



Dear Shareholder

At this year's Annual General Meeting you are being asked to consider several important resolutions related to changes implemented at your Company over the past few months.

These resolutions include:

## **1. Change of name to Black Oak Minerals Limited**

Directors are proposing to change the name of the Company to Black Oak Minerals Limited recognising the increased diversity of its project portfolio and following recent organisational restructuring and renewal.

The Company's new path involves a multi-commodity growth strategy that capitalises on its core technical skills, capabilities and experience.

The proposed name, derived from the native flora located around the Company's projects in central NSW, reflects our clear new direction. It is a strong name that captures our Australian heritage, growth ambitions and capabilities and it heralds the start of an exciting new era for your Company.

## **2. Share consolidation**

Directors are proposing a one for thirty share consolidation that will simplify the Company's capital structure and reposition its stock for broader investor appeal. It will reduce the total number of shares on issue to approximately 89.5 million (fully diluted basis), and is expected to lead to an adjustment in the share price that will leave it trading at a level reflecting the substantial asset base of the Company and fitting the investment criteria of a larger number of global investment funds.

## **3. Issue of warrants to TrailStone**

Shareholders will be aware that the Company announced in July that it had secured a new cornerstone investor and funding partner in the TrailStone investment group. TrailStone, a highly respected global funds management company, had agreed to provide a debt package of \$60 million.

This is an excellent transaction for your Company, providing us with the means to proceed with development of our exciting suite of assets, and positioning the Company to acquire further growth projects as opportunities arise.

As part of the transaction, TrailStone subscribed for 100 million ordinary shares at a price of one cent per share and was issued with one billion warrants that can be converted into shares in the Company at a strike price of 1.3 cents per share. As a consequence of the issue of the shares and warrants, if TrailStone were to convert its warrants to shares, its shareholding would exceed 20 per cent and consequently shareholder approval is required.

Your directors are strongly of the view that the initiatives being put before shareholders at the Annual General Meeting will help to establish a strong platform for growth, drive operational performance and ultimately lead to a positive re-rating in the Company's share price.

I urge shareholders to read the attached Notice of Meeting in its entirety before casting their vote. Directors look forward to meeting with shareholders at the forthcoming AGM.

Sincerely

Jon Parker  
Chairman

27 October 2014



**SOUTHERN CROSS  
GOLDFIELDS LTD**

**SOUTHERN CROSS GOLDFIELDS LIMITED**

**ABN 71 124 374 321**

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**NOTICE OF ANNUAL GENERAL MEETING**

**and**

**MEETING MATERIALS**

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**Date of Meeting:** Friday, 28 November 2014

**Time of Meeting:** 10:30am (Brisbane time)

**Venue of Meeting:** Christie Conference Centre  
320 Adelaide Street,  
Brisbane, Qld, 4000

This document should be read in its entirety.

If Shareholders are in doubt as to how they should vote on the Resolutions, they should seek advice from their financial or other professional adviser prior to voting.

The Independent Expert has concluded that the TrailStone Warrant Exercise is **NOT FAIR BUT REASONABLE** to Non-Associated Shareholders.

**Your Directors unanimously recommend that you vote in favour of Resolution 1 in relation to the TrailStone Warrant Exercise.**

## NOTICE OF ANNUAL GENERAL MEETING

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Notice is hereby given that an Annual General Meeting of the Shareholders of **SOUTHERN CROSS GOLDFIELDS LIMITED ACN 124 374 321** (the **Company** or **SXG**) will be held on Friday, 28 November 2014, commencing at 10:30am (Brisbane time) at the Christie Conference Centre, 320 Adelaide Street, Brisbane, Qld, 4000 (**Meeting**) for the purpose of transacting the business set out below. Registration will commence just prior to the Meeting.

This Notice incorporates, and should be read together with, the Meeting Materials which includes the Explanatory Memorandum, Annexures (including the Independent Expert's Report and Technical Experts' Reports) and Proxy Form.

Terms used in this Notice will, unless the context otherwise requires, have the same meaning given to them in the Glossary contained in the Explanatory Memorandum.

## ORDINARY BUSINESS

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### RESOLUTION 1: Acquisition by TrailStone of greater than a 20% relevant interest in SXG

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

*"That, for the purposes of section 611, item 7 of the Corporations Act and Listing Rule 7.1 of the Listing Rules, and for all other purposes, approval is given for the acquisition by either, or both of, TrailStone UK Ltd and TrailStone UK II Ltd of a relevant interest in the voting Shares of the Company (and the acquisition of any deemed relevant interest by any of their respective associates) in consequence of the exercise of Warrants issued to TrailStone UK Ltd on 17 October 2014 and described in the Explanatory Memorandum."*

**Independent Expert's Report:** Shareholders should carefully consider the both the Concise Independent Expert's Report included at Annexure B of this document and also the Full Independent Expert's Report which have been prepared for the purposes of Shareholder approval required by section 611, item 7 of the Corporations Act and Listing Rule 7.1. The Independent Expert's Reports comment on the fairness and reasonableness of the transaction contemplated by Resolution 1 to the Non-Associated Shareholders and concludes that **the transaction is not fair but reasonable** to the Non-Associated Shareholders. As noted, the Concise Independent Expert's Report is included at Annexure B of this Notice of Meeting. The Full Independent Expert's Report is available online, on the Company's website and via its ASX portal and also from the Company in hard copy on request.

**Technical Experts' Reports:** Shareholders should also carefully consider the commentary relating to the Technical Experts' Reports in the Concise Independent Expert's Report and if required, consider Technical Expert's Reports in full (included in the Full Independent Expert's Report) prepared for the purposes of Shareholder approval required by section 611, item 7 of the Corporations Act and Listing Rule 7.1.

**Voting Exclusion Statement:** The Company will, in accordance with section 611(7)(a) of the Corporations Act and Listing Rule 14.11, disregard any votes cast on Resolution 1, by or on behalf of TrailStone or any of its associates, unless it is cast:

- (a) by a person as proxy for a person who is entitled to vote (in accordance with the directions on the Proxy Form); or
- (b) by the person chairing the meeting as proxy for a person who is entitled to vote (in accordance with a direction on the Proxy Form to vote as the proxy decides).

Further details are provided under the heading "Notes on Attendance and Voting at the Meeting".

**RECEIPT OF 2014 FINANCIAL STATEMENTS**

This item does not require voting by Shareholders. It is intended to provide an opportunity for Shareholders to raise questions on the financial statements and reports. The Company's auditor will be present at the Meeting and available to answer any questions.

**RESOLUTION 2: Adoption of Remuneration Report**

To consider and, if thought fit, to pass, with or without amendment, the following **advisory only resolution**:

*"That, for the purposes of section 250R(2) of the Corporations Act, and for all other purposes, the Remuneration Report forming part of the Company's 2014 Annual Report be adopted."*

**Note: the vote on this Resolution is advisory only and does not bind the Directors or the Company.**

**Voting Exclusion Statement:** A vote on this Resolution 2 must not be cast (in any capacity) by or on behalf of either of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a person (**the voter**) described above may cast a vote on this Resolution as a proxy if the vote is not cast on behalf of a person described above and either:

- (a) the voter is appointed as a proxy by writing that specifies the way the proxy is to vote on this Resolution; or
- (b) the voter is the Chairman and the appointment of the Chairman as proxy:
  - (i) does not specify the way the proxy is to vote on this Resolution; and
  - (ii) expressly authorises the Chairman to exercise the proxy even though this Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

**RESOLUTION 3: Re-election of Mr Jon Parker as a Director**

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

*"That in accordance with the Constitution of the Company and the Listing Rules, Mr Jon Parker who retires by rotation and being eligible, be re-elected as a Director of the Company."*

**Voting Exclusion Statement:** The Company will disregard any votes cast on this Resolution 3 by Mr Jon Parker and any of his associates, unless it is cast:

- (a) by a person as proxy for a person who is entitled to vote (in accordance with the directions on the Proxy Form); or
- (b) by a person chairing the Meeting as proxy for a person who is entitled to vote (in accordance with a direction on the Proxy Form to vote as the proxy decides).

**RESOLUTION 4: Election of Mr Kenneth Osland as a Director**

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

*"That for the purpose of clause 13.5 of the Company's Constitution and for all other purposes, Mr Kenneth Osland, who was appointed to the Board since the Company's last AGM and being eligible, be elected as a Director of the Company."*

**Voting Exclusion Statement:** The Company will disregard any votes cast on this Resolution 4 by Mr Kenneth Osland and any of his associates, unless it is cast:

- (c) by a person as proxy for a person who is entitled to vote (in accordance with the directions on the Proxy Form); or
- (d) by a person chairing the Meeting as proxy for a person who is entitled to vote (in accordance with a direction on the Proxy Form to vote as the proxy decides).

