC1308 | 100% | 296 BL |
| Eromanga | QLD | FOX RESOURCES | EPC1309 | 100% | 300 BL |
| Springsure | QLD | FOX RESOURCES | EPC1310 | 100% | 240 BL |
| Alpha | QLD | FOX RESOURCES | EPC1311 | 100% | 16BL |
| Alpha | QLD | FOX RESOURCES | EPC1312 | 100% | 300BL |
| Alpha | QLD | FOX RESOURCES | EPC1469 | 100% | 6BL |
| Barcomba | QLD | FOX RESOURCES | EPCA1473 | 100% | 136 BL |
| Emerald | QLD | FOX RESOURCES | EPC1476 | 100% | 84 BL |
| Emerald | QLD | FOX RESOURCES | EPC1519 | 100% | 320 BL |
| Emerald | QLD | FOX RESOURCES | EPC1520 | 100% | 238 BL |
| Bundaberg | QLD | FOX RESOURCES | EPC1523 | 100% | 81 BL |
| Styx | QLD | FOX RESOURCES | EPC1554 | 100% | 49 BL |




Queensland Coal Projects

The status of the tenements has been verified based on a recent independent inquiry of the Department of Mines and Petroleum, WA, database by me, pursuant to paragraph 67 of the Valmin Code. 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

RADIO HILL NICKEL & COPPER PROJECT (FXR 100%)

In August 2011, Fox Resources announced a revised scoping study detailing mining and processing methods for the Radio Hill and Sholl mineral deposits. Economic and geological remodeling of Radio Hill using lower cut off grades commenced during 2012. The aim of this remodeling was to assess the economic viability of the deposits at lower grades as well as defining potential drill targets within the Radio Hill ore system. Due to the depressed nickel price during much of the year further work on the Heap Leach project was ceased while exploration was refocused on higher grade mineralization.

SHOLL (FXR 100%)

The Sholl B2 deposit has been subjected to geological modeling at lower cut-off grades down to 0.3% Ni equivalent with the aim of testing the sensitivity of the project to lower cut-off grades and higher tonnages. As with the lower grade system at Radio Hill, this work ceased during the year due to the low nickel price and a re-focus onto higher grade exploration targets.

MT OSCAR (FXR 75%, diluting to 20%, Magnetic South 25%)

The Mt Oscar Joint Venture on E47/1217 is prospective for multiple commodities including iron Ore (magnetite), gold, base metals and nickel. The main focus of the Joint Venture has been evaluating the magnetite potential of the tenement with a more recent initial evaluation of the gold and base metal potential. The magnetite prospect within the Mt Oscar JV is located 25km south of the iron ore port of Cape Lambert in W.A. The magnetite project hosts five separate magnetic anomalies.

The Banded Iron Formation’s (BIF’s) of the Cleaverville Formation that host the magnetite of the Mount Oscar Project, are highly deformed and faulted with bedding steeply dipping to sub-vertical and intruded by numerous thick dolerite units. A Mineral Resource Estimate was released in 20 March 2014.

Drilling at the White Quartz Hill gold prospect has returned low-level drill intersections, *Mineral Resource Estimates*

## NICKEL-COPPER RESOURCE ESTIMATES

| Resource Area | Mineralisation | Classification | Tonnes | Ni % | Cu % |
|---|---|---|---|---|---|
| Radio Hill [1] | Primary Sulphide | Indicated | 1,980,000 | 0.61 | 1.04 |
| Radio Hill [1] | Primary Sulphide | Inferred | 2,040,000 | 0.42 | 0.73 |
| Sholl B2 [2] | Primary Sulphide | Indicated | 2,260,000 | 0.59 | 0.71 |
| Sholl B2 [2] | Primary Sulphide | Inferred | 3,520,000 | 0.51 | 0.64 |
| Sholl A1 [3] | Primary Sulphide | Inferred | 1,305,000 | 0.47 | 0.64 |
| Sholl B1 [3] | Primary Sulphide | Inferred | 1,865,000 | 0.43 | 0.49 |
| Total | | | 12,970,000 | 0.50 | 0.71 |
| Contained Metal (t) | | | | 66,085 | 91,548 |

## COPPER-ZINC RESOURCE ESTIMATES

| Resource Area | Mineralisation | Classification | Tonnes | Cu % | Zn % |
|---|---|---|---|---|---|
| West Whundo [4] | Primary Sulphide | Measured | 386,000 | 1.2 | 1.9 |
| West Whundo [4] | Primary Sulphide | Indicated | 259,000 | 1.1 | 1.7 |
| Whundo [5] | Primary Sulphide | Measured | 304,000 | 1.3 | 0.1 |
| Whundo [5] | Primary Sulphide | Indicated | 598,000 | 1.0 | 0.6 |
| Whundo [5] | Primary Sulphide | Inferred | 140,000 | 0.8 | 0.2 |
| Total | | | 1,687,000 | 1.10 | 0.94 |
| Contained Metal (t) | | | | 18,533 | 15,909 |

## ZINC MINERAL RESOURCE ESTIMATES

| Resource Area | Mineralisation | Classification | Tonnes | Zn % | Cu % |
|---|---|---|---|---|---|
| Whundo [6] | Primary Sulphide | Measured | 94,000 | 0.6 | - |
| Whundo [6] | Primary Sulphide | Indicated | 249,000 | 1.2 | - |
| Whundo [6] | Primary Sulphide | Inferred | 78,000 | 1.1 | - |
| Ayshia [7] | Primary Sulphide | Measured | 150,000 | 2.4 | 0.5 |
| Ayshia [7] | Primary Sulphide | Indicated | 344,000 | 3.3 | 0.5 |
| Ayshia [7] | Primary Sulphide | Inferred | 273,000 | 1.3 | 0.3 |
| Total | | | 1,188,000 | 1.93 | 0.43 |
| Contained Metal (t) | | | 767,000 | 22,911 | 3,289 |

## MT OSCAR MAGNETITE RESOURCE ESTIMATE

| Domain | Class | Tonnage (Mt) | Head Fe (%) | Mass Recovery (%) | Conc Fe (%) | Conc SiO2 (%) | Conc Al2O3 | Conc P (%) | Conc LOI (%) |
|---|---|---|---|---|---|---|---|---|---|
| Mag Anomaly 1 [8] | Indicated | 43 | 33.6 | 32.8 | 58.6 | 14.2 | 0.80 | 0.036 | -0.34 |
| | Inferred | 32 | 33.3 | 10.4 | 60.3 | 12.7 | 0.73 | 0.036 | -0.95 |
| Mag Anomaly 2 [8] | Indicated | 40 | 33.9 | 20.0 | 62.9 | 9.9 | 0.40 | 0.022 | -1.16 |
| | Inferred | 11 | 36.1 | 33.7 | 60.3 | 13.3 | 0.56 | 0.037 | -1.31 |
| Total | | 126 | 33.8 | 23.1 | 60.5 | 12.4 | 0.63 | 0.032 | -0.84 |

Note: Totals may not add due to rounding.

All Resources have been estimated using the JORC code (2004), unless noted otherwise and have not been updated since to comply with the JORC Code (2012) on the basis that the information has not materially changed since it was last reported.

