

9 June 2015

Market Announcements Office
ASX Limited
4th Floor, 20 Bridge Street, Sydney NSW

ASX code: MUX

Mungana Goldmines Limited – Takeover bid by Auctus Chillagoe Pty Ltd – First Supplementary Target's Statement

We attach, by way of lodgement pursuant to section 647(3)(b) of the *Corporations Act 2001* (Cth), a copy of Mungana Goldmines Limited's (ASX: MUX) first supplementary target's statement dated 9 June 2015, in relation to the off-market takeover bid by Auctus Chillagoe Pty Ltd for all of its fully paid ordinary shares.

For further information, please contact:

Investors

Tony James, Managing Director
Mungana Goldmines Limited
Phone: +61 8 9322 7645

Media

Paul Armstrong / Nicholas Read
Read Corporate
Tel: +61-8 9388 1474
Mobile: +61 419 929 046

**FIRST SUPPLEMENTARY TARGET'S STATEMENT BY
MUNGANA GOLDMINES LIMITED ACN 136 606 338
IN RELATION TO THE OFF-MARKET TAKEOVER OFFER BY
AUCTUS CHILLAGOE PTY LTD ACN 605 055 285 FOR
MUNGANA GOLDMINES LIMITED**

1. Introduction

This document is the first supplementary Target's Statement prepared by Mungana Goldmines Limited ACN 136 606 338 (**Mungana**) under section 644 of the *Corporations Act 2001* (Cth) dated 9 June 2015 (**First Supplementary Target's Statement**). This First Supplementary Target's Statement is prepared in relation to the off-market takeover offer by Auctus Chillagoe Pty Ltd ACN 605 055 285 (**Auctus**) for all of the fully paid ordinary shares in Mungana.

This document supplements, and should be read together with, the Target's Statement lodged with the Australian Securities and Investments Commission (**ASIC**) on 28 May 2015 (**Original Target's Statement**).

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

Capitalised terms used in this First Supplementary Target's Statement have meaning given in Section 11 of the Original Target's Statement, unless the context otherwise requires.

This First Supplementary Target's Statement prevails over the Original Target's Statement to the extent of any inconsistency.

2. Clarification regarding ASX announcement of 26 May 2015

Mungana's announcement released on ASX on 26 May 2015 included the following statement regarding the King Vol Zinc Project (**Production Statement**):

Aiming for first production by the end of 2016 at an annualised throughput rate of 350,000tpa for 35,000-40,000tpa zinc in concentrate...

Mungana, in its ASX announcement of 5 June 2015 (**Attachment 1**), retracted the Production Statement and another statement as production targets and re-characterised those statements as aspirational statements on the basis that there were not reasonable grounds for characterising this information as production targets. For further detail, please refer to the announcement.

3. No impact on Independent Expert's conclusion

The Independent Expert and the Independent Technical Specialist considered the impact of the Production Statement and a statement relating to estimated pre-production capital expenditure (**Project Capex Amount**) on the conclusions in their respective reports.

The Independent Expert has confirmed in a letter dated 5 June 2015 (**Attachment 2**) that in its opinion the Production Statement (referred to in the letter as "the Replacement Production Target") and the Projected Capex Amount do not have a material bearing on the valuation range in the Independent Expert's Report and do not have any impact on its conclusion that the Offer is not fair and not reasonable.

The Independent Technical Specialist has also confirmed in a letter (**Attachment 3**) that:

- (a) its preferred valuation approach for the King Vol Zinc Project was a market based approach and it has therefore not considered "forward looking statements" regarding

potential development, but rather valued the asset on the value of the in-situ mineral resources; and

- (b) the Production Statement and the Projected Capex Amount do not have a material bearing on its preferred valuation range, which remains unchanged.

4. Lodgement with ASIC

A copy of this First Supplementary Target's Statement has been lodged with ASIC. Neither ASIC nor any of its officers take any responsibility for its contents.

5. Authorisation

This document has been approved by a resolution passed by the directors of Mungana Goldmines Limited.

Dated: **9 June 2015**

Signed for and on behalf of Mungana Goldmines Limited.