**RESOLUTION 5 – Consolidation of Share Capital**

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

*"That, for the purpose of section 254H(1) of the Corporations Act and for all other purposes, the Shares of the Company be consolidated through the conversion of every **thirty (30)** Shares held by a Shareholder into one (1) Share with any resulting fractions of a Share rounded up to the next whole number of Shares, with consolidation to take effect in accordance with the timetable set out in the Explanatory Statement accompanying this Notice of Meeting."*

**SPECIAL BUSINESS**

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**RESOLUTION 6: Change of Company name**

To consider and, if thought fit, pass the following resolution as a special resolution:

*"That, for the purposes of section 157 of the Corporations Act and for all other purposes, Shareholders approve the change of the Company's name from Southern Cross Goldfields Limited to Black Oak Minerals Limited with effect from the date on which the Australian Securities & Investment Commission alters the details of the Company's registration to reflect the change in name, for the purpose set out in the Explanatory Memorandum."*

**RESOLUTION 7: Approval of 10% Placement Facility**

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

*“That, for the purposes of Listing Rule 7.1A and for all other purposes, Shareholders approve the issue of Equity Securities up to 10% of the issued capital of the Company (at the time of the issue) (**10% Placement Facility**) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions in the Explanatory Memorandum.”*

**Voting Exclusion Statement:** The Company will disregard any votes cast on this Resolution by any person who may participate in the 10% Placement Facility and a person who might obtain a benefit, except a benefit solely in the capacity of a Shareholder, if the resolution is passed, and any of their associates, unless it is cast:

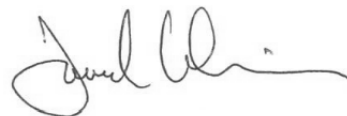
- (e) by a person as proxy for a person who is entitled to vote (in accordance with the directions on the Proxy Form); or
- (f) by a person chairing the Meeting as proxy for a person who is entitled to vote (in accordance with a direction on the Proxy Form to vote as the proxy decides).

Please refer to the Explanatory Memorandum attached to this Notice for more information regarding Resolutions 1 to 7.

By order of the Board



Leni Pia Stanley  
Joint Company Secretary  
24 October 2014



David Kinsman  
Joint Company Secretary  
24 October 2014

*See the following notes on Voting and Proxies*

## NOTES ON ATTENDANCE AND VOTING AT THE MEETING

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These notes form part of the Notice.

### VOTING ENTITLEMENT

In accordance with regulation 7.11.37 of the *Corporations Regulations 2001 (Cth)*, the Board has determined that the Shareholders who are on the Company's Share register at 10:30am (Brisbane time) on Wednesday, 26 November 2014 will be taken, for the purposes of the Annual General Meeting, to be entitled to attend and vote at the Meeting.

If you are not the registered holder of a relevant Share at that time, you will not be entitled to vote at the Meeting.

### VOTING AT THE MEETING

Ordinary resolutions require the support of more than 50% of the votes cast. Resolutions 1 – 5 to be considered at this Meeting are ordinary resolutions.

Special resolutions require the support of at least 75% of votes cast. Resolutions 6 & 7 to be considered at this Meeting are special resolutions.

Every question arising at this Meeting will be decided in the first instance by a show of hands. A poll may be demanded in accordance with the Company's Constitution.

On a show of hands, every Shareholder who is present in person or by proxy, representative or attorney, will have one vote. Upon a poll, every person who is present in person or by proxy, representative or attorney, will have one vote for each Share held by that person.

### VOTING EXCLUSION STATEMENT - RESOLUTION 1:

#### *Corporations Act*

Under the Corporations Act, TrailStone is excluded from voting in favour of Resolution 1 as described below.

Section 606(1) of the Corporations Act provides that an entity cannot acquire Shares in a listed Company if the transaction will increase that entity's voting power in the Company from 20% or below, to more than 20%. Section 611, item 7 of the Corporations Act (being the law relevant to the Resolution), provides an exception to this prohibition.

The item 7 exception provides that section 606(1) will not apply if the acquisition is approved by a resolution passed at a general meeting of the Company, if:

- a) no votes are cast in favour of the resolution by:
  - (i) the person proposing to make the acquisition and their associates; or
  - (ii) the persons (if any) from whom the acquisition is to be made and their associates; and
- b) the members of the Company were given all information known to the person proposing to make the acquisition or their associates, or known to the Company, that was material to the decision on how to vote on the resolution.

TrailStone and its associates are therefore prevented by law from voting in favour of Resolution 1 (they may however vote against Resolution 1).

In this case, the acquisition which is the subject of Resolution 1 will occur by way of the issue of Shares by SXG and as such there is no 'person from whom the acquisition is made' and no voting restriction that would prevent any associate of SXG from voting on Resolution 1.

The Meeting Materials set out all information known to the Company, that is material to the decision on how to vote on Resolution 1 including:

- a) the identity of the person proposing to make the acquisition and its associates;
- b) the maximum extent of the increase in that person's voting power in the Company that would result from the acquisition;
- c) the voting power that person would have as a result of the acquisition;
- d) the maximum extent of the increase in the voting power of each of that person's associates that would result from the acquisition; and
- e) the voting power that each of that person's associates would have as a result of the acquisition.

#### **APPOINTMENT OF PROXIES**

A Shareholder who is entitled to attend and vote at the Meeting may appoint a person, who need not be a Shareholder of the Company, as the Shareholder's proxy to attend and vote on behalf of the Shareholder.

A Shareholder who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

A Proxy Form accompanies this Notice of Meeting. If you wish to appoint a proxy, please complete the Proxy Form and return it at least 48 hours before the Meeting, **being no later than 10:30am (Brisbane time) on Wednesday, 26 November 2014:**

- by post to: Computershare Investor Services Pty Limited GPO Box 242, Melbourne VIC 3001;
- by facsimile on: 1800 783 447 (within Australia) or + 61 3 9473 2555 (outside Australia); or
- online by visiting [www.investorvote.com.au](http://www.investorvote.com.au) and logging in using the control number found on the front of your accompanying proxy form. You will be taken to have signed your Proxy Form if you lodge it in accordance with the instructions given on the website. Intermediary Online subscribers (Institutions/Custodians) may lodge their proxy instruction online by visiting [www.intermediaryonline.com](http://www.intermediaryonline.com).

If the appointment is signed by an attorney, the power of attorney or a certified copy of it must be sent with the Proxy Form.

#### **PROXIES AND CONDUCT OF MEETING**

Pursuant to section 250BB of the Corporations Act, an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, if it does:

- a) the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote as directed;



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

Under section 250BC of the Corporations Act, if:

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

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

If you choose to appoint a proxy, you are encouraged to direct your proxy how to vote on the Resolutions by marking either **For**, **Against** or **Abstain** on the voting form for each Resolution.

## TABLE OF CONTENTS

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EXPLANATORY MEMORANDUM .....	10
RESOLUTION 1 APPROVAL FOR ACQUISITION OF GREATER THAN A 20% INTEREST IN SXG SHARES BY TRAILSTONE .....	12
RESOLUTION 2 ADOPTION OF REMUNERATION REPORT .....	27
RESOLUTION 3 RE-ELECTION OF MR JON PARKER AS A DIRECTOR.....	28
RESOLUTION 4 ELECTION OF MR KENNETH OSLAND AS A DIRECTOR .....	29
RESOLUTION 5 – CONSOLIDATION OF SHARE CAPITAL .....	30
RESOLUTION 6 CHANGE OF COMPANY NAME .....	33
RESOLUTION 7 APPROVAL OF 10% PLACEMENT FACILITY .....	34
GLOSSARY .....	41
ANNEXURE A WARRANT TERMS .....	45
ANNEXURE B CONCISE INDEPENDENT EXPERT’S REPORT .....	49
ANNEXURE C TERMS AND CONDITIONS OF SHARES .....	80
ANNEXURE D TERMS AND CONDITIONS OF UNLISTED OPTIONS ISSUED TO SHAREHOLDERS .....	82
ANNEXURE E TERMS AND CONDITIONS OF UNLISTED OPTIONS ISSUED TO RMB .....	82
ANNEXURE F TERMS AND CONDITIONS OF UNLISTED OPTIONS ISSUED TO FRANK TERRANOVA..	83

## EXPLANATORY MEMORANDUM

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### IMPORTANT NOTICE

This Explanatory Memorandum forms part of the Notice and has been prepared for Shareholders in connection with the Meeting. It provides information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions contained in the Notice.