Notes relating to cut-off grades and ASX release date of the resource estimates appear below:

1. 2009 estimate (Snowden) Cutoff grade 0.5% Ni in Ni dominant material, and 0.5% Cu in the Cu dominant hanging wall
2. 2010 estimate (Snowden) Cutoff grade 0.3% Ni_Eq (Ni + Cu/3)
3. 2010 estimate (Snowden) Cutoff grade 0.3% Ni_Eq (Ni + Cu/3.3)
4. 2006 estimate (RSG Global) Cutoff grade 0.5% Cu or 0.5% Zn. The Measured resource has been depleted from the RSG estimate by 20,000t based on company mining records.

5. 2007 estimate (Coffey Mining) Cutoff grade 0.4% Cu or 0.4% Zn
6. 2007 estimate (Coffey Mining) Cutoff grade 0.4% Cu or 0.4% Zn
7. 2006 estimate (RSG Global) Cutoff grade 0.4% Zn
8. 2013 estimate (Golder Associates) Cutoff grade of 25% Fe estimated according to the JORC code (2012)

Details of the estimate and the parameters are included in the Company's Annual Report 2013 ("Annual Report") Report.

*The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Paul Dunbar, who is an employee of the Company and is a member of the Australian Institute of Mining and Metallurgy and Australian Institute of Geoscientists. Mr Dunbar has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity, which he is undertaking, to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves (The JORC code).' Mr Dunbar consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

The information contained in this Mineral Resource summary replicates information contained in the Company's Annual Report.

The author of this Report is not aware of any new information or data that materially affects the information included in the Annual Report and, in the case of mineral resources that all the material assumptions and technical parameters underpinning the estimates in the Annual Report continue to apply and have not materially changed. The form and context in which the findings of Mr Dunbar are presented have not been materially modified.

*Competent Persons Statement*

The information in this Report that relates to Exploration Targets, Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by the Company and reviewed by Malcolm Castle, a competent person who is a Member of the Australasian Institute of Mining and Metallurgy ("AusIMM"). Malcolm Castle is a consultant geologist employed by Agricola Mining Consultants Pty Ltd. Mr Castle has sufficient experience that is relevant to the style of mineralisation and type of deposits under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" ("JORC Code"). Malcolm Castle consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

*Exploration Projects*

The Mt Regal tenement (E47/1202) is prospective for both gold and base metals. The Company has conducted an extensive review of the historic geological and geophysical results over Mt Regal, focusing on the base metals potential. A number of prospects for follow up geophysical surveying were identified. The southern portion of Mt Regal contains a package of rocks that are prospective for nickel sulphide and VMS mineralisation.

PILBARA MINERALS JOINT VENTURE (FXR 40% earning up to 80%, Pilbara Minerals 60%)

These tenements are prospective for a variety of Nickel suplhide and VMS styles of mineralization. A large number of the VTEM anomalies on the PLS tenure were ground checked by the Fox geological team, with rock chip sampling and mapping of some of most of the anomalies undertaken. Several significant and prospective areas of the tenement package did not have VTEM coverage, these high priority areas were surveyed during the year with processing and interpretation of this survey planned to be completed late in 2013.

MT MARIE JOINT VENTURE (FXR 60%, Artemis Resources 40%, diluting)

The Mt Marie JV ground is highly prospective for base metals and adjoins the Fox 100% owned Mt Regal and Sholl tenements. The Mt Marie JV E47/1806 and E47/1807 licenses host a number of VTEM anomalies prospective for base metals. Two of these anomalies, named Osborne and Hickmott, have been developed as drill targets.

STAR OF MANGAROON (Fox 100%)

The Star of Mangaroon project is located in highly metamorphosed rocks of the Gascoyne Complex. The project, consisting of 2 exploration licenses and one prospecting license is prospective for gold mineralisation. Historic production between 1961-1983 from the Star of Mangaroon mine was 7,239 oz of gold from 5,357 tons of ore, at 43.2g/t gold. In the 1990's RC drilling testing the depth and strike potential of the Star of Mangaroon mineralisation produced encouraging results.

**Queensland Coal Project**

An extensive tenement package prospective for Coal in eastern Queensland was evaluated. The 16 tenements comprise more than 10,000 km2 within major coal bearing basins of Queensland, which the Company considered to be highly prospective for either coking or thermal coal.

Bundaberg North, Mary borough Basin

The highest priority target in the tenement package is the Bundaberg North tenement (EPC1523) in the Maryborough basin. Adjacent to, and immediately along strike from the Bundaberg North tenement a coal resource has been estimated by the Queensland Coal Investments / International Coal Joint Venture on EPC2196. Given the continuity of the coal seams in the region it is likely that the same coal measures extend into the northern part of the Bundaberg tenement.

Based on several geological consultants' reports and previous investigations the most promising area within EPC 1523 is a 15km north south corridor along the western margin of the tenement. This corridor has the potential to host a small to medium sized coking coal deposit. Multiple coal seams ranging from 0.2m to 2m thick may be present over a stratigraphic interval of 5 to 20 metres. The available coal quality test work indicates that prime coking coal is potentially present.

A methodology for modelling the deposit appropriately to meet the 2012 JORC Code has been devised, and involved identifying "coaly" piles out of the full geological sequence, based on the long and short –spaced down-hole geophysical density logs and assigning a composite relative density to each ply. Stringent cut-off parameters were applied to the coal plies thus:

- <0.2m excluded (for reporting);
- >1.75kg/m3 relative density (air dried basis) excluded;
- >55% raw ash excluded;
- Plies above the base of weathering excluded
- >520m depth below the ground surface excluded;

*Mineral Resource Estimate (Coal), EPC1523*

| Tenement | Formation | Inferred Tonnage (Mt) | Raw Ash % adb | Raw Volatile Matter % adb | Raw Crucible Swell Number | Raw total Sulphur % adb |
|---|---|---|---|---|---|---|
| **EPC1523** | Burrum Coal Measures | 101.2 | 19.0 | 22.5 | 8.0 | 0.87 |

Details of the estimate and the parameters are included in the ASX Release entitled "101.2Mt Inferred Resource Bundaberg Project" dated 20 March 2014 ("Bundaberg Mineral Resource Estimate").

*Exploration Target Estimate (Coal), EPC1523*

| Tenement | Formation | Seams | Exploration Target Tonnage (Mt) | Raw Coal Ash %adb | Raw Volatile Matter (%adb) | Raw Calorific Value (Kcal/kg GAD) | Raw Crucible Swell Number |
|---|---|---|---|---|---|---|---|
| **EPC1523** | Burrum Coal Measures | GU, GL1, GL2, H1 | 20 – 50 | 19.0 | 24.5 | 6750 | 6-8 |

Details of the estimate and the parameters are included in the ASX Release entitled "Strike Extension of Coal System identified on EPC1523 - Fox 100% Bundaberg Project" dated 1 April 2014 ("Bundaberg Exploration Target Estimate").

*The information in this report that relates to coal Exploration Results, Exploration Targets, Mineral Resources or Ore Reserves, is based on information compiled by Mr Mark Biggs, who is the Principal Geologist for Rom Resources Pty Ltd and is a consultant of Fox Resources Limited. Mr Biggs is a member of the Australasian Institute of Mining & Metallurgy and Geological Society of Australia. Mr Biggs has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity, which he is undertaking, to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves (The JORC Code).' Mr Biggs consents to the inclusion in the report of the matters based on this information in the form and context in which it appears.*

The author of this Report is not aware of any new information or data that materially affects the information included in the Bundaberg Mineral Resource Estimate and, in the case of mineral resources that all the material assumptions and technical parameters underpinning the estimates in the Bundaberg Mineral Resource Estimate and Bundaberg Exploration Target Estimate continue to apply and have not materially changed. The form and context in which the findings of Biggs are presented have not been materially modified.