Tony James
Managing Director

Attachment 1



5 June 2015

Market Announcements Office
 ASX Limited
 4th Floor, 20 Bridge Street, Sydney NSW

ASX code: MUX

Clarification regarding production targets for the Chillagoe Zinc Project

Mungana Goldmines Limited (ASX: MUX) (Mungana) refers to its ASX announcement of 26 May 2015 (**Announcement**) in respect of the Chillagoe Zinc Project.

The Announcement includes reference to two separate production targets. Statements about future matters, such as production targets, are required to be based on reasonable grounds. Reasonable grounds must extend to the mineralisation the subject of the production target and the technical and economic modifying factors outlined in the JORC Code.

Where Mungana referred to an aim of consolidating production base to increase production throughput to achieve nominated plant capacity of ~600ktpa, and later to a production target of ~600ktpa in the context of achieving ore feed for the nominated plant capacity, Mungana was not intending to present this as a production target in that Announcement and retracts it accordingly. Mungana considers this to be an aspirational statement on the basis that the resources considered for this consolidation at King Vol, Red Cap and Mungana areas are inferred mineral resources. Mungana does not yet have reasonable grounds to believe that these aspirational statements can be achieved.

In relation to the King Vol production target, Mungana said in the Announcement that it was "Aiming for first production by end of 2016 at an annualised rate of 350,000tpa for 35,000-40,000tpa zinc in concentrate and additional bi-product credits". Mungana advises that in the calculation of this annualised rate it has used its detailed knowledge of its latest resource model and focussed on the upper domain (which extends from a depth of 50 metres to 350 metres) due to the superior level of confidence associated with this part of the resource estimation, where the total combination of indicated (936,000 tonnes) and inferred (585,000 tonnes) resources are 1,521,000 tonnes at 14.3% zinc.

As noted in the Announcement, Mungana made assumptions about the King Vol production target in the absence of a detailed scoping, pre-feasibility or feasibility study and noted that for the King Vol project to be developed, more work needed to be done and substantial capital expenditure was required and that there were a number of uncertainties inherent in the feasibility stage and subsequent development stages of the project, including the availability of adequate funding. The development of the King Vol Zinc Project and the exploration associated with the Chillagoe Zinc Project is the key focus of the company. The projected annualised zinc production was determined in the absence of

Mungana Goldmines Ltd
 ABN 15 136 606 338
 Unit 5 Level 3 St James Place | 155 Denham Street | Townsville | 4810

sufficient certainty in respect of specific JORC modifying factors relevant to its achievement. Accordingly, Mungana retracts the King Vol production target as it did not intend it to be considered a production target, as it is not based on reasonable grounds, and therefore should be treated as an aspirational statement.

Mungana is currently implementing a work plan to complete a feasibility study by the end of March 2016. Although Mungana is confident that such further work will provide further certainty as to specific factors that could affect Mungana's ability to achieve the projected zinc production such that it could be re-characterised as a production target, at the present time Mungana cautions investors against using the relevant statements as a basis for an investment decision about shares in the company.

Competent Person's reference

The information in this announcement relating to Mineral Resources is based on information prepared by Mr Brian Wolfe in compliance with the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code) details of which were released on ASX by the Mungana on 28 January 2015.

Mr Wolfe is a member of the Australian Institute of Geoscientists and has sufficient experience 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 JORC Code.

Mungana confirms that it is not aware of any new information or data that materially affects the information relating to Mineral Resources included in the 28 January 2015 announcement referred to above. Mungana confirms that all material assumptions and technical parameters underpinning the Mineral Resource estimates in that previous ASX release continue to apply and have not materially changed.