An Independent Expert Report has also been commissioned by the Company and prepared by Grant Thornton to assist Shareholders in deciding how to vote on Resolution 1 regarding the Warrant Settlement Options and the proposed issue of Warrant Settlement Shares to TrailStone. A copy of that report is attached to this Explanatory Memorandum at Annexure B. Shareholders should read that report in its entirety to ensure they have all information relevant on how to vote on Resolution 1.

The Notice, Explanatory Memorandum, Independent Expert's Report (which includes the Technical Experts' Reports) and Proxy Form are collectively referred to as the **Meeting Materials**. The Meeting Materials are all important documents that should be read carefully and in their entirety before Shareholders make a decision on how to vote at the Meeting.

This Explanatory Memorandum does not take into account the individual investment objectives, financial situation and needs of individual Shareholders or any other person. Accordingly, it should not be relied on solely in determining how to vote on the Resolutions.

Capitalised terms used in this Explanatory Memorandum are defined in the Glossary.

All times and dates referred to in these Meeting Materials are times and dates in Brisbane, Queensland, Australia, and all currency references are to Australian dollars, unless otherwise indicated.

This Explanatory Memorandum is dated 24 October 2014.

### RESPONSIBILITY FOR INFORMATION

The information contained in this Explanatory Memorandum, other than the Independent Expert's Report, the Technical Experts' Reports and information supplied by TrailStone, has been prepared by the Company and is the responsibility of the Company.

TrailStone has provided the information set out in relation to Resolution 1 which relates to TrailStone's identity, its associates, Related Bodies Corporate, voting power and intentions including, the information contained in Sections 3.3(a), 3.6 and 4.2 of this Explanatory Memorandum.

None of the Company, its Directors, associates or advisers, assumes any responsibility for the accuracy or completeness of the information supplied by TrailStone.

A copy of this Notice and Explanatory Memorandum has been lodged with the ASX pursuant to the Listing Rules. Neither ASX, nor any of its officers take any responsibility for the contents of these documents.

**FORWARD LOOKING STATEMENTS**

Certain statements in this Explanatory Memorandum relate to the future. These statements reflect views only as of the date of this Explanatory Memorandum. While the Company considers that the expectations reflected in the forward looking statements are reasonable, neither the Company, nor any other person, gives any representation, assurance or guarantee, that the occurrence of an event express or implied in any forward looking statements in this Explanatory Memorandum will actually occur.

**THE RESOLUTIONS**

At this Annual General Meeting, Shareholders will be asked to vote on Resolutions relating to:

- Resolution 1 - the acquisition of greater than 20% of the voting Shares of the Company, upon the future exercise of 1 billion (1,000,000,000) Warrants which were issued by the Company on 17 October 2014. An concise (summarised form) and full Independent Expert Report has been commissioned by the Company and prepared by Grant Thornton to assist Shareholders with their decision, a copy of the Concise Report is provided at Annexure B and the full Independent Expert's Report is available online on the Company's website, via its ASX portal and hard copies are available from the Company on request;
- Resolution 2 – the Adoption of Remuneration Report;
- Resolution 3 – the re-election of Mr Jon Parker as a Director;
- Resolution 4 – the election of Mr Kenneth Osland as a Director;
- Resolution 5 – the consolidation of Share Capital;
- Resolution 6 - the change of the Company's name to Black Oak Minerals Limited; and
- Resolution 7 – the approval of 10% Placement Facility pursuant to Listing Rule 7.1A.

**CONSENTS**

Each of the following persons has consented in writing to being named in this Explanatory Memorandum in the form and context in which they are named, and has not withdrawn that consent as at the date of the Notice:

- the Independent Expert;
- the Technical Experts.

The Independent Expert also consents to the inclusion of the Independent Expert's Report and references to the Independent Expert's Report in this Explanatory Memorandum, in the form and context in which they are included.

The Technical Experts have each consented to the inclusion of the respective Technical Expert's Report and references to the Technical Expert's Report in this Explanatory Memorandum, in the form and context in which they are included.

**WHAT IF I HAVE QUESTIONS?**

If you have any questions, you should contact your broker, financial or legal advisor immediately. Alternatively you can call the Company's Chief Financial Officer, David Kinsman on +61 7 3236 2511.

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## 1. Background and Overview

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### 1.1 TrailStone Transactions

TrailStone UK Ltd is a limited liability company incorporated in England and Wales with registered number 8510757. TrailStone UK II Ltd is also a limited liability company incorporated in England and Wales with registered number 8511228. TrailStone UK Ltd and TrailStone UK II Ltd are wholly-owned and controlled by TrailStone (Cayman) L.P. TrailStone (Cayman) L.P. and its controlled entities are referred to in this Explanatory Memorandum as the **TrailStone Group**.

The TrailStone Group are a commodities investment and trading firm who are involved in the ownership, finance and management of mining, oil, gas and power assets located in various parts of the globe. Further detail about the group is included below at Section 4.2.

On 8 July 2014 SXG announced that it had entered into the definitive Transaction Documents with members of the TrailStone Group in relation to a circa A\$61 million financing for SXG, comprising a portion of equity funding and A\$60 million in debt funding from the TrailStone Group (**TrailStone Transactions**).

The TrailStone Transactions and the key terms were set out in detail in the Notice of EGM dated 5 August 2014.

Shareholder approval was sought and obtained at SXG's Extraordinary General Meeting held on 4 September 2014 to issue up to 250 million Shares to TrailStone on certain terms detailed in the Notice of Extraordinary General Meeting announced on 5 August 2014.

No further Shareholder approvals were required in connection with the A\$25 million Prepaid Credit Facility or the A\$35 million Credit Facility, or the grant of the related security interests, as TrailStone was not a substantial Shareholder, related party or other person with a relevant relationship to SXG prior to entering into the TrailStone Transactions.

The first tranche of the \$25 million Prepaid Gold Facility was drawn down on 23 September 2014.

### 1.2 Completion of TrailStone Placement and Warrant Subscription

In compliance with the Shareholder approval obtained at the Company's recent Extraordinary General Meeting and upon SXG receiving the subscription funds totalling A\$1 million from TrailStone, 100 million Shares were issued to TrailStone UK Ltd on 17 October 2014.

As at the date of this Notice of AGM, TrailStone holds a relevant interest in 100 million Shares, equating to 7.58% of the voting power in SXG.

In addition to the Shares issued as noted above, TrailStone UK Ltd has been issued on 17 October 2014, 1 billion (1,000,000,000) Warrants. The Warrants were issued as partial consideration for the A\$35 million Credit Facility to be advanced by the TrailStone Group. The ability to fully convert the Warrants into Shares is limited unless and until Shareholder approval is obtained under Resolution 1.

### **1.3 Relevance of Resolution 1 and the impact of Shareholder approval (including maximum voting power that may be acquired by TrailStone)**

The issue of the Warrants on 17 October 2014 did not require Shareholder approval because the Warrants themselves carry no voting rights and are not dilutionary to Shareholders because they are not exercisable prior to the Meeting. They are therefore not considered to be ‘equity securities’ prior to the Meeting.

The settlement of the Warrants (following their exercise) can occur without Shareholder approval. This is because the terms of issue of the Warrants provide for two alternative settlement options should Non-Associated Shareholders *not* approve Resolution 1. As such, SXG may still proceed to settle the Warrants either by the issue of SXG Shares utilising the Net Settlement Option (provided the Regulatory Limits are not breached) or by utilising the Cash Settlement Option, neither of which require Shareholder approval.

However, if Resolution 1 were not approved, the settlement of the Warrants may require SXG to utilise cash that would otherwise be available to it to use in the general course of business.