*Competent Persons Statement*

The information in the Bundaberg Mineral Resource Estimate that relates to Exploration Targets, Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by the Company and reviewed by Malcolm Castle, a competent person who is a Member of the Australasian Institute of Mining and Metallurgy ("AusIMM"). Malcolm Castle is a consultant geologist employed by Agricola Mining Consultants Pty Ltd. Mr Castle has sufficient experience that is relevant to the style of mineralisation and type of deposits under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" ("JORC Code"). Malcolm Castle consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

## VALUATION ASSESSMENT

The **Radio Hill, Mt Oscar and Bundaberg Coal Projects** have estimated Mineral Resources in the Measured, Indicated and Inferred categories for nickel, copper, zinc, magnetite iron and coal. When 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 and full feasibility study) 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 categories.

The method requires allocating a dollar value to the mineral resource in the ground and applying appropriate discounts for JORC Category, operating factors and average acquisition cost for mineral projects. This may also apply to well-established zones of mineralisation that have not formally been categorised under the JORC code. An additional risk weighting may be appropriate in these circumstances.

*The Mineral Resources are assumed to encapsulate all the value for **Mining Leases** and **Miscellaneous Licences** and a separate value for exploration potential for these tenements is not considered warranted.*

The remainder of the **Western Australian and Queensland Projects,** including the Exploration Licences and Prospecting Licences, are exploration projects. 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 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 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.

## COMPARABLE TRANSACTIONS – MINERAL RESOURCES

### MINERAL RESOURCE ESTIMATES

Resource Estimates and Exploration Targets in accordance with the JORC Code have been compiled for the Radio Hill and Mt Oscar Deposits, by independent consultants and in-house estimates by competent persons for the Bundaberg deposit and are accepted here for the purpose of the valuation.

*Mineral Resource Estimates (Metals)*

**NICKEL-COPPER RESOURCE ESTIMATES**

| Resource Area | Mineralisation | Classification | Tonnes | Ni % | Cu % |
|---|---|---|---|---|---|
| Radio Hill [1] | Primary Sulphide | Indicated | 1,980,000 | 0.61 | 1.04 |
| Radio Hill [1] | Primary Sulphide | Inferred | 2,040,000 | 0.42 | 0.73 |
| Sholl B2 [2] | Primary Sulphide | Indicated | 2,260,000 | 0.59 | 0.71 |
| Sholl B2 [2] | Primary Sulphide | Inferred | 3,520,000 | 0.51 | 0.64 |
| Sholl A1 [3] | Primary Sulphide | Inferred | 1,305,000 | 0.47 | 0.64 |
| Sholl B1 [3] | Primary Sulphide | Inferred | 1,865,000 | 0.43 | 0.49 |
| Total | | | 12,970,000 | 0.50 | 0.71 |
| Contained Metal (t) | | | | 66,085 | 91,548 |

**COPPER-ZINC RESOURCE ESTIMATES**

| Resource Area | Mineralisation | Classification | Tonnes | Cu % | Zn % |
|---|---|---|---|---|---|
| West Whundo [4] | Primary Sulphide | Measured | 386,000 | 1.2 | 1.9 |
| West Whundo [4] | Primary Sulphide | Indicated | 259,000 | 1.1 | 1.7 |
| Whundo [5] | Primary Sulphide | Measured | 304,000 | 1.3 | 0.1 |
| Whundo [5] | Primary Sulphide | Indicated | 598,000 | 1.0 | 0.6 |
| Whundo [5] | Primary Sulphide | Inferred | 140,000 | 0.8 | 0.2 |
| Total | | | 1,687,000 | 1.10 | 0.94 |
| Contained Metal (t) | | | | 18,533 | 15,909 |

**ZINC MINERAL RESOURCE ESTIMATES**

| Resource Area | Mineralisation | Classification | Tonnes | Zn % | Cu % |
|---|---|---|---|---|---|
| Whundo [6] | Primary Sulphide | Measured | 94,000 | 0.6 | - |
| Whundo [6] | Primary Sulphide | Indicated | 249,000 | 1.2 | - |
| Whundo [6] | Primary Sulphide | Inferred | 78,000 | 1.1 | - |
| Ayshia [7] | Primary Sulphide | Measured | 150,000 | 2.4 | 0.5 |
| Ayshia [7] | Primary Sulphide | Indicated | 344,000 | 3.3 | 0.5 |
| Ayshia [7] | Primary Sulphide | Inferred | 273,000 | 1.3 | 0.3 |
| Total | | | 1,188,000 | 1.93 | 0.43 |
| Contained Metal (t) | | | 767,000 | 22,911 | 3,289 |

**MT OSCAR MAGNETITE RESOURCE ESTIMATE**

| Domain | Class | Tonnage (Mt) | Head Fe (%) | Mass Recovery (%) | Conc Fe (%) | Conc SiO2 (%) | Conc Al2O3 | Conc P (%) | Conc LOI (%) |
|---|---|---|---|---|---|---|---|---|---|
| Mag Anomaly 1 [8] | Indicated | 43 | 33.6 | 32.8 | 58.6 | 14.2 | 0.80 | 0.036 | -0.34 |
| | Inferred | 32 | 33.3 | 10.4 | 60.3 | 12.7 | 0.73 | 0.036 | -0.95 |
| Mag Anomaly 2 [8] | Indicated | 40 | 33.9 | 20.0 | 62.9 | 9.9 | 0.40 | 0.022 | -1.16 |
| | Inferred | 11 | 36.1 | 33.7 | 60.3 | 13.3 | 0.56 | 0.037 | -1.31 |
| Total | | 126 | 33.8 | 23.1 | 60.5 | 12.4 | 0.63 | 0.032 | -0.84 |

Note: Totals may not add due to rounding.

All Resources have been estimated using the JORC code (2004), unless noted otherwise and have not been updated since to comply with the JORC Code (2012) on the basis that the information has not materially changed since it was last reported.

Notes relating to cut-off grades and ASX release date of the resource estimates appear below:

1. 2009 estimate (Snowden) Cutoff grade 0.5% Ni in Ni dominant material, and 0.5% Cu in the Cu dominant hanging wall
2. 2010 estimate (Snowden) Cutoff grade 0.3% Ni_Eq (Ni + Cu/3)
3. 2010 estimate (Snowden) Cutoff grade 0.3% Ni_Eq (Ni + Cu/3.3)
4. 2006 estimate (RSG Global) Cutoff grade 0.5% Cu or 0.5% Zn. The Measured resource has been depleted from the RSG estimate by 20,000t based on company mining records.
5. 2007 estimate (Coffey Mining) Cutoff grade 0.4% Cu or 0.4% Zn
6. 2007 estimate (Coffey Mining) Cutoff grade 0.4% Cu or 0.4% Zn
7. 2006 estimate (RSG Global) Cutoff grade 0.4% Zn
8. 2013 estimate (Golder Associates) Cutoff grade of 25% Fe estimated according to the JORC code (2012)

*Mineral Resource Estimate (Coal) - Bundaberg*

| Tenement | Formation | Inferred Tonnage (Mt) | Raw Ash % adb | Raw Volatile Matter % adb | Raw Crucible Swell Number | Raw total Sulphur % adb |
|---|---|---|---|---|---|---|
| **EPC1523** | Burrum Coal Measures | 101.2 | 19.0 | 22.5 | 8.0 | 0.87 |

*Exploration Target Estimate (Coal) – Bundaberg*

| Tenement | Formation | Seams | Exploration Target Tonnage (Mt) | Raw Coal Ash %adb | Raw Volatile Matter (%adb) | Raw Calorific Value (Kcal/kg GAD) | Raw Crucible Swell Number |
|---|---|---|---|---|---|---|---|
| **EPC1523** | Burrum Coal Measures | GU, GL1, GL2, H1 | 20 – 50 | 19.0 | 24.5 | 6750 | 6-8 |

A median value of 35 million tonnes for the Exploration Target is accepted here for the valuation.