For further information, please contact:

Investors

Tony James, Managing Director
Mungana Goldmines Limited
Phone: +61 8 9322 7645

Media

Paul Armstrong / Nicholas Read
Read Corporate
Tel: +61-8 9388 1474
Mobile: +61 419 929 046

Attachment 2



Grant Thornton
An instinct for growth™

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

Grant Thornton Corporate Finance Pty
Ltd
ABN: 59 003 265 987
AFSL: 247140

Level 17, 383 Kent Street
Sydney NSW 2000
PO Locked Bag Q800
QVB Post Office
Sydney NSW 1230

5 June 2015

T +61 2 8297 2400
F +61 2 9299 4445
E info@gtmsw.com.au
W www.granthornton.com.au

Dear Sirs

Re: Auctus Chillagoe Pt Ltd – Takeovers Panel Application

On 11 May 2015, the Directors of Mungana Goldmines Limited (“MUX”) engaged Grant Thornton Corporate Finance Pty Ltd (“Grant Thornton Corporate Finance”) to prepare an Independent Expert’s Report (“IER”) to assist the shareholders of MUX in assessing the merits of the takeover offer from Auctus Chillagoe Pty Ltd (“Auctus”) announced on 29 April 2015 to acquire all ordinary shares in MUX (“Takeover Offer”) for a cash offer of \$0.135 per share (“Offer Price”). The IER was included in the Target Statement which was dispatched to the shareholders of MUX on 29 May 2015.

On 1 June 2015, Auctus submitted an application to the Takeovers Panel under section 657(2)(a) of the Corporation Act 2001 (Cth) (Act) in relation to alleged contraventions by MUX which are summarised below (together referred to as the “Unresolved Defects”):

- the estimated capital expenditure requirements to bring the King Vol project into production is materially understated at “less than \$40 million” (“Projected Capex Amount”); and
- the estimated production target of 35,000tpa to 40,000tpa zinc in concentrate for the King Vol project is materially overstated (“Replacement Projection Target”).

The Directors of Mungana have requested Grant Thornton Corporate Finance to comment whether or not the alleged Unresolved Defects and the disclosure made by Mungana in relation to them in the ASX announcement dated 5 June 2015 (“Announcement”) are expected to have an impact on the fairness and reasonableness opinion previously stated in the IER.

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Based on a review of the Takeover Panel application in conjunction with the IER and the Announcement, we are of the opinion that the alleged Unresolved Defects do not have an impact on our fairness and reasonableness assessment due to the following:

- For the purpose of our valuation assessment of the fair market value of MUX, we engaged SRK Consulting (Australasia) Pty Limited ("SRK") to prepare a valuation report on the exploration and pre-development assets of MUX ("SRK Report")¹. Having regard to the early pre-development status and inherent uncertainty of the King Vol project which has no reserves or a completed feasibility study, SRK has placed no reliance on future economic benefits arising from the potential future zinc production of the King Vol Project which would be impacted by the alleged Unresolved Defects. SRK undertook their valuation based on the existing JORC-compliant mineral resources only. Notably, SRK makes no reference to either the Projected Capex Amount or Replacement Projection Target in the SRK Report. Grant Thornton Corporate Finance adopted the preferred range (preferred value $\pm 15\%$) of the King Vol project as assessed by SRK in our valuation assessment of MUX in the IER. SRK have provided a written response in relation to this matter which is enclosed in Appendix 1 of this letter.
- Grant Thornton has cross-checked the assessed fair market value of MUX to the resource multiples of listed comparable companies. Similar to SRK, in our selection of comparable companies we have focused on pre-development companies with some existing infrastructure and no reserves. Accordingly, we have made no reference to the Projected Capex Amount in the IER and we have only briefly discussed in the company overview section the throughput target of the King Vol Project to provide a summarised description of the current King Vol project work plan.
- The fair market value of the King Vol project as assessed by SRK consisted of only approximately 12% of our assessed total equity value of MUX (mid-point), whereas we have assessed the Offer Price to be approximately 51% (mid-point) below the fair market value per share in MUX before the Takeover Offer.
- Grant Thornton Corporate Finance's reasonableness opinion in the IER takes into consideration that the *"the use of existing Processing Plant and Infrastructure will materially reduce the typical capital expenditure required to bring the King Vol Project into production"*, which would likely remain appropriate even if the alleged Unresolved Defects are proven.