The outcome of Resolution 1 will impact the Warrant Settlement Options available to TrailStone and this is summarised as follows:

<b>If Resolution 1 is approved</b>	<p>Either the Standard Settlement Option or the Net Settlement Option will be available to TrailStone, at its election.</p> <p>The Standard Settlement Option will result in the issue of up to a maximum of 1 billion (1,000,000,000) Warrant Settlement Shares in exchange for payment by TrailStone of the Warrant Strike Price (in aggregate A\$13,000,000).</p> <p>The number of Warrant Settlement Shares required to be issued under the Net Settlement Option cannot be determined in advance of Warrant Exercise (due to the pricing variables discussed at Annexure A), but will likely be a lesser number required to satisfy the “in-the-money-value” of the Warrants and will not require payment of the Warrant Strike Price by TrailStone.</p>
<b>If Resolution 1 is not approved <u>and</u> the issue of the Warrant Settlement Shares <u>would not breach</u> the Regulatory Limits.</b>	<p>Both the Net Settlement Option and the Cash Settlement Option will be available to TrailStone, at its election.</p> <p>As noted above, the number of Warrant Settlement Shares under the Net Settlement Option cannot be determined in advance of Warrant Exercise (although it will be calculated in accordance with the methodology described in Annexure A of this Explanatory Memorandum). However, the maximum relevant interest and voting power that TrailStone (or its associates) may acquire in relation to SXG’s Shares in these circumstances will be constrained by the takeover laws and SXG’s available Placement Capacity at the relevant time and therefore would be less than the maximum increase in TrailStone’s voting power in the event Resolution 1 is approved.</p>

<b>If Resolution 1 is not approved and the issue of the Warrant Settlement Shares <u>would breach</u> the Regulatory Limits.</b>	<p>Only the Cash Settlement Option will be available.</p> <p>No Warrant Settlement Shares will be issued to TrailStone.</p> <p>However the Company must fund the Cash Settlement Amount which cannot be determined in advance due to the pricing variables discussed at Annexure A (which will not be known until Warrant Exercise).</p>
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#### 1.4 Other key terms and conditions

The TrailStone Transactions are subject to other key terms and conditions which were comprehensively summarised in the Notice of Extraordinary General Meeting dated 5 August 2014.

#### 1.5 TrailStone Director

The TrailStone Transactions are also subject to a term that TrailStone will be permitted to appoint a director or an observer to the Board for so long as it retains at least a 5% equity interest in SXG and any obligations of SXG remain outstanding under the Prepaid Agreement or Credit Facility (**TrailStone Director**).

#### 1.6 Impact on issued capital

A pro forma issued capital table demonstrating the impact of Resolution 1 and the consequent effects of the available Warrant Settlement Options as detailed in the accompanying Notice is set out below.

**Table 1: Impact on issued capital**

Shares	Shares issued/ to be issued to TrailStone (Number)*	Price per Share	Total Shares on issue (Cumulative)*	Cumulative % held by TrailStone (as a percentage of the Share capital at the time)
<b>Pro forma issued capital as at the date of this Notice of AGM</b>				
Current ( <i>as at the date of this Notice</i> )	100,000,000	A\$0.01	1,319,550,815	7.58%
Settlement of TrailStone Warrants (if Resolution 1 approved)	Up to 1,000,000,000 <i>(representing 43.11% of the issued Share capital)</i>	A\$0.013	2,319,550,815	Up to 47.42%

Shares	Shares issued/ to be issued to TrailStone (Number)*	Price per Share	Total Shares on issue (Cumulative)*	Cumulative % held by TrailStone (as a percentage of the Share capital at the time)
Net Settlement of TrailStone Warrants (if Resolution 1 not approved)	Unable to be determined in advance of Warrant exercise (on or before 31 December 2019). However the maximum relevant interest and voting power that TrailStone (or its associates) may acquire in relation to SXG's Shares in these circumstances will be constrained by the takeover laws and SXG's available Placement Capacity at the relevant time and therefore would be less than the maximum increase in TrailStone's percentage Shareholding in the event Resolution 1 is approved, as disclosed in the previous row.			
Cash Settlement of TrailStone Warrants (if Resolution 1 not approved and Net Settlement Option not utilised)	Nil	N/A	N/A	7.58% <i>(No change from TrailStone Placement)</i>

*\*If Resolution 5 (Share Consolidation) is passed, the numbers of Shares issued/to be issued to TrailStone and the total shares on issue stated in the table above will be reduced commensurate with the approved ratio of 30:1, by dividing the above numbers by 30. The percentages of the share capital stated will not change.*

## 1.7 Effect on control

If Non-Associated Shareholders **pass** Resolution 1 and TrailStone elects to settle the Warrants using:

- the Standard Settlement Option, then (taken with the TrailStone Shares received by TrailStone under the TrailStone Placement), TrailStone will hold a significant Share parcel, of up to 1.1 billion Shares, representing up to 47.42% voting power in the Company following the issue of the Warrant Settlement Shares; or
- the Net Settlement Option, then (in addition to the TrailStone Shares received by TrailStone under the TrailStone Placement), TrailStone will acquire an additional parcel of Shares in SXG. The maximum number of Warrant Settlement Shares in this case cannot be determined in advance of Warrant Exercise (due to the pricing variables discussed at Annexure A), however, on the basis that this operates as a "net settlement" mechanism, the aggregate number of Shares which TrailStone will receive would be less than the number referred to in paragraph (a) above.

It should also be noted that upon acquiring an equity interest of 5% or more, TrailStone is entitled to appoint a director to the Board of SXG while there is indebtedness to the TrailStone Group.

If Non-Associated Shareholders do not pass Resolution 1 and the Warrants are settled using:

- the Net Settlement Option, then the impact on control would be less than the impacts described above in paragraphs (a) and (b) since the maximum relevant interest and voting



power that TrailStone may acquire in relation to SXG's Shares in these circumstances would be constrained by the takeover laws and SXG's available Placement Capacity at the relevant time; or

- d) the Cash Settlement Option, then TrailStone will not acquire any further Shares in addition to the TrailStone Shares that it already holds and there will be no impact on control of SXG or TrailStone's Shareholding and voting power in SXG.

## **2. Purpose of Resolution 1**

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As a consequence of the potential control implications associated with the Warrant Settlement Options, SXG seeks Shareholder approval for Resolution 1 referred to in the accompanying Notice for the purpose of section 611, item 7 of the Corporations Act.

Section 611, item 7 of the Corporations Act allows a person to acquire Shares or a relevant interest in Shares, where the acquisition results in that person's or another person's voting power in the Company increasing from 20% or below to more than 20% if Shareholder approval is obtained for the acquisition.

For the purposes of Listing Rule 7.2 (Exception 16), an issue of securities approved for the purposes of section 611, item 7 of the Corporations Act is an exception to Listing Rule 7.1 and 7.1A and therefore does not count toward calculating the Company's Placement Capacity (either now in the future).

As such, if Resolution 1 is passed, no further Shareholder approval will be sought in connection with the exercise of the Warrants by TrailStone or the issue of any Warrant Settlement Shares by SXG to settle any exercised Warrants.

Important information regarding factors that may impact TrailStone's voting power, rationale for the proposed acquisition, the proposed timing of the acquisition, price payable for the acquisition, ranking of Warrant Settlement Shares, details of who will make the acquisition, amongst other things, are set out below in paragraphs 3.3 and 3.4. TrailStone's intentions in relation to SXG are set out in detail at Section 3.6 of this Explanatory Memorandum.

Shareholders should carefully read the complete explanation regarding Resolution 1 contained in this Section of the Explanatory Memorandum, together with the Independent Expert's Report.

## **3. The Resolution**

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### **3.1 Background to Takeover Approval**

Under the terms of the Transaction Documents, TrailStone UK Ltd is the entity that received the Warrants.

The maximum number of Warrant Settlement Shares that may be issued if Resolution 1 is approved are a parcel of SXG Shares, which immediately after their issue will represent voting power in the Company of up to 43.11%.

When added to the TrailStone Shares already held by TrailStone, this will result in TrailStone (and each of its associates) having a voting power in the Company of up to 47.42%.

Consequently, the issue of Warrant Settlement Shares has the potential to result in TrailStone (and each of its associates) acquiring a relevant interest in SXG Shares representing voting power in the Company of greater than 20%.

### **3.2 Takeover Approval**

Part 6.1 of the Corporations Act contains provisions known as the 'takeover provisions'. These provisions prohibit the acquisition of voting Shares or a relevant interest in voting Shares of a listed entity, if that acquisition results in a person's or someone else's voting power in the company increasing from 20% or below to more than 20% (**Takeover Prohibition**).

A person has a relevant interest in voting Shares if they are the holder of the Shares, or have power to exercise, or control the exercise of votes attaching to the Shares, or have power to dispose of, or control the exercise of a power to dispose of the Shares. A holder of voting Shares will have a relevant interest in those Shares by virtue of that direct Shareholding.

Section 608(3) of the Corporations Act also deems a person to have a relevant interest in voting Shares held by a corporation, if that person holds 20% or more of the Shares in that corporation or otherwise controls that corporation (**Deeming Provisions**).

Section 611, item 7 of the Corporations Act provides an exception to the Takeover Prohibition in circumstances where the Shareholders of the company whose Shares are being acquired (in this case SXG), approve the acquisition (**Takeover Approval**).