## VALUATION METHODOLOGY

Contained metal is calculated from the deposit tonnes and grade in the categories of the JORC code. The estimated contained value for each category of the Resource is estimated based on current metal prices. The current metal prices are estimated averaged over the last 6 months.

| Metal Value | Nickel per Tonne | Copper per Tonne | Zinc per Tonne |
|---|---|---|---|
| Average Price - US$ | 13,972 | 7,181 | 1,941 |
| Exchange Rate (Current) | 1.06 | 1.06 | 1.06 |
| Average Price - AU$ | 14,873 | 7,644 | 2,066 |

The current price for China import Iron Ore Fines 62% FE spot (CFR Tianjin port), US Dollars per Dry Metric Ton is estimated averaged over the last six months.

| | |
|---|---|
| Current Iron Ore Price – US$ | **$131.39** |
| Base Units for Current Price | 62.00 |
| US$/dmtu | 2.12 |
| *Units in Total Resource* | *33.84* |
| Long Term Average, USD/dmt | **$71.72** |

The current Thermal coal price averaged over the last six months is US$85. Coking coal commands a premium over the Thermal coal price and an average price for the Bundaberg resource has been selected at **AU$120** based on recently reported sales contracts.

**Contained Value**

*Contained Value = [Resource Tonnes]*[Average Price]*

**Radio Hill and Sholl Nickel-Copper Mineral Resources**

| Contained Value AU$M | Nickel | Copper |
|---|---|---|
| Measured | - | - |
| Indicated | 377.94 | 280.07 |
| Inferred | 604.91 | 419.75 |
| Exploration Target | - | - |
| Subtotal | 982.86 | 699.82 |
| Total Contained Value | 1,682.68 | |

**West Whundo and Whundo Copper-Zinc Mineral Resources**

| Contained Value AU$M | Copper | Zinc |
|---|---|---|
| Measured | 65.62 | 15.78 |
| Indicated | 67.49 | 16.51 |
| Inferred | 8.56 | 0.58 |
| Exploration Target | - | - |
| Subtotal | 141.67 | 32.87 |
| Total Contained Value | 174.54 | |

**Whundo and Ayshia Zinc-Copper Mineral Resources**

| Contained Value AU$M | Copper | Zinc |
|---|---|---|
| Measured | 31.83 | 1.55 |
| Indicated | 109.62 | 3.55 |
| Inferred | 33.69 | 1.69 |
| Exploration Target | - | - |
| Subtotal | 175.14 | 6.79 |
| Total Contained Value | 181.93 | |

**Mt Oscar Magnetite Mineral Resource**

| Contained Value AU$M | A$/t FOB |
|---|---|
| Measured | - |
| Indicated | 5,952 |
| Inferred | 3,084 |
| Exploration Target | - |
| Total Contained Value | 9,036 |

**Bundaberg Coal Resource and Exploration Target**

| Contained Value A$M | | |
|---|---|---|
| Measured | | - |
| Indicated | - | |
| Inferred | 12,144 | |
| Exploration Target | 4,200 | |
| Subtotal | 16,344 | |

**Base Value**

A discount factor is applied to the contained value to recognise the JORC category and allow for resource risk.

| Resource Category Discounts | |
|---|---|
| Measured Resource | 80% |
| Indicated Resource | 70% |
| Inferred Resource | 60% |
| Exploration Target | 50% |

Allowances for operating factors are also included in the assessment

| Operations Factors | Base Metals | Iron Ore | Coal |
|---|---|---|---|
| Recovery | 75% | 80.00% | 70.00% |
| Mining | 75% | 80.00% | 75.00% |
| Processing | 80% | 75.00% | 70.00% |
| Rail | 80% | 75.00% | 70.00% |
| Port | 80% | 60.00% | 50.00% |
| Capex | 80% | 50.00% | 75.00% |
| Marketing & 3% NSR | 75% | 85.00% | 75.00% |
| **Total Operating Discount** | **17.28%** | **9.18%** | **7.24%** |

The base value for the project is estimated by multiplying the contained value by the discount factors.

*Base Value = [Contained Value]*[Resource Discount]*[Operating Discounts]*

**Radio Hill and Sholl Nickel-Copper Mineral Resources**

| Base Value AU$M | Nickel | Copper |
|---|---|---|
| Measured | - | - |
| Indicated | 45.72 | 33.88 |
| Inferred | 62.72 | 43.52 |
| Exploration Target | - | - |
| Total | 108.43 | 77.40 |
| Total Base Value | 185.83 | |

### West Whundo and Whundo Copper-Zinc Mineral Resources

| Base Value AU$M | Copper | Zinc |
|---|---|---|
| Measured | 9.07 | 2.18 |
| Indicated | 8.16 | 2.00 |
| Inferred | 0.89 | 0.06 |
| Exploration Target | - | - |
| Total | 18.12 | 4.24 |
| Total Base Value | 22.36 | |

### Whundo and Ayshia Zinc-Copper Mineral Resources

| Base Value AU$M | Copper | Zinc |
|---|---|---|
| Measured | 4.40 | 0.21 |
| Indicated | 13.26 | 0.43 |
| Inferred | 3.49 | 0.18 |
| Exploration Target | - | - |
| Total | 21.15 | 0.82 |
| Total Base Value | 21.97 | |

### Mt Oscar Magnetite Mineral Resource

| Base Value A$M | |
|---|---|
| Measured | - |
| Indicated | 301.67 |
| Inferred | 133.96 |
| Exploration Target | - |
| Total | 435.62 |

### Bundaberg Coal Resource and Exploration Target

| Discounted Base Value A$M | |
|---|---|
| Measured | - |
| Indicated | - |
| Inferred | 527.18 |
| Exploration Target | 136.74 |
| Material Inventory | |
| Total | 663.93 |
| A$ per tonne | $4.87 |

### Average Acquisition Cost

A range of average acquisition cost ("AAC") percentages are estimated based on a database of comparative transactions in the mineral industry over the last 20 years. The percentage represents the amount paid for deposits compared to the contained value at the current metal price.

The AAC for projects lies in the range of 2% to 4.5%. The data set does not differentiate between resource categories and it is implicit that this has been taken into account with risk related discounts applied to the Base Value. Information on sales internationally has shown a pattern for the AAC as shown in the percentile table.

| AAC Percentiles | | | | | |
|---|---|---|---|---|---|
| Percentile | 10th | 25th | 50th | 75th | 90th |
| AAC | 2.2% | 2.6% | 3.0% | 3.4% | 3.9% |

For the purpose of this valuation the Average Acquisition Cost for the lower, preferred and higher value is selected at the 25$^{th}$, 50$^{th}$ and 75$^{th}$ percentiles. The Base Value is multiplied by AAC values at those percentiles to arrive at the estimated project technical value. The US$:AU$ exchange rate applied is 1:0.94.

