



For ASX Market Release: 28 November 2017

## Finders Takeover Offer Update

Finders Resources Limited ("Finders" or "the Company") is aware of the attached press release from Eastern Field Developments Limited in relation to its unsolicited off-market cash offer of \$0.23 per Finders share.

Shareholders are advised to **TAKE NO ACTION** in relation to this release.

The Company's Target Statement will be dispatched to shareholders on or before 5 December 2017. The Target Statement will contain further information, including an Independent Expert's Report as to whether the Offer is fair and reasonable for Finders shareholders and a formal recommendation by the Independent Finders Directors in respect of the Offer and the reasons for that recommendation.

**ENDS**



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28 November 2017

*Press Release & Open Letter to Finders Resources Shareholders*

For Immediate Release

## **Response to Finders Resources' Successive Production Downgrades & Disclosure Concerns**

- 1. Two production and cost guidance downgrades by Finders since late October 2017**
- 2. Weak cash position and cashflow limits ability to deliver crucial mine life extensions**
- 3. Significant uncertainty on recoveries undermines future production levels**

Eastern Field Developments Limited (**Eastern Field**) wishes to alert fellow shareholders of Finders Resources Limited (ASX: FND) (**Finders**) to the operational and financial downgrades and future uncertainties that have emerged since Eastern Field announced its 23c-per-share all-cash takeover offer (**Offer**) for Finders on 24 October 2017.

These ASX statements by Finders, ahead of the release of the Target's Statement, raise serious questions about Finders' ability to achieve its long-stated production goals and extend mine life. The statements also confirm Eastern Field's view of the significant operational challenges at the Wetar Copper Project (**Wetar**) facing Finders and support Eastern Field's view that its 23c-per-share all-cash proposal offers Finders shareholders compelling and certain value.

Eastern Fields Director David Fowler said:

*"Given Funder's heavy indebtedness, minimal cash reserves and short remaining mine life, Eastern Field is deeply concerned by the Wetar production downgrades and adverse cost guidance unveiled since we announced our takeover proposal. As an example, the latest low end of production guidance is approximately 43% lower than original nameplate guidance.*

*"It is usual for takeover targets to pull out all stops and deliver an above-expectation performance. Finders is doing the opposite with its production downgrades and adverse cost guidance.*

*"Claims of share value increase from unrepresentative Lerokis recoveries of 88% are not based on reasonable assumptions and should simply be ignored. Finders' own competent person concluded that no change should be made to average metallurgical recoveries of 62.9% in their Reserve Report on Lerokis.*

*"We would expect that Finders' independent experts will address these and other concerns about the Wetar project in the Independent Expert's Report, to be included in Finders' Target Statement. We also respectfully request that Finders provides further detailed disclosure on production and recoveries for the benefit of all shareholders as soon as possible.*

*"Given the material changes since lodging our all-cash Offer, we intend to closely review this additional information, particularly in light of the Offer's Material Adverse Change condition, to determine its implications for the Offer."*

## Two production and cost guidance downgrades since late October 2017

The Eastern Field Bidder's Statement dated 24 October 2017 clearly highlighted Wetar's underperformance relative to the original nameplate guidance of 28,000 tonnes and the risks of further downgrades. Finders has since reported two successive production and cost downgrades<sup>1</sup> for Wetar. These downgrades show Wetar is underperforming at a rate far worse than previously anticipated.