As noted above, the issue of the Warrant Settlement Shares has the potential to result in TrailStone (and each of its associates) acquiring a relevant interest in Shares representing voting power in the Company of greater than 20%. As a result, the Takeover Approval is being sought pursuant to Resolution 1 to address that eventuality.

The percentage of voting power to be acquired by TrailStone and its associates as set out immediately above, is calculated on the basis that no other Shares are issued prior to the issue of the Warrant Settlement Shares by the Company, including any Shares contemplated to be issued to raise further funds in future and any Shares to be issued upon the exercise of Options which are currently on issue. Further issues of Shares in the future (to a party other than TrailStone or its associates) will dilute the voting power that may be acquired by TrailStone upon issue of the Warrant Settlement Shares.

The impact on SXG's issued capital and effect on control is summarised at paragraphs 1.6 and 1.7 above and explained further below.

### 3.3 Corporations Act Disclosure Requirements

#### (a) Identity of the person making the acquisition and their associates

The acquisition for which approval is sought is the acquisition by either, or both, of TrailStone UK Ltd and TrailStone UK II Ltd of, in aggregate, up to 1 billion (1,000,000,000) Warrant Settlement Shares required to be issued by SXG.

The Warrants were only issued to TrailStone UK Ltd, however some or all of the Warrants may be held by TrailStone UK II Ltd in the future. Accordingly, TrailStone UK II Ltd is also named in Resolution 1.

For the purpose of section 611(7) of the Corporations Act, the associates of TrailStone UK Ltd and TrailStone UK II Ltd in respect of its investment in SXG are the other members of the TrailStone Group.

#### (b) Maximum extent of the increase in TrailStone's voting power as a result of the acquisition

TrailStone currently holds 100 million TrailStone Shares resulting from the TrailStone Placement (which is the subject of ratification resolution at Resolution 2), which as at the date of these Meeting Materials represent current voting power of 7.58% (**Base Voting Power**).

Other than in respect of that parcel of Shares, none of the TrailStone Group currently holds any other Shares in the Company or have any other voting power with respect to SXG's Shares.

Assuming that the maximum number of 1 billion (1,000,000,000) Warrant Settlement Shares are issued following Warrant Exercise (subject to Resolution 1 being approved), the voting power in the Company of TrailStone and its associates will be increased up to a maximum of 47.42% (**Maximum Voting Power**).

The acquisition of the Warrant Settlement Shares utilising the Standard Settlement Option will therefore result in:

- a maximum increase of the voting power of TrailStone and its associates of 43.11%; and
- a Maximum Voting Power of 47.42% from a Base Voting Power of 7.58%.

#### (c) Voting power of TrailStone as a result of the acquisition

Assuming that the maximum number of 1 billion (1,000,000,000) Warrant Settlement Shares are issued following Warrant Exercise (subject to Resolution 1 being approved), the Maximum Voting Power in the Company of TrailStone and its associates will be 47.42%.

(d) **Maximum extent of the increase in the voting power of each of TrailStone's associates that would result from the acquisition**

Other than the one hundred million (100,000,000) TrailStone Shares held by TrailStone, none of TrailStone and its associates currently hold any other SXG Shares or have any other voting power in the Company.

Consequently, the maximum extent of the increase of the voting power of TrailStone and its associates is 43.11%.

(e) **Voting power that each of TrailStone's associates would have as a result of the acquisition**

Assuming that the maximum number of 1 billion (1,000,000,000) Warrant Settlement Shares are issued following Warrant Exercise (subject to Resolution 1 being approved), the voting power that each of TrailStone and its relevant associates will have as a result of the acquisition will be 47.42%.

### **3.4 Additional disclosure required by ASIC Regulatory Guide 74**

Shareholders are advised of the following information in relation to the future issue of the Warrant Settlement Shares if Shareholders approve Resolution 1 and TrailStone exercises Warrants:

(a) **Factors that may impact maximum voting power**

If Resolution 1 is approved and Warrants are exercised:

- the maximum number of Warrant Settlement Shares that will be issued will be up to 1 billion (1,000,000,000). This amount is predetermined and is not subject to any pricing variables or any other factors, but will be subject to adjustment in accordance with the terms of the Warrants (for example, in the event of a share consolidation); and
- accordingly, the maximum voting power that may be obtained as a result of the acquisition is also predetermined as 47.42% and is also not subject to any pricing variables or any other factors.

This is to be contrasted with the situation where the Warrants are exercised utilising the Net Settlement Option, which may occur even if Resolution 1 is not approved provided the issue of the Warrant Settlement Shares does not breach the Regulatory Limits.

(b) **Rationale for use of Warrants and proposed acquisition of Warrant Settlement Shares**

The Warrants have been granted to TrailStone as partial consideration for provision of the A\$35 million Credit Facility and not for the purposes of assisting SXG to raise further capital.

The terms and conditions applicable to the Warrants and the Warrant Settlement Options (as described in section 1 and Annexure A of this Explanatory Memorandum) were proposed by TrailStone as the basis upon which it was prepared to make the debt financing (under the Prepaid Gold Facility and the Credit Facility) and equity financing (under the TrailStone Placement) available to SXG.

(c) **Timing of proposed acquisition**

The Warrants must be exercised by TrailStone on or before 31 December 2019 (**Warrant Maturity Date**), failing which the Warrants will lapse and SXG will have no further obligations in connection with the Warrants. Any Warrant Settlement Shares will be issued by the third business day after the date of exercise of the Warrants. As such, the latest date by which Warrant Settlement Shares may be issued is 6 January 2020.

(d) **Price**

If Resolution 1 is approved and the Standard Settlement Option is utilised, the Warrant Settlement Shares will be issued at the Warrant Strike Price of A\$0.013 per Share as provided for in the Transaction Documents. The closing price for the Company's Shares on the trading day immediately preceding the announcement of the TrailStone Transactions was A\$0.01. Accordingly, this represents a premium of 30% to that price.

The Independent Expert has also assessed this price to represent a discount of between 0.05 cents to 0.92 cents based on the valuation methodology adopted in the Independent Expert Report.

If the Net Settlement Option is utilised, any Warrant Settlement Shares will be issued at a different price which cannot be determined in advance of Warrant Exercise, as explained at Annexure A.

(e) **Ranking**

Any Warrant Settlement Shares issued to TrailStone will rank equally in all respects with existing Shares from their date of issue, in accordance with the terms of the Constitution.

(f) **Material terms of the proposed acquisition**

The other material terms of the Warrants (including Warrant Settlement Options) and Warrant Settlement Shares are summarised at Section 1 and Annexure A of this Explanatory Memorandum.

(g) **Details of the terms of any other relevant agreement between TrailStone and SXG that is conditional on (or directly or indirectly depends on) member approval for the proposed acquisition**

Details of the TrailStone Transactions and their relationship to one another, to the Warrants and to the availability of the Warrant Settlement Options is set out in Sections 1 and 3.6 of this Explanatory Memorandum.

In particular, it is noted that:

- the issue of the Warrants did not require Shareholder approval and has already occurred on 17 October 2014;

- the entry into the Transaction Documents pertaining to the provision of the Prepaid Gold Facility and the Credit Facility and the related security interests, did not require Shareholder approval and has already occurred;
- the Gold Prepayment pursuant to the Prepaid Gold Facility has already been drawn down by SXG on 23 September 2014; and
- most relevantly, the settlement of the Warrants may still proceed if Resolution 1 is not approved, or without any other Shareholder approval, by utilising either the Net Settlement Option (subject to its availability having regard to the Regulatory Limits) or failing that, the Cash Settlement Option.

A more detailed explanation of the relevance of the Resolutions (and in particular Resolution 1) and the ability to proceed with the TrailStone Transactions without Shareholder approval is contained in Section 1.

### **3.5 Effect of Shareholder Approval where Warrant Exercise occurs in future**

The Warrants may be exercised at any time on or before 31 December 2019, meaning that the issue of any Warrant Settlement Shares may not occur until up to approximately 60 months following the Meeting.

The information in this Notice has been prepared on the basis of information currently known to SXG and TrailStone as at the date of these Meeting Materials.

For the purpose of the Takeover Provisions, if Resolution 1 is approved, it will enable Trailstone and its associates to acquire a maximum relevant interest of up to 47.42% in SXG's Shares by TrailStone (**Maximum Interest**) as a result of the exercise of Warrants.

The approval pursuant to Resolution 1 will only apply to an acquisition of a relevant interest resulting from the exercise of Warrants by TrailStone and its associates, and not to an acquisition of a relevant interest by any other means, or by any other person to whom Warrants may be transferred (except for TrailStone UK II Ltd which is also named in Resolution 1).