**Technical Value**

*Technical Value = [Base Value]*[Average Acquisition Cost%]*

**Radio Hill and Sholl Nickel-Copper Mineral Resources**

| **Total Project Technical Value, AU$M** | |
|---|---|
| Low | 4.88 |
| High | 6.23 |
| Preferred | 5.57 |
| % of contained value | 0.33% |

**West Whundo and Whundo Copper-Zinc Mineral Resources**

| **Total Project Technical Value, AU$M** | |
|---|---|
| Low | 0.59 |
| High | 0.75 |
| Preferred | 0.67 |
| % of contained value | 0.38% |

**Whundo and Ayshia Zinc-Copper Mineral Resources**

| **Total Project Technical Value, AU$M** | |
|---|---|
| Low | 0.58 |
| High | 0.74 |
| Preferred | 0.66 |
| % of contained value | 0.36% |

**Mt Oscar Magnetite Mineral Resource**

| **Total Project Technical Value, AU$M** | |
|---|---|
| Low | 12.06 |
| High | 15.77 |
| Preferred | 13.91 |
| % of contained value | 0.15% |

**Bundaberg Coal Resource and Exploration Target**

| **Total Project Technical Value, A$M** | |
|---|---|
| Low | 17.26 |
| High | 23.90 |
| Preferred | 19.92 |
| % of contained value | 0.12% |
| A$ per tonne | $0.15 |

## 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 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 and annual rent of $43.50. A 10% administration fee is taken into account to imply a BAC of $400 to $450 per square kilometre. A similar approach based on expenditure commitments is taken for Prospecting Licences and Mining Leases

| Licence Type | Expend. | Rent | Admin | Total | $/km$^2$ | BAC - Low | BAC - High |
|---|---|---|---|---|---|---|---|
| Exploration Licence (E, $/km$^2$) | 300 | 43.50 | 34.35 | 377.85 | 378 | **400** | **450** |
| Prospecting Licences (P, $/Ha) | 40.00 | 2.20 | 4.22 | 46.42 | 4,642 | **5,000** | **45,500** |
| Mining Lease (M, $/Ha) | 100.00 | 15.00 | 11.50 | 126.50 | 12,650 | **13,000** | **14,000** |

The Company's equity in the various projects is shown in the following table. All tenements are granted except for ELA47/1214 as shown in the tenement schedule.

*The Mineral Resources are assumed to encapsulate all the value for **Mining Leases** and **Miscellaneous Licences** and EPC1523 and a separate value for exploration potential for these tenements is not considered warranted.*

A detailed list of all tenements is provided separately in the Tenement Schedule.

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

| **FOX RESOURCES LIMITED** | | | **Tenement Factors** | |
|---|---|---|---|---|
| **Tenement** | **Project** | **Equity** | **Km$^2$** | **Status** |
| **Western Australian Exploration Tenements** | | | | |
| E47/1202 | Radio Hill | 100% | 173.25 | Granted |
| E47/1223 | Radio Hill | 100% | 37.8 | Granted |
| E47/2328 | Radio Hill | 100% | 110.25 | Granted |
| ELA47/1214 | Radio Hill | 100% | 9.45 | Pending |
| E47/1216 | Radio Hill | 100% | 18.9 | Granted |
| E47/1758 | Radio Hill | 100% | 91.35 | Granted |
| E47/1093 | Pilbara Minerals JV#2 | 40% | 78.75 | Granted |
| E47/1094 | Pilbara Minerals JV#2 | 40% | 78.75 | Granted |
| E47/1097 | Pilbara Minerals JV#2 | 40% | 110.25 | Granted |
| E47/1813 | Pilbara Minerals JV#2 | 40% | 100.8 | Granted |
| E47/1814 | Pilbara Minerals JV#2 | 40% | 94.5 | Granted |
| E47/1815 | Pilbara Minerals JV#2 | 40% | 94.5 | Granted |
| E47/2261 | Pilbara Minerals JV#2 | 40% | 40.95 | Granted |
| E47/1806 | Mt Marie JV#3 | 60% | 12.6 | Granted |

| | | | | |
|---|---|---|---|---|
| E47/1807-I | Mt Marie JV#3 | 60% | 66.15 | Granted |
| E47/1878-I | Mt Marie JV#3 | 60% | 22.05 | Granted |
| E09/1081 | Star of Mangaroon | 100% | 75.6 | Granted |
| E09/1813 | Star of Mangaroon | 100% | 100.8 | Granted |
| P09/452 | Star of Mangaroon | 100% | 0.47 | Granted |
| **TOTAL** | | **19** | **1,317.17** | |

| **FOX RESOURCES LIMITED** | | | **Tenement Factors** | |
|---|---|---|---|---|
| **Tenement** | **Project** | **Equity** | **Km$^2$** | **Status** |
| **Queensland Coal Tenements** | | | | |
| EPC1308 | Alpha | 100% | 746.55 | Granted |
| EPC1311 | Alpha | 100% | 696.15 | Granted |
| EPC1312 | Alpha | 100% | 945 | Granted |
| EPC1469 | Alpha | 100% | 926.1 | Granted |
| EPCA1473 | Barcomba | 100% | 932.4 | Granted |
| EPC1523 | Bundaberg | 100% | 945 | Granted |
| EPC1303 | Emerald | 100% | 756 | Granted |
| EPC1476 | Emerald | 100% | 50.4 | Granted |
| EPC1519 | Emerald | 100% | 945 | Granted |
| EPC1520 | Emerald | 100% | 18.9 | Granted |
| EPC1305 | Eromanga | 100% | 428.4 | Granted |
| EPC1309 | Eromanga | 100% | 264.6 | Granted |
| EPC1304 | Springsure | 100% | 1008 | Granted |
| EPC1307 | Springsure | 100% | 749.7 | Granted |
| EPC1310 | Springsure | 100% | 255.15 | Granted |
| EPC1554 | Styx | 100% | 154.35 | Granted |
| **TOTAL** | | **16** | **9,821.70** | |

## PROSPECTIVITY ASSESSMENT FACTORS

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

- Regional mineralization, old and current workings and the validity of conceptual models.
- Local mineralization 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.

| KILBURN RATING CRITERIA - SIMPLIFIED | | | | |
|---|---|---|---|---|
| Rating | Off Site Factor | On Site Factor | Anomaly Factor | Geological Factor |
| 1 | Indications of Prospectivity | Indications of Prospectivity | No targets outlined | Generally favourable geological environment |
| 2 | Resource targets Identified | Targets identified with successful early drilling | Exposure of mineralised zones or surface drilling (RAB) | Generally favourable lithology with structures or exposures of mineralised zones |
| 3 | Along Strike or adjacent to known mineralization | Grade intercepts on adjacent sections - Exploration Targets Estimated from sound evidence | Significant grade intercepts not yet linked on cross and long sections | Significant mineralised zones exposed in prospective host rocks |
| 4 | | Inferred Resource identified not yet estimated | Grade intercepts on adjacent sections | |