Figure 1: 2017 Finders Historical and Forecast Copper Cathode Production

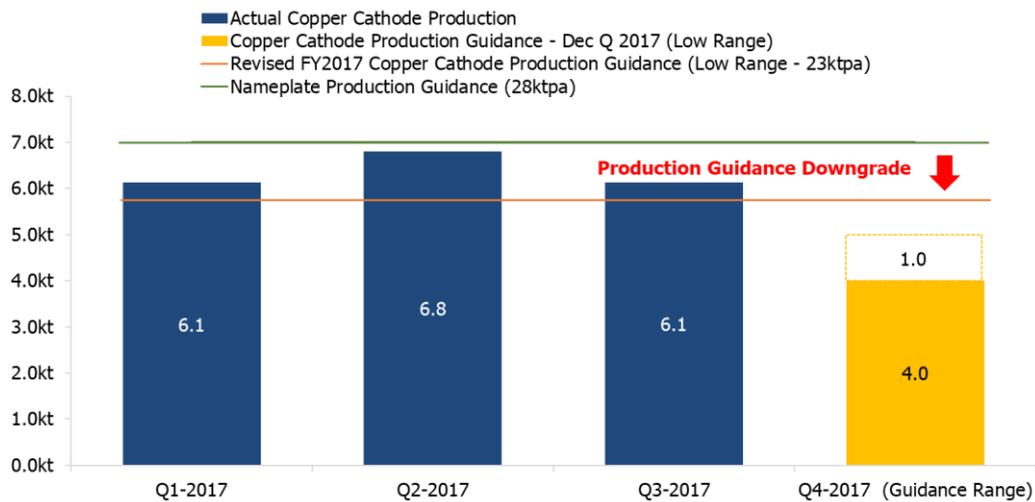


Figure 2: 2017 Finders Historical and Forecast Copper Cathode Costs



<sup>1</sup> On 31 October 2017, Finders released a "Wetar Production Update" announcement (Wetar Production Update) confirming that nameplate production guidance of 28,000tpa would not be met and that the September 2017 C1 and AISC had significantly increased. The revised 2017 forecast copper cathode production guidance was 24,500t - 25,000t with a revised C1 cash cost forecast to be between US\$1.15 - 1.25/lb (Production Downgrade). On 17 November 2017, Finders released a "Wetar Production Update" announcement confirming that the Production Downgrade guidance for 2017 would not be met. The revised 2017 forecast copper cathode production guidance was restated as 23,000t - 24,000 tonnes with a revised C1 cash cost forecast to be between US\$1.40 - 1.80/lb (Second Production Downgrade).

The latest downgrade represents lower production of approximately 29% to 43% (versus original nameplate guidance) and estimated “lost” revenue of US\$13 to US\$19 million in the December 2017 Quarter alone.<sup>2</sup>

A brief summary of Eastern Field’s analysis of the major technical reasons given by Finders for the two downgrades is set out in Appendix A of this announcement.

Based on the limited public disclosures to date, Eastern Field has no confidence that the underlying operational issues at Wetar have been resolved. Eastern Field is concerned that these material operational issues will continue into 2018.

On behalf of all Finders shareholders, Eastern Field respectfully requests further detailed disclosure (as set out in Appendix A) to enable shareholders to properly assess the current and likely future impact of these downgrades on the value of Finders and its Wetar project.

### Weak cash position and cash flow limits ability to deliver crucial mine life extensions

Finders’ material operational underperformance is occurring at a time of short mine life, heavy indebtedness (A\$86.8 million), minimal cash reserves (A\$3.6 million), an out-of-the-money hedge book (A\$23.6 million)<sup>3</sup> and significant last-reported outstanding trade creditors of A\$31.5 million<sup>4</sup>.

Shareholders should be aware that Finders’ ongoing reference to EBITDA ignores the fact that minimal net cash flow is being generated after, *inter alia*, debt and trade creditor repayment obligations. As a consequence, minimal net cash flow has been available for re-investment in the first nine months of the 2017 calendar year.

Figure 3: Finders Adjusted 2017 Net Cash Flow (A\$'000) (calendar year to date)<sup>5</sup>

	Mar Q 17	Jun Q 17	Sep Q 17
Net cash from / (used in) operating activities	17,185	13,328	11,723
Repayment of borrowings	-13,138	-8,172	-8,022
Other (Net Hedging Payments)	-2,922	-3,639	-3,706
<b>Adjusted Net Cash Flow</b>	<b>1,125</b>	<b>1,517</b>	<b>-5</b>

Eastern Field notes the forecast debt repayment in the December Quarter is A\$9.6 million with hedging payments expected to be similar to the September 2017 quarter.

Wetar continues to have a remaining period of mining operations of **approximately only 3 years** based on unmined JORC Reserves, despite its latest JORC Reserve update.<sup>6</sup> Finders’ weak financial position

<sup>2</sup> The production deterioration calculation is based on the difference between quarterly nameplate production of 7kt and the latest guidance of 4kt - 5kt for the December quarter. The “lost” revenue estimate is based on the realised copper price in the September quarter of US\$2.88/lb multiplied by the difference between quarterly nameplate production of 7kt and the latest guidance of 4kt - 5kt for the December quarter.

<sup>3</sup> Latest debt, cash and hedge-book position all sourced from Finders Quarterly Activities and Cashflow Report as at 30 September 2017. The reported hedge-book position of US\$17.9 million has been converted to A\$ at an AUDUSD rate of 0.7600.

<sup>4</sup> Sourced from Finders Half Year Financial Report as at 30 June 2017.

<sup>5</sup> Sourced from Finders Quarterly Activities and Cashflow Reports released on ASX

<sup>6</sup> As at 30 June 2016, unmined JORC Reserves totalled 8.01Mt as per Finders Announcement “Wetar Copper Project Resource Update” released to ASX 16 December 2016 and “Lerokis Ore Reserve Upgrade – Amended” released to ASX 23 November

severely inhibits its ability to fund what should be a crucial and immediate focus on extending Wetar's mine life. Given the increase in debt repayment obligations during 2018, this situation is unlikely to change in 2018 and may further deteriorate.

Eastern Field is concerned that even if the outstanding debt can be repaid by its March 2019 maturity date, shareholders may never be paid any dividends and instead will be required to fund future exploration activities.