If TrailStone acquires any additional Shares or any further relevant interest in SXG's Shares between the date on which Resolution 1 is approved and time of Warrant Exercise, it may not be able to exercise the Warrants to the extent it would result in a breach of the Maximum Interest approved by Shareholders at the Meeting.

For the purpose of Listing Rules, if Resolution 1 is approved the Company intends to rely on Listing Rule 7.2, Exception 16 in relation to the future issue of Warrant Settlement Shares upon Warrant Exercise.

This operates to enable the issue of the Warrant Settlement Shares without further approval of holders of ordinary securities (under Listing Rule 7.1) upon the future exercise of the Warrants, and without the issue of the Warrant Settlement Shares being counted toward the Company's then current Placement Capacity, for the reason that approval has already been obtained for the purpose of the Takeover Provisions.

### **3.6 Intentions of TrailStone in relation to the Company**

This section sets out the current intentions of TrailStone as confirmed by TrailStone to the Company. TrailStone has confirmed that these intentions have been formed on the basis of facts and information concerning the Company and the existing circumstances affecting the Company and TrailStone which are known to TrailStone at the time of preparation of this document. Any final decisions on the matters referred to below will only be made having regard to all material facts known to TrailStone and the circumstances at the relevant time. These current intentions may therefore change as a consequence of a change in the circumstances of the Company or TrailStone.

TrailStone has informed the Company that:

- a) TrailStone currently intends to support the development of the Company's assets, including to advance the Company from development to production, in a manner consistent with the terms of the \$60m credit facilities;
- b) TrailStone does not have any current intention to provide further funding to the Company, other than draw-downs in accordance with the terms of the existing \$60m credit facilities;
- c) TrailStone has no current intention to seek to procure the transfer or use of any property of the Company by TrailStone or any of its associates;
- d) TrailStone has no current intention to seek to procure any changes in relation to the employment of the Company's current employees;
- e) TrailStone has no current intention to seek any changes to the composition of the Company's Board. It is noted however that TrailStone has the right to appoint a director or observer to the Board upon it holding a 5% equity interest in SXG and upon SXG having any indebtedness to TrailStone Group. Both of these conditions are presently satisfied. If TrailStone continues to hold a 5% equity interest in SXG, TrailStone will consider at that time whether to seek to appoint a director or observer to the Board; and
- f) TrailStone has no current intention to seek any change to the Company's financial or dividend policies.

It should be noted however that if TrailStone were to gain control of the Company, the implementation of any change which TrailStone may seek to make to the Company would be subject to:

- a) the law and the Listing Rules, particularly in relation to related party transactions and conflicts of interest; and
- b) the legal obligations of the Board to act for proper purposes and in the best interest of the Shareholders as a whole.

### **3.7 Use of Funds**

The funds available from the TrailStone Transactions, including the TrailStone Placement, the Prepaid Facility and the Credit Facility will be applied to develop the newly acquired Manuka Silver Mine, the Company's other Key Projects and also to meet corporate costs and provide working capital.

If Resolution 1 is approved and TrailStone elects to settle the Warrants utilising the Standard Settlement Option, a further amount of up to A\$13,000,000 will be raised by the Company from the payment of the Warrant Strike Price.

As the Warrants may be exercised at any time on or before 31 December 2019, it is not possible for the Company to state with any certainty how it will use those funds, as this will be dependent on the financial position of the Company, opportunities and commitments at that future time.

### **3.8 Independent Expert Report**

#### ***(a) Purpose of Independent Expert Report***

The Directors commissioned Grant Thornton to prepare both a Concise Independent Expert's Report (short-form) (**Concise IER**) and a full Independent Expert Report (**Full IER**) in connection with the proposed issue of Warrant Settlement Shares utilising the Standard Settlement Option (together, the **IER**).

The key purpose of the IER is for an appropriately qualified independent third party to express an opinion as to whether or not the proposed issue of Warrant Settlement Shares is "fair" and "reasonable" to Non-Associated Shareholders and to enable those Shareholders to assess whether they are better off if the Investment proceeds than if it does not.

Grant Thornton have concluded that the proposed issue of Warrant Settlement Shares is **not fair but reasonable**.

Shareholders are urged to carefully read the Concise IER included at Annexure B to understand the scope of the report, the methodology and valuation and the sources of information and assumptions made. A full copy of the Full IER will be made available online on the Company's website, via the ASX and is also available in hard copy from the Company, on request.

#### ***(b) Assessment of Fairness***

In assessing the "fairness" of the issue of Warrant Settlement Shares, Grant Thornton made an assessment of the market value of SXG Shares before and after the proposed exercise of the Warrants (with an appropriate adjustment for control built into the valuation).

Grant Thornton adopted a primary valuation methodology of a market value of net assets, based on a sum of the parts of SXG's underlying operating, exploration and other assets and liabilities.

Grant Thornton concluded that the proposed exercise of the Warrants is not fair to the Non-Associated Shareholders as the fair market value of SXG shares after the proposed exercise (on a minority basis) would result in a decrease in value between 0.452 cents and 1.571 cents per Share compared to the value of SXG shares before the proposed exercise (on a control basis).

Shareholders are directed to the Concise IER in Annexure B for a comprehensive assessment of the valuation methodologies adopted by Grant Thornton. If further detailed assessment and analysis is desired, please also refer to the Full IER available online, via the ASX and in hard copy from the Company, on request.



**(c) Assessment of Reasonableness**

In assessing the "reasonableness" of the transaction, Grant Thornton made an assessment of the likely advantages and disadvantages associated with approving or rejecting the proposed exercise of the warrants.

A summary of this analysis is provided below.

**(i) Advantages of approving the issue of the Warrant Settlement Shares**

- The Company will not be required to fund the Cash Settlement Amount
- Greater alignment of the interest between TrailStone and the Non-Associated Shareholders
- Capital injection of up to A\$13 million if TrailStone elects to use the Standard Settlement Option in respect of all Warrants
- Warrant Strike Price represents a premium to the historical trading price of SXG shares and is in line with the current share price

**(ii) Disadvantages of approving the issue of the Warrant Settlement Shares**

- Dilution for existing Shareholders of SXG
- Decreases the likelihood of future takeover offer from third parties

Shareholders are directed to the Concise IER at Annexure B for a comprehensive evaluation of the implications of the acquisition of the Warrant Settlement Shares by Grant Thornton.

After considering the abovementioned quantitative and qualitative factors relevant to the Non-Associated Shareholders, Grant Thornton formed a view that the Proposed Exercise is not fair but reasonable for the Non-Associated Shareholders of SXG.

Shareholders are directed to the Concise IER at Annexure B for a comprehensive evaluation of Grant Thornton's assessment.

#### **4. Additional information**

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Shareholders are also provided with the additional information set out below which is relevant to the decision on how to vote on Resolution 1.

##### **4.1 Related Party Issues**

The Transaction Documents with TrailStone were negotiated on arm's length terms.

Neither TrailStone, nor any of its associates are related parties of the Company, and prior to the completion of the TrailStone Placement, held no Shares or other interests in the Company.

As at the date of these Meeting Materials, TrailStone holds 100 million Shares, representing a voting power of 7.58% by reason of the TrailStone Placement.

## 4.2 Background on TrailStone

TrailStone UK Ltd is a limited liability company incorporated in England and Wales with registered number 8510757. TrailStone UK II Ltd is also a limited liability company incorporated in England and Wales with registered number 8511228. Both entities are part of the TrailStone Group, a commodities investment and trading firm.

TrailStone UK Ltd and TrailStone UK II Ltd are wholly-owned and controlled by TrailStone (Cayman) L.P. TrailStone (Cayman) L.P. and its controlled entities are referred to in this Explanatory Memorandum as the **TrailStone Group**.

The TrailStone Group is a well-capitalized energy trading, logistics and asset owning group. It contains an investment business focused on the mining sector with access to up to US\$500m of investible funds. Its mandate is to invest in the mining sector across a diversified range of geographic regions. It invests across all segments of the capital structure from equity investments to senior secured project financings working closely with mining companies.

The TrailStone Group has offices in London, Berlin, Sydney, Austin and New York (with Sydney, London and New York being the 3 core hubs).

### (a) TrailStone's business activities

The TrailStone Group is involved in the ownership, finance and management of mining, oil, gas and power assets (**Assets**).