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]*

| **FOX RESOURCES LIMITED** | | | | | | | | | **Prospectivity Factors** |
|---|---|---|---|---|---|---|---|---|---|
| **Tenement** | **Project** | **Off Site** | | **On Site** | | **Anomaly** | | **Geology** | |
| | | **Low** | **High** | **Low** | **High** | **Low** | **High** | **Low** | **High** |
| Western Australian Exploration Tenements | | | | | | | | | |
| E47/1202 | Radio Hill | 1.20 | 1.30 | 1.00 | 1.10 | 1.00 | 1.10 | 1.50 | 1.60 |
| E47/1223 | Radio Hill | 1.20 | 1.30 | 1.00 | 1.10 | 1.00 | 1.10 | 1.50 | 1.60 |
| E47/2328 | Radio Hill | 1.20 | 1.30 | 1.00 | 1.10 | 1.00 | 1.10 | 1.50 | 1.60 |
| ELA47/1214 | Radio Hill | 1.20 | 1.30 | 1.00 | 1.10 | 1.00 | 1.10 | 1.50 | 1.60 |
| E47/1216 | Radio Hill | 1.20 | 1.30 | 1.00 | 1.10 | 1.00 | 1.10 | 1.50 | 1.60 |
| E47/1758 | Radio Hill | 1.20 | 1.30 | 1.00 | 1.10 | 1.00 | 1.10 | 1.50 | 1.60 |
| E47/1093 | Pilbara Minerals JV#2 | 1.10 | 1.20 | 1.00 | 1.10 | 1.25 | 1.35 | 1.50 | 1.60 |
| E47/1094 | Pilbara Minerals JV#2 | 1.10 | 1.20 | 1.00 | 1.10 | 1.25 | 1.35 | 1.50 | 1.60 |
| E47/1097 | Pilbara Minerals JV#2 | 1.10 | 1.20 | 1.00 | 1.10 | 1.25 | 1.35 | 1.50 | 1.60 |
| E47/1813 | Pilbara Minerals JV#2 | 1.10 | 1.20 | 1.00 | 1.10 | 1.25 | 1.35 | 1.50 | 1.60 |
| E47/1814 | Pilbara Minerals JV#2 | 1.10 | 1.20 | 1.00 | 1.10 | 1.25 | 1.35 | 1.50 | 1.60 |
| E47/1815 | Pilbara Minerals JV#2 | 1.10 | 1.20 | 1.00 | 1.10 | 1.25 | 1.35 | 1.50 | 1.60 |
| E47/2261 | Pilbara Minerals JV#2 | 1.10 | 1.20 | 1.00 | 1.10 | 1.25 | 1.35 | 1.50 | 1.60 |
| E47/1806 | Mt Marie JV#3 | 1.50 | 1.60 | 1.00 | 1.10 | 1.50 | 1.60 | 1.50 | 1.60 |
| E47/1807-I | Mt Marie JV#3 | 1.50 | 1.60 | 1.00 | 1.10 | 1.50 | 1.60 | 1.50 | 1.60 |
| E47/1878-I | Mt Marie JV#3 | 1.50 | 1.60 | 1.00 | 1.10 | 1.50 | 1.60 | 1.50 | 1.60 |
| E09/1081 | Star of Mangaroon | 1.75 | 1.85 | 1.50 | 1.60 | 1.25 | 1.35 | 1.25 | 1.35 |
| E09/1813 | Star of Mangaroon | 1.75 | 1.85 | 1.50 | 1.60 | 1.25 | 1.35 | 1.25 | 1.35 |
| P09/452 | Star of Mangaroon | 1.75 | 1.85 | 1.50 | 1.60 | 1.25 | 1.35 | 1.25 | 1.35 |

| FOX RESOURCES LIMITED | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Tenement** | **Project** | **Off Site** | | **On Site** | | **Anomaly** | | **Geology** | |
| | | **Low** | **High** | **Low** | **High** | **Low** | **High** | **Low** | **High** |
| Queensland Coal Tenements | | | | | | | | | |
| EPC1308 | Alpha | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |
| EPC1311 | Alpha | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |
| EPC1312 | Alpha | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |
| EPC1469 | Alpha | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |
| EPCA1473 | Barcomba | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |
| EPC1523 | Bundaberg | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |
| EPC1303 | Emerald | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |
| EPC1476 | Emerald | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |
| EPC1519 | Emerald | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |
| EPC1520 | Emerald | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |
| EPC1305 | Eromanga | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |
| EPC1309 | Eromanga | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |
| EPC1304 | Springsure | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |
| EPC1307 | Springsure | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |
| EPC1310 | Springsure | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |
| EPC1554 | Styx | 1.00 | 1.10 | 1.00 | 1.10 | 1.10 | 1.20 | 0.25 | 0.35 |

*Note that a large discount is applied to the geology factor to account for the large land holding and the implications for a high proportion of unprospective ground.*

## 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]*

| **FOX RESOURCES LIMITED** | | | | |
|---|---|---|---|---|
| **Tenement** | **Project** | **Technical Value, A$M** | | |
| | | **Low** | **High** | **Preferred** |
| E47/1202 | Radio Hill | 0.13 | 0.20 | 0.16 |
| E47/1223 | Radio Hill | 0.03 | 0.04 | 0.04 |
| E47/2328 | Radio Hill | 0.08 | 0.13 | 0.10 |
| ELA47/1214 | Radio Hill | 0.00 | 0.01 | 0.01 |
| E47/1216 | Radio Hill | 0.01 | 0.02 | 0.02 |
| E47/1758 | Radio Hill | 0.07 | 0.10 | 0.08 |
| Subtotal | | 0.32 | 0.49 | 0.40 |
| E47/1093 | Pilbara Minerals JV#2 | 0.03 | 0.04 | 0.03 |
| E47/1094 | Pilbara Minerals JV#2 | 0.03 | 0.04 | 0.03 |
| E47/1097 | Pilbara Minerals JV#2 | 0.04 | 0.06 | 0.05 |
| E47/1813 | Pilbara Minerals JV#2 | 0.03 | 0.05 | 0.04 |
| E47/1814 | Pilbara Minerals JV#2 | 0.03 | 0.05 | 0.04 |
| E47/1815 | Pilbara Minerals JV#2 | 0.03 | 0.05 | 0.04 |

| | | | | |
|---|---|---|---|---|
| E47/2261 | Pilbara Minerals JV#2 | 0.01 | 0.02 | 0.02 |
| Subtotal | | 0.20 | 0.31 | 0.25 |
| E47/1806 | Mt Marie JV#3 | 0.01 | 0.02 | 0.01 |
| E47/1807-I | Mt Marie JV#3 | 0.05 | 0.08 | 0.07 |
| E47/1878-I | Mt Marie JV#3 | 0.02 | 0.03 | 0.02 |
| Subtotal | | 0.08 | 0.12 | 0.10 |
| E09/1081 | Star of Mangaroon | 0.12 | 0.18 | 0.15 |
| E09/1813 | Star of Mangaroon | 0.17 | 0.25 | 0.21 |
| P09/452 | Star of Mangaroon | 0.01 | 0.01 | 0.01 |
| Subtotal | | 0.30 | 0.44 | 0.37 |
| TOTAL | | 0.89 | 1.37 | 1.13 |

| FOX RESOURCES LIMITED | | | | |
|---|---|---|---|---|
| Tenement | Project | **Technical Value, A$M** | | |
| Queensland Coal Tenements | | Low | **High** | **Preferred** |
| EPC1308 | Alpha | 0.08 | 0.17 | 0.13 |
| EPC1311 | Alpha | 0.08 | 0.16 | 0.12 |
| EPC1312 | Alpha | 0.10 | 0.22 | 0.16 |
| EPC1469 | Alpha | 0.10 | 0.21 | 0.16 |
| EPCA1473 | Barcomba | 0.10 | 0.21 | 0.16 |
| EPC1303 | Emerald | 0.08 | 0.17 | 0.13 |
| EPC1476 | Emerald | 0.01 | 0.01 | 0.01 |
| EPC1519 | Emerald | 0.10 | 0.22 | 0.16 |
| EPC1520 | Emerald | 0.00 | 0.00 | 0.00 |
| EPC1305 | Eromanga | 0.05 | 0.10 | 0.07 |
| EPC1309 | Eromanga | 0.03 | 0.06 | 0.05 |
| EPC1304 | Springsure | 0.11 | 0.23 | 0.17 |
| EPC1307 | Springsure | 0.08 | 0.17 | 0.13 |
| EPC1310 | Springsure | 0.03 | 0.06 | 0.04 |
| EPC1554 | Styx | 0.02 | 0.04 | 0.03 |
| TOTAL | | **0.98** | **2.03** | **1.50** |