¹ A copy of the executive summary to the SRK Report was attached to the IER, and a full copy of the SRK Report is available on the ASX as at 29 May 2015. We note that Grant Thornton has also engaged GRS Engineers for the valuation of the processing plant and related infrastructure.



Based on the above considerations, the outcome of the alleged Unresolved Defects and the Announcement have no material bearing on our valuation range, and Grant Thornton Corporate Finance continues to remain of the opinion that *"the Takeover Offer is **NOT FAIR** and **NOT REASONABLE** to the shareholders of MUX"*.

If you wish to discuss the contents of this letter, please contact me on (02) 8297 2554.

Yours faithfully

GRANT THORNTON CORPORATE FINANCE PTY LTD

ANDREA DE CIAN
Director

PHILLIP RUNDLE
Director

Attachment 3



10 Richardson Street
West Perth WA 6005, Australia

PO Box 943
West Perth WA 6872, Australia

T: +61 8 9288 2000
F: +61 8 9288 2001
E: perth@srk.com.au

www.srk.com.au

5 June 2015
MUN005

Grant Thornton
Level 17, 383 Kent Street
SYDNEY NSW 2000

Attention: Andrea De Cian

Dear Andrea

Response to Takeover Panel Query

SRK Consulting Australasia Pty Ltd (SRK) refers to the ASX announcement (Announcement) released by Mungana Goldmines Limited (ASX: MUX) (Mungana) dated 5 June 2015 in respect of the Chillagoe Zinc Project.

SRK notes that this announcement makes reference to forward looking statements regarding production targets for the Chillagoe Zinc Project which have now been clarified.

SRK further refers to and is aware of the (ASX: MUX) Media Release dated 2 June 2015 regarding Auctus Chillagoe Pty Ltd application to the takeover panel.

SRK was commissioned by Grant Thornton (GT) to prepare an updated Independent Technical Report (ITR) and Mineral Resource Valuation of Mungana's assets.

SRK considers the King Vol Project to be at the Pre-Development stage, in accordance with the Development Stage Categories outlined under the VALMIN Code 2005. SRK considered valuation methodologies appropriate for projects at this stage of development.

While the VALMIN Code states that decisions as to which valuation methodology is used are the responsibility of the Expert or Specialist, SRK considered a number of methods.

An income-based method, such as a Discounted Cash Flow (DCF) model, is commonly adopted for assessing the Value of a tenement or tenements containing a deposit where an Ore Reserve has been produced to accepted technical guidelines, such as the JORC Code (2012). However, an income-based method is not considered an appropriate method for deposits that are less advanced, i.e. where there is not a declared Ore Reserve and supporting mining and related technical studies.

Due to the development stage of the King Vol Project, i.e. a low confidence published Mineral Resource and no published Ore Reserve, and therefore an inherent uncertainty associated with the likelihood and the timing of any potential cash flows, an income-based approach to valuation (e.g. Discounted Cash Flow (DCF) modelling) is not considered appropriate.

- *ASIC takes the view that a DCF model is a forward looking projection of cash flows which by its nature assumes that the project is economically viable.*

SRK Consulting (Australasia) Pty Ltd
ABN 56 074 271 720
Trading as SRK Consulting



Australian Offices:
Brisbane +61 7 3054 5000
Melbourne +61 3 8677 1900
Newcastle +61 2 4922 2100
Perth +61 8 9288 2000
Sydney +61 2 8079 1200

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In acknowledgement of these factors, SRK's preferred valuation approach for the King Vol Project was a market based approach and has therefore not considered "forward looking statements" regarding potential development, but rather valued the asset on the value of the in-situ Resources.

The released statements have no material bearing on SRK's preferred valuation range; which remains unchanged.

The Market Approach is based primarily on the principle of substitution and is also called the Sales Comparison Approach. The Mineral Property being valued is compared with the transaction value of similar Mineral Properties, transacted in an open market (CIMVAL, 2003). Methods include comparable transactions, MTR and option or farm-in agreement terms analysis.

Yours faithfully

SRK Consulting (Australasia) Pty Ltd



Dr Bryce Healy
Principal Consultant (Geology)