The main business activities of the TrailStone Group include:

- physical trading, logistics, and optimisation of Assets; and
- providing debt or equity finance, or a combination of both to assist with the development of Assets, which may be secured by equity ownership and off-take contracts across commodity classes.

### (b) TrailStone's relationship with SXG

As noted in Section 1, TrailStone and the Company entered into a circa \$61 million debt and equity funding deal as announced to the market on 8 July 2014 and as comprehensively detailed in the Notice of EGM dated 5 August 2014.

Following completion of the Shareholder Offer and placement to other third parties and Financial Close under the TrailStone Transaction Documents, the Company issued TrailStone with:

- 100 million TrailStone Shares representing 7.58% of the issued capital of the Company; and
- 1 billion Warrants which do not entitle TrailStone to any voting or other Shareholder rights.

Prior to entry into the Transaction Documents, neither TrailStone nor any of its associates or directors had any relationship with SXG.

Following the transactions noted above, TrailStone:

- is now a substantial Shareholder with a voting power of 7.58%, which may increase to a maximum of 47.42% if Shareholders approve Resolution 1 ;
- is now a secured creditor of SXG; and

- may appoint a representative to the Board of SXG upon and so long as it holds an equity interest of 5% or more and SXG having any indebtedness to the TrailStone Group.

(c) **Further transactions planned with TrailStone**

While the Board are pleased to welcome TrailStone as a new cornerstone investor, there are presently no further transactions planned between the Company and TrailStone.

### **4.3 Financial impact**

Shareholders should refer to SXG's audited annual financial statements for the 2014 financial year (set out in the Company's 2014 Annual Report lodged on 29 September 2014) for detailed disclosures in relation to the historical performance and financial position of the Company.

The financial impact of the transaction, if approved, is as follows:

- if TrailStone elects to use the Standard Settlement Option for all Warrants, when the Warrants are exercised (at a date prior to 31 December 2019), Cash will increase by A\$13 million and issued Share capital will increase by a similar amount; or
- if TrailStone elects to use the Net Settlement Option for all Warrants, when the Warrants exercised (at a date prior to 31 December 2019), there will be no change to the net assets of the Company, with the associated Share issue being reflected by offsetting entries in issued Share capital and Share reserves.

## **5. Directors' Recommendation**

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No members of the Board have any personal interests in the outcome of Resolution 1. The Board is of the opinion that the TrailStone Transactions and the acquisition of the maximum number of Warrant Settlement Shares available to TrailStone under the Warrant Settlement Options is in the best interests of Shareholders for the reasons set out in the Reasons to Support the Key Transactions section of this Explanatory Memorandum.

Accordingly, the Board unanimously recommends that eligible Shareholders vote in favour of Resolution 1. Each Director intends to vote all Shares they own or control the right to vote in favour of Resolution 1.

## **FINANCIAL AND OTHER REPORTS**

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As required by section 317 of the Corporations Act, the financial statements for the year ended 30 June 2014 and the accompanying directors' report, directors' declaration and auditor's report will be laid before the Meeting.

Neither the Corporations Act, nor the Company's Constitution requires a vote on the reports. However, Shareholders will have an opportunity to ask questions about the reports at the Meeting.

## RESOLUTION 2 ADOPTION OF REMUNERATION REPORT

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### 1. Introduction

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As required by the Corporations Act, the Board is presenting the Remuneration Report to Shareholders for consideration and adoption by a non-binding vote. The Remuneration Report contains:

- information about the Board's policy for determining the nature and amount of remuneration of the Key Management Personnel (including Directors and senior executives) of the Company;
- a description of the relationship between the Company's remuneration policy and the Company's performance;
- a summary of performance conditions for each of the Directors and senior executives, including a summary of why they were chosen and how performance is measured against them; and
- remuneration details for each Director and for each of the Company's specified executives.

The Remuneration Report, which is part of the Annual Report, has been sent to Shareholders who have made an election to receive the Annual Report. Copies of the Annual Report are available by contacting the Company's Share Registry or visiting the Company's web site [www.scross.com.au](http://www.scross.com.au).

### 2. Two strikes

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If 25% or more of votes that are cast on this non-binding Resolution are voted against the adoption of the Remuneration Report at two consecutive AGMs, Shareholders will be required to vote at the second of these AGMs on a resolution (**Spill Resolution**) that another meeting be held within 90 days (**Spill Meeting**), at which:

- all of the Company's Directors (other than the Managing Director) cease to hold office immediately before the end of the Spill Meeting; and
- resolutions to appoint persons to offices that will be vacated immediately before the end of the Spill Meeting will be put to the vote at the Spill Meeting.

The approval threshold for the Spill Resolution is 50% or more of votes that are cast on the resolution.

At the 2013 AGM, Shareholders voted in favour of the Remuneration Report, and no first 'strike' was recorded by the Company.

### 3. Board recommendation

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The Board unanimously recommends that Shareholders vote in favour of Resolution 2.

The Chairman intends to vote all available proxies in favour of Resolution 2.

**1. Introduction**

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As required by the Corporations Act, the Board is presenting the Remuneration Report to Shareholders for consideration and Under Listing Rule 14.4 and Clause 13.2 the Company's Constitution, a director must not hold office without re-election past the third annual general meeting following the director's appointment, or 3 years, whichever is longer.

A Director who retires in accordance with these requirements is eligible for re-election.

Accordingly, Mr Jon Parker is due to retire at the end of the Meeting and offers himself for re-election to the Board. Details of Mr Parker's qualifications, experience, other directorships and special responsibilities are set out in the Directors' Report on page 9 of the Annual Report and extracted below.

**2. Director's Biography**

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Mr Parker has strong corporate experience and a reputation for accomplishment in the resource and energy sectors. He has over 30 years of experience in commercial, development and strategy roles, preceded by 10 years in technical roles.

Currently, Mr Parker is also a non-executive director of Sphere Minerals Limited, a position which he has held since May 2012.

Mr Parker held a non-executive directorship with Polymetals Mining Limited from 2011 until the company merged with SXG in 2013. From 2012 until 2013, Mr Parker was also non-executive chairman of Anova Metals Limited.

**3. Board recommendation**

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All the Directors (except Mr Jon Parker) recommend that Shareholders vote in favour of Resolution 3.

## **RESOLUTION 4 ELECTION OF MR KENNETH OSLAND AS A DIRECTOR**

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### **1. Introduction**

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Mr Kenneth Osland was appointed as a non-executive Director of the Company on 8 September 2014.

In accordance with Listing Rule 14.4 and Clause 13.2 the Company's Constitution, a director appointed to fill a casual vacancy or as an addition to the Board must not hold office (without re-election) past the next annual general meeting of the Company. The Company's Constitution also requires that any director appointed during the year as an addition to the Board must offer himself or herself for election at the Company's next annual general meeting.

Accordingly, Kenneth Osland who was appointed by the Board to fill a casual vacancy offers himself for election as a director of the Company.

### **2. Director's Biography**

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Mr Osland has spent more than 25 years within the global resources industry, with experience in a range of sectors including coal, bauxite, gold, mineral sands, copper and uranium. He specialised in procurement and development of leading practices in commercial relationship management directed at delivery value in strategic spend categories.

### **3. Board Recommendation**

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All the Directors (except Mr Kenneth Osland) recommend that Shareholders vote in favour of Resolution 4.

## RESOLUTION 5 – CONSOLIDATION OF SHARE CAPITAL

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### 1. Introduction

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Resolution 5 seeks Shareholder approval for the Company to consolidate its issued Share capital through the conversion of every thirty (30) fully paid ordinary Shares into one (1) fully paid ordinary Share (**Share Consolidation**).

Pursuant to section 254H(1) of the Corporations Act, the Company may convert all or any of its Shares into a larger or smaller number of Shares by ordinary resolution passed at a general meeting.

This section of the Explanatory Statement provides the information required by Listing Rule 7.20 to be provided to Shareholders in relation to the Share Consolidation.

### 2. Purpose of Proposed Resolution

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The Directors propose the Share Consolidation for the following reasons:

- (a) the Company currently has 1,319,550,815 Shares on issue which represents a relatively large number when compared to its peer group listed on the ASX; and
1. the Share Consolidation will result in a more appropriate and effective capital structure for the Company and a Share price more appealing to a wider range of investors, particularly institutional, globally.

### 3. Effect of the Share Consolidation

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#### *(a) Shares*

If Resolution 5 is approved, every thirty (30) Shares on issue will be consolidated into one (1) Share (subject to rounding). Overall, this will result in the number of Shares on issue reducing from 1,319,550,815 to approximately 43,985,028 (subject to rounding).