**Exploration Tenements – Alternative Valuation Methods:**

There is a preference for the use of more than one valuation methodology for the same tenements expressed in Paragraph 65 of Regulatory Guide 111. An alternative method to the Geo-factor Rating method might consider past expenditure on the tenements and the uplift of value provided by encouraging result indicated by the Prospectivity Enhancement Multiplier (PEM).

| **PEM Range** | **Criteria** |
|---|---|
| 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 mineralization |
| 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 |

Complete records of past expenditure for the Projects are not available from the previous explorers. The project has been extensively explored in the past with mapping, satellite imagery, geophysics, surface geochemistry and historical drilling forming part of the data base.

It is considered reasonable to suggest that the current value of these work elements would be as shown in the following table. This is considered speculative (but plausible) and the successful results of the work indicate that detailed drilling has defined targets with potential economic interest with the potential to contain medium sized deposits and small Inferred Resources may be estimated. This would attract Prospectivity Enhancement Multipliers as set out below.

| **Technical Value - Prospectivity Enhancement Method** | | | | | | |
|---|---|---|---|---|---|---|
| **Project** | **Spend** | **PEM** | | **Technical Value, A$M** | | |
| | | Low | High | Low | High | Preferred |
| Radio Hill | 0.50 | *1.10* | *1.25* | 0.55 | 0.63 | 0.59 |
| Pilbara Minerals JV | 0.25 | *1.10* | *1.25* | 0.28 | 0.31 | 0.29 |
| Mt Marie JV #3 | 0.10 | *1.00* | *1.15* | 0.10 | 0.12 | 0.11 |
| Star of Mangaroon | 0.50 | *1.00* | *1.15* | 0.50 | 0.58 | 0.54 |
| Queensland Coal | 1.50 | *1.10* | *1.25* | 1.65 | 1.88 | 1.76 |

In view of the slight discrepancy between methods and the unsupported estimates of past expenditure the Geofactor Rating Method is considered the most reliable estimate of Technical Value

**Summary of Technical Value**

| | | **Technical Value, A$M** | | |
|---|---|---|---|---|
| | | **Low** | **High** | **Preferred** |
| Mineral Resources | | | | |
| Radio Hill and Sholl | Ni-Cu | 4.88 | 6.23 | 5.57 |
| West Whundo and Whundo | Cu-Zn | 0.59 | 0.75 | 0.67 |
| Wundo and Ayshia | Zn-Cu | 0.58 | 0.74 | 0.66 |
| Mt Oscar | Magnetite | 12.06 | 15.77 | 13.91 |
| Bundaberg | Coking Coal | 17.26 | 23.90 | 19.92 |
| Exploration Potential | | | | |
| Radio Hill | | 0.32 | 0.49 | 0.40 |
| Pilbara Minerals JV | | 0.20 | 0.31 | 0.25 |
| Mt Marie JV #3 | | 0.08 | 0.12 | 0.10 |
| Star of Mangaroon | | 0.30 | 0.44 | 0.37 |
| Queensland Coal | | 0.98 | 2.03 | 1.50 |
| Total | | 37.25 | 50.78 | 43.33 |

## MARKET VALUE

In arriving at a fair market value for a particular exploration tenement, I have considered the current market for exploration properties in Australia and overseas. It is considered appropriate to apply a significant discount to the technical value of the exploration potential of the tenements.

I have 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 a specialist firm (source: www.coface.com). The rating for Australia is 'A1' for country risk and 'A1' for business climate, which are considered to be low. This rating will affect the market factor in assessing market value.

The current market value for mineral projects in Australia is considered to be depressed and a market discount factor of **30**% has been applied to the technical value for the Western Australian Mineral Resources and exploration projects and the Queensland exploration ground. A **10%** discount has been applied to the Bundaberg coal resource.

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

| **FOX RESOURCES LIMITED** | | | **Market Value, A$M** | | |
|---|---|---|---|---|---|
| | | **Market Factor** | **Low** | **High** | **Preferred** |
| Mineral Resources | | | | | |
| Radio Hill and Sholl | Ni-Cu | 70% | 3.41 | 4.36 | 3.90 |
| West Whundo and Whundo | Cu-Zn | 70% | 0.41 | 0.52 | 0.47 |
| Wundo and Ayshia | Zn-Cu | 70% | 0.40 | 0.52 | 0.46 |
| Mt Oscar | Magnetite | 70% | 8.44 | 11.04 | 9.74 |
| Bundaberg | Coking Coal | 90% | 15.54 | 21.51 | 17.93 |
| Exploration Potential | | | | | |
| Radio Hill | | 70% | 0.22 | 0.35 | 0.28 |
| Pilbara Minerals JV | | 70% | 0.14 | 0.21 | 0.18 |
| Mt Marie JV #3 | | 70% | 0.06 | 0.09 | 0.07 |
| Star of Mangaroon | | 70% | 0.21 | 0.31 | 0.26 |
| Queensland Coal | | 70% | 0.68 | 1.42 | 1.05 |
| Total | | | 29.51 | 40.33 | 34.34 |

*Differences between the values for Technical and Market Value stated above and the detail of the report are due to rounding of the values in this table.*

## VALUATION OPINION

***Based on an assessment of the factors involved the estimate the market value of the Company's Projects is in the range of <u>A$29.5 million to A$40.3 million with a preferred value of A$34.3 million</u>.***

***This valuation is effective on 6 May 2014.***

*APPENDIX 1*

## MINERAL ASSETS 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 | Mineralization may or may not have been identified, but where a mineral resource has not been defined. |
| Advanced exploration areas | Mineral resources have been identified and their extent estimated (possibly incompletely). This includes properties at the early stage of assessment. |
| Pre-development projects | A positive development decision has not been made. This includes properties where a development decision has been negative, properties on care and maintenance and properties held on retention titles. |
| Development projects | Committed to production, but which, are not yet commissioned or not initially operating at design levels. |
| Operating Mines | Mineral properties, particularly mines and processing plants, which have been fully commissioned and are in production. |

The fair market value of a mineral asset is the estimated amount of money or the cash equivalent or some other consideration for which the mineral asset should change hands between a willing buyer and a willing seller in an arm's length transaction. Each party is assumed to have acted knowledgeably, prudently and without compulsion.

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

- The underlying or Technical 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.

## 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 and RG112*).

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 2004.

### THE VALMIN CODE, 2005

The four main requirements of the *VALMIN Code* are

*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.

*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.

*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.

*Independence*. The valuer must act in a professional manner and not favour the buyer or the seller. 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.

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 or Mineral or Petroleum Securities 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 and/or shares.