## Significant uncertainty over recovery undermines future production levels

Despite numerous statements on prospective recoveries at Lerokis, there has been no disclosure of project-to-date recoveries of Kali Kuning nor any update of JORC Reserves since 30 June 2016. At a time when tonnes crushed for the year are close to feasibility study levels and reserves are performing in accordance with expectations, it is difficult to see how recoveries could be performing in accordance with expectations given that Finders is falling short on its production guidance.

Finders has made numerous announcements<sup>7</sup> (since Eastern Fields lodged its all-cash Offer) regarding Lerokis recovery estimates and theoretical longer leaching time periods.

Key Finders claims and Eastern Field's response are summarised below.

Finders' Claim	Eastern Field Response
Recoveries of greater than 75.0% for Kali Kuning and 62.9% for Lerokis can be achieved if ore is allowed to leach for more than 720 days.	<ul style="list-style-type: none"> <li>▪ While increased recovery may occur, it is highly questionable whether the possible additional 3.1% recovery at Lerokis via leaching for an additional 480 days will be economically viable.</li> <li>▪ In particular, we note that Wetar is a high fixed-cost operation due to its remote location for these small incremental revenues.</li> <li>▪ For this reason, leach pads are usually over-stacked to save the capital cost of building a new pad.</li> </ul>
A projected increase in recoveries to 88% will lead to an increased production target that may result in an increase in Finders' value of US\$45 million or approximately A\$0.08 per Finders share.	<ul style="list-style-type: none"> <li>▪ While increased recovery is possible for certain ore types, the average reserve recoveries recognise that there are other ore types that do not leach as well. The Competent Person for JORC Reserves maintained an average recovery for the Lerokis orebody of 62.9% rather than adopting an 88% recovery from a single, unrepresentative sample.</li> <li>▪ Forward looking statement appears to be made with no reasonable basis given that the recovery</li> </ul>

2017. Ore tonnes stacked in the period from 1 July 2016 to 30 June 2017 totalled 2.7Mt as disclosed in Finders Announcements "Half Year Financial Report Six month ended 30 June 2017" released to ASX 19 September 2017 and "Wetar Copper Project Q4 2016 Production" released to ASX 19 January 2017. Based on ore stacked of 2.7Mt during the period from 1 July 2016 and 30 June 2017, the implied remaining unmined JORC Reserve tonnage totals 5.3Mt. Assuming the projected annual stacking rate of 1.8Mt included in the Revised Bankable Feasibility Study for Wetar released to the ASX on 20 November 2013 continues to be achieved and the implied remaining JORC Reserve tonnage of 5.3Mt, then the remaining period of mining operations is approximately 3 years. Due to the leach cycle of 720 days, Wetar production will continue beyond the estimated period of 3 years of mining operations, at rapidly reducing rates of copper production.

<sup>7</sup> 31 October 2017 "Finders Takeover Offer Update" and 20 November 2017 "Positive Lerokis Copper Recovery Testwork"

# EASTERN FIELD DEVELOPMENTS LIMITED

(BVI Co No 1955552)

(a company jointly owned by Procap Partners Limited, PT Saratoga Investama Sedaya Tbk. and PT Merdeka Copper Gold Tbk.)

Provident



	<p>percentage was based on only one of four samples from Lerokis, which is not representative of the overall orebody. The test work column height of 2 meters is inconsistent with heap leach heights and adjustments to time and recovery percentage would be normal to correct for this difference.</p> <ul style="list-style-type: none"><li>▪ The extrapolation of EBITDA to value without recognition of capital development costs, changes in operating costs, taxes, royalties, timing of cash flows and discount rates is likely to be materially wrong.</li></ul>
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Based on the Competent Person sign-off, Finders shareholders should base their value assessments on the Reserve recovery disclosure after a 720-day leaching period of 75.0% and 62.9% for Kali Kuning and Lerokis respectively.

Given the importance of recoveries to Finders' valuation, Eastern Field requests further disclosure (as set out in Appendix A) in accordance with JORC Table 1 on Metallurgical Factors.

## Conclusion

On behalf of all Finders shareholders, Eastern Field urges Finders to provide the requested further disclosure to enable an accurate assessment of the company's operational and financial position and prospects.

Eastern Field looks forward to the receipt of further disclosure and notes the Target Statement and Independent Expert's Report are due by 5 December 2017. Given the material changes since Eastern Field lodged its all-cash Offer, Eastern Field intends to closely review this additional information, particularly in light of the Offer's Material Adverse Change condition, to determine its implications for the Offer.

Should you have any queries, please contact Eastern Field on 1300 079 762 (for callers within Australia) or +61 8 6314 6314 (for callers outside Australia) between 10.00am and 5.00pm (Perth time) Monday to Friday, or visit the Eastern Field website at [www.easternfielddevelopments.com](http://www.easternfielddevelopments.com).