The Expert or Specialist should choose, discuss and disclose the selected valuation method(s) appropriate to the Mineral or Petroleum Assets or Mineral or Petroleum Securities under consideration, stating the reasons why the particular valuation method(s) have been selected in relation to those factors set out in Paragraph 39 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 method(s) 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 reason(s) for selecting the Value adopted.

**Australian Securities and Investment Commission – Regulatory Guides RG111 and RG112, 2011**

It is not the 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;

The 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 figures 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.

## VALUATION METHODOLOGY FOR EXPLORATION TENEMENTS

Valuation of exploration properties is exceptionally subjective. If an economic resource is subsequently identified then a new valuation will be dramatically higher, or 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 Expert based on his experience.

The Independent Expert, 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 mineralization
- level of knowledge of the geometry of mineralization in the district
- mining history, including mining methods
- location and accessibility of infrastructure
- milling and metallurgical characteristics of the mineralization
- 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 mineralization identified on adjacent properties
- appropriate geological models

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 reserves it is appropriate to use financial analysis methods to estimate the net present value (“NPV”) of the properties. This technique 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 mineral resources or only inferred resources 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 Kilburn Geoscience Rating ("Kilburn") is more heavily based on opinions of the prospectivity hence tenements can have marked variation in value between the methods. If the Kilburn assessment is high and the PEM is low it indicates effective well focussed exploration, if the Kilburn is low and the PEM high it suggests that the tenement is considered to have lower prospectivity.

## PROSPECTIVITY ENHANCEMENT MULTIPLIER ("PEM") OR MULTIPLE OF EXPLORATION EXPENDITURE ("MEE")

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.

***PEM Factors Used in this valuation method***

| PEM Range | Criteria |
|---|---|
| 0.2 – 0.5 | Exploration (past and present) has downgraded the tenement prospectivity, no mineralization 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 mineralization |
| 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. |

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.

## GEO-FACTOR RATING METHOD (KILBURN)

Valuation is based on a calculation in which the geological prospectivity, commodity markets, financial markets, stock markets and mineral property markets are assessed independently. The Kilburn 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 mineralization, geochemical, geological or geophysical anomaly within the property and the tenor of any mineralization known to exist on the property being valued;
- number and relative position of anomalies on the property being valued;
- geological models appropriate to the property being valued.

The Method systematically assesses and grades these four key technical attributes of a tenement to arrive at a series of multiplier factors. The Basic Acquisition Cost ("BAC") is the important input to the Kilburn Method and it is calculated by summing the annual rent, statutory expenditure for a period of 12 months and administration fees.

The current BAC 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 and annual rent of $43.50. A 10% administration fee is taken into account to imply a BAC of $400 to $450 per square kilometre. A similar approach based on expenditure commitments is taken for Prospecting Licences and Mining Leases

| Licence Type | Expend. | Rent | Admin | Total | $/km$^2$ | BAC - Low | BAC - High |
|---|---|---|---|---|---|---|---|
| Exploration Licence (E, $/km$^2$) | 300.00 | 43.50 | 34.35 | 377.85 | 378 | **400** | **450** |
| Prospecting Licences (P, $/Ha) | 40.00 | 2.20 | 4.22 | 46.42 | 4,642 | **5,000** | **45,500** |
| Mining Lease (M, $/Ha) | 100.00 | 15.00 | 11.50 | 126.50 | 12,650 | **13,000** | **14,000** |

The multipliers or ratings and the criteria for rating selection across these four factors are summarised in the following table.

| KILBURN GEO-FACTOR RATING CRITERIA - MODIFIED | | | | | |
|---|---|---|---|---|---|
| | **Rating** | **Address - Off Property** | **Mineralization - On Property** | **Anomalies** | **Geology** |
| Low | **0.5** | Very little chance of mineralization, Concept unsuitable to environment | Very little chance of mineralization, Concept unsuitable to environment | Extensive previous exploration with poor results - no encouragement | Generally Unfavourable lithology |
| Average | **1** | Indications of Prospectivity, Concept validated | Indications of Prospectivity, Concept validated | Extensive previous exploration with encouraging results - regional targets | Deep alluvium Covered Generally favourable geology |
| | **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 Generally 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 (90 - 100%) |
| | **3.5** | Along strike or adjacent to known mineralization at Pre-Feasibility Stage | Resource areas identified | Subeconomic targets of possible significant volume - early stage drilling | |
| | **4** | Along strike or adjacent to Resources at Definitive Feasibility Stage | Along strike or adjacent to known mineralization at Pre-Feasibility Stage | Marginal economic targets of significant volume - advanced drilling | |
| | **4.5** | Along strike or adjacent to Development Stage Project | Along strike or adjacent to Resources at Definitive Feasibility Stage | Marginal economic targets of significant volume - well drilled at Inferred Resource stage | |
| Very High | **5** | Along strike or adjacent to Operating Mine | Along strike or adjacent to Development Stage Project | Several significant ore grade correlatable intersections with estimated resources | |

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 Factor]*

## VALUATION OF RESOURCES BY COMPARABLE TRANSACTIONS

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.

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.

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 categories.

| **Resource Category Discounts** | |
|---|---|
| Measured Resource | 80% |
| Indicated Resource | 70% |
| Inferred Resource | 60% |
| Exploration Target | 50% |

With gold projects the method requires allocating a dollar value to resource ounces of gold in the ground. This may also apply to well established zones of mineralisation which have not formally been categorised under the JORC code. An additional risk weighting may be appropriate in these circumstances.

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 toll treatment facilities, infrastructure, development and capital expenditure aspects

A similar approach can be taken with other metals including uranium or base metals sold on the spot market and benchmarks are similar to gold properties. Value is estimated as a percentage of contained value once appropriate discounts for uncertainty relating to resource categorisation are taken into account. An example of appropriate discounts for Rare Earths, Iron Ore and Base Metals is included below but these must be considered on a case-by-case basis.

| **Operations Factors** | **Base Metals** | **Iron Ore** | **Coal** | **Gold** | **Rare Earths** |
|---|---|---|---|---|---|
| Recovery | 75% | 80.00% | 70.00% | 100% | 60% |
| Mining | 75% | 80.00% | 75.00% | 100% | 100% |
| Processing | 80% | 75.00% | 70.00% | 100% | 50% |
| Rail | 80% | 75.00% | 70.00% | 100% | 75% |
| Port | 80% | 60.00% | 50.00% | 100% | 90% |
| Capex | 80% | 50.00% | 75.00% | 100% | 50% |
| Marketing & 3% NSR | 75% | 85.00% | 75.00% | 100% | 75% |
| **Total Operating Discount** | **17.28%** | **9.18%** | **7.24%** | **100.00%** | **7.59%** |

The ‘Apparent Acquisition Cost’ (“AAC”) for gold projects lies in the range of 2% to 4%. The data set does not differentiate between resource categories and it is implicit that this has been taken into account with risk related discounts. Information on sales internationally has shown a pattern for AAC. For the purpose of valuation the Average Acquisition Cost for the lower, preferred and higher value is selected at the 25$^{th}$, 50$^{th}$ and 75$^{th}$ percentiles of the spread of values.

| AAC Percentiles | | | | | |
|---|---|---|---|---|---|
| Percentile | 10$^{th}$ | 25$^{th}$ | 50$^{th}$ | 75$^{th}$ | 90$^{th}$ |
| Average Acquisition Cost | 2.2% | 2.5% | 3.0% | 3.4% | 3.9% |

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