Yours sincerely,

**David Fowler**  
Eastern Field Developments Limited  
Director

## Appendix A

### Further Analysis of the Finders Production and Cost Downgrades & Requested Additional Clarifications Sought

Finders' key reasons for the two downgrades are a "crud run event", crusher breakdown and reprocessing of dump leach material.

Eastern Field understands a "crud run event" should typically impact the SX-EW circuit over a period of weeks but not months. Eastern Field also would expect that a "crud run event" should result in a deferral of tonnes produced from the September quarter to the December quarter rather than any actual loss of tonnes produced, as appears to have occurred at Wetar. Heap leaching of copper should have continued to occur and inventories should have built up during the "crud run event" and should be subsequently processed into copper plate over the following weeks and months.

The reduction in tonnes crushed because of the premature failure of the jaw crusher bearing during November has not been quantified by Finders. Any reduction in tonnes crushed for the December quarter will impact December, and the subsequent quarters' production. The delay between stacking and leaching copper over 720 days means that the crusher failure is unlikely to explain why a significant portion of the 2,000 to 3,000 tonnes of copper production was lost in the December 2017 Quarter.

Eastern Field understands significant quantities of ore have been dump-leached over the past year and that copper has been recovered from this ore. If this material had leached in accordance with the original feasibility study leach curve, more than 55% of the contained copper, including fast-leaching copper species, would have been leached within 365 days. Given this ore was not crushed and agglomerated, actual recoveries are expected to be less.

This dump leach material is now being reclaimed, crushed and agglomerated and restacked to heap leach pads (Alternative Processing Approach). Eastern Field believes fast-leaching copper will have been extracted during dump leaching and that the re-crushed material would have a slower leach curve. Given this slower leach curve and the displacement of faster-leaching, higher-grade ore copper production will be negatively impacted.

Finders has asserted that "[i]t is important to note there will be no loss of recoverable copper from the life of mine reserve profile, it is simply delayed in the production profile". Eastern Field has, however, reviewed historical disclosure and cannot find any publicly disclosed test work that supports this position, nor a competent person sign-off on this statement.

On face value, Finders will achieve crusher levels higher than anticipated by the feasibility study for 2017, but will finish 2017 with 14.3% - 17.9% less copper produced than nameplate guidance of 28,000 tonnes. Significant uncertainty exists about Finders' ability to achieve nameplate guidance of 7,000 tonnes per quarter in 2018.

Given that there has been non-disclosure on:

- quarterly tonnes which were initially placed on the dump heap leach pads and the associated grade of that material;
- recoveries achieved on such tonnes prior to rehandling this material;
- tonnes rehandled and re-crushed per quarter and how the grade of this material has been reflected in tonnes stacked;
- the impact of reprocessing this dump; and
- actual recovery performance against the feasibility recovery curve

Eastern Field considers disclosure on these issues to be fundamental to investor confidence.

### Further Analysis of the Lerokis Recoveries & Additional Clarifications Sought

Eastern Field requests fuller disclosure, in accordance with JORC Table 1 on Metallurgical Factors, on Kali Kuning and Lerokis’ Reserve recoveries. This should include the experimental nature of the Finders heap leach process, pilot heap leach heights, column leach test work heights, crush size, leaching by different copper species and other factors. Finders should also confirm that the project is being implemented in accordance with this test work or what modifying factors have been applied where this is not the case. (e.g. if column leach tests were used, was the column height consistent with the heap leach lifts actually being used at Wetar and if not what adjustments were made, if any).

Finders has indicated that the Lerokis recovery applied in its base case financial model with lenders was 50% against a reserve recovery of 62.9%. In Eastern Field’s experience, this discount would only be applied by financiers if there was concern on the quality and representativeness of the metallurgical test work. This reinforces the need for full disclosure on recoveries which are fundamental to valuation. Disclosures required by JORC on Metallurgical Factors for reserves are set out below.

Figure 4: JORC Code Guidance for Metallurgical Factors

Criteria	Explanation
Metallurgical factors or assumptions	<ul style="list-style-type: none"> <li>• The metallurgical process proposed and the appropriateness of that process to the style of mineralisation.</li> <li>• Whether the metallurgical process is well-tested technology or novel in nature.</li> <li>• The nature, amount and representativeness of metallurgical test work undertaken, the nature of the metallurgical domaining applied and the corresponding metallurgical recovery factors applied.</li> <li>• Any assumptions or allowances made for deleterious elements.</li> <li>• The existence of any bulk sample or pilot-scale test work and the degree to which such samples are considered representative of the orebody as a whole.</li> <li>• For minerals that are defined by a specification, has the ore reserve estimation been based on the appropriate mineralogy to meet the specifications?</li> </ul>