As the Share Consolidation applies equally to all Shareholders, individual Shareholdings will be reduced in the same ratio as the total number of Shares (subject to rounding). Accordingly, assuming no other market movements or impacts occur, the Share Consolidation will have no effect on the percentage interest in the Company of each Shareholder.

The Share Consolidation will not result in any change to the substantive rights and obligations of existing Shareholders.

#### *(b) Options*

As at the date of this Notice of Meeting, the Company has unlisted Options on issue (**Options**) and unlisted Warrants (which simultaneously become equity securities convertible into Shares subject to Resolution 1 being passed). If the Share Consolidation is approved, the Options and Warrants will also be reorganised in accordance with the terms and conditions of the Options and Warrants and Listing Rule 7.22.1 (as applicable) on the basis that the number of Options/Warrants will be consolidated in the same ratio as the Share Consolidation and the exercise price is amended in inverse proportion to that ratio.

For example, a holding of one thousand (1000) Options/Warrants with an exercise price of \$0.013 each prior to the Share Consolidation would result in a holding of approximately 34 Options/Warrants with an exercise price of \$0.39 each after the Share Consolidation.

After the Share Consolidation, the approximate number of unlisted Options and Warrants on issue and their approximate exercise prices are set out in the table below, based on those on issue at the date of this Notice of Meeting:

<b>Options and Warrants on Issue</b>	<b>Current Number on issue</b>	<b>Post-consolidation number on issue</b>	<b>Current exercise price</b>	<b>Post-consolidation exercise price</b>	<b>Expiry Dates</b>
<b>Options - Type 1</b>	10,000,000	<b>333,333</b>	0.10	<b>3.00</b>	24/02/2015
<b>Options - Type 2</b>	43,665,000	<b>1,455,500</b>	0.10	<b>3.00</b>	10/10/2017
<b>Options - Type 3</b>	2,500,000	<b>83,333</b>	0.10	<b>3.00</b>	10/10/2015
<b>Options - Type 4</b>	5,000,000	<b>166,667</b>	0.10	<b>3.00</b>	23/11/2017
<b>Options - Type 5</b>	34,255,319	<b>1,141,844</b>	0.047	<b>1.41</b>	21/03/2015
<b>Options - Type 6</b>	20,000,000	<b>666,667</b>	0.03	<b>0.90</b>	31/12/2017
<b>Options - Type 7</b>	20,000,000	<b>666,667</b>	0.04	<b>1.20</b>	31/12/2017
<b>Options - Type 8</b>	63,775,510	<b>2,125,850</b>	0.0196	<b>0.588</b>	25/3/2014
<b>Options - Type 9</b>	166,050,000	<b>5,535,000</b>	0.013	<b>0.39</b>	31/12/2019
<b>Warrants*</b>	1,000,000,000	<b>33,333,334</b>	0.013	<b>0.39</b>	31/12/2019
<b>Total Options/Warrants on Issue</b>	<b>1,365,245,829</b>	<b>45,508,195</b>	-	-	-

The Share Consolidation will not result in any change to the substantive rights and obligations of existing holders of Options and Warrants.

***(c) Fractional entitlements***

Where the Share Consolidation (and associated consolidation of the Company's Options) results in an entitlement to a fraction of a Share or Option (as applicable), that fraction will be rounded up to the nearest whole number of Shares or Options.

***(d) Holding statements***

Taking effect from the date of the Share Consolidation, all existing holding statements will cease to have any effect, except as evidence of entitlement to a certain number of securities on a post-Share Consolidation basis. New holding statements will be issued to security holders, who are encouraged to check their holdings after the Share Consolidation.

***(e) Taxation***

The Share Consolidation should not result in a capital gains tax event for Australian tax residents. The cost base of the Shares held after the Share Consolidation will be the sum of the cost bases of the original Shares pre-Share Consolidation. The acquisition date of Shares held after the Share Consolidation will be the same as the date on which the original Shares were acquired.



This Explanatory Statement does not however consider the tax implications in respect of Shares or other securities held on revenue account, as trading stock or by non-resident Shareholders. Shareholders should consider their own circumstances and seek their own professional advice in relation to their tax position. Neither the Company nor any of its officers or employees assumes any liability or responsibility for advising Shareholders or other security holders about the tax consequences of the proposed Share Consolidation.

***(f) Indicative timetable***

If approved by Shareholders, the proposed Share Consolidation will take effect in December 2014. The following is an indicative timetable (subject to change) of the key events:

<b>Key Event</b>	<b>Indicative Date</b>
Annual General Meeting	<b>28 November 2014</b>
Notification to ASX that Share Consolidation is approved	<b>28 November 2014</b>
Last day for trading in pre-consolidated securities	<b>1 December 2014</b>
Trading in the consolidated securities on a deferred settlement basis commences	<b>2 December 2014</b>
Last day to register transfers on a pre-consolidation basis	<b>4 December 2014</b>
Registration of securities on a post-consolidation basis	<b>5 December 2014</b>
Despatch of new holding statements	<b>11 December 2014</b>
Deferred settlement trading ends	<b>11 December 2014</b>
Normal trading starts	<b>12 December 2014</b>

**4. Board Recommendation**

The Directors unanimously recommend that Shareholders vote in favour of Resolution 5 for the reasons outlined above in this Explanatory Statement.

## RESOLUTION 6 CHANGE OF COMPANY NAME

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### Rationale for proposed change

The proposed change of name to “***Black Oak Minerals Limited***” is put forward to:

- more appropriately reflect the Company’s multi-commodity nature of the Company’s projects following the recent acquisition of the Manuka Silver Mine; and
- reflect the Company’s evolution and entry into a new phase as SXG commences work, with funding support from both TrailStone and its loyal Shareholder base, to bring the Manuka Silver Mine back into production imminently and also as it prepares to commence development of the Mt Boppy Gold Mine located nearby.

### Requirement for Change in Name

The Corporations Act provides that if a company wants to change its name, it must:

- (a) pass a special resolution, which is a resolution approved by at least 75% of the votes cast by members who are entitled to vote on a resolution, adopting a new name; and
- (b) make an application to ASIC in the prescribed form in respect of the change in name.

### Effect of approval of the Resolution

If Resolution 6 is approved, the Company will lodge an application with ASIC requesting ASIC alter the details of the Company’s registration status to reflect this change to the Company’s name.

If the proposed name is available, ASIC is required to change the Company’s name by altering the details of the Company’s registration to reflect the date the changed name comes into effect when ASIC alters the details of the Company’s registration.

The Directors recommend that you vote in favour of this special resolution.

## RESOLUTION 7 Approval of 10% Placement Facility

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### 1. Overview

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Listing Rule 7.1A enables eligible entities to issue Equity Securities up to 10% of its issued Share capital through placements over a 12 month period after the AGM (**10% Placement Facility**). The 10% Placement Facility is in addition to the Company's 15% placement capacity under Listing Rule 7.1.

An eligible entity for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of \$300 million or less. The Company is an eligible entity.

The Company is now seeking Shareholder approval by way of a special resolution to have the ability to issue Equity Securities under the 10% Placement Facility.

The exact number of Equity Securities to be issued under the 10% Placement Facility will be determined in accordance with the formula prescribed in Listing Rule 7.1A.2 (see below).

As previously disclosed to the ASX, the Company continues to progress the advanced gold prospects and deposits of the Company toward development, to further the exploration of its land tenure for additional discoveries of resources and pursue consolidation opportunities across the region. The Company may use the 10% Placement Facility to advance these goals.

The Directors of the Company believe that Resolution 7 is in the best interests of the Company and unanimously recommend that Shareholders vote in favour of this Resolution 7.

### 2. Description of Listing Rule 7.1A

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#### (a) Shareholder approval

The ability to issue Equity Securities under the 10% Placement Facility is subject to Shareholder approval by way of a special resolution at an AGM.

#### (b) Equity Securities

Any Equity Securities issued under the 10% Placement Facility must be in the same class as an existing quoted class of Equity Securities of the Company.

The Company, as at the date of the Notice, has on issue 10 classes of Equity Securities, being Shares and 9 classes of unlisted Options.

#### (c) Formula for calculating 10% Placement Facility

Listing Rule 7.1A.2 provides that eligible entities which have obtained Shareholder approval at an AGM may issue or agree to issue, during the 12 month period after the date of the AGM, a number of Equity Securities calculated in accordance with the following formula:

$$(A \times D) - E$$

'A' is the number of Shares on issue 12 months before the date of issue or agreement:

- (i) plus the number of fully paid Shares issued in the 12 months under an exception in Listing Rule 7.2;

- (ii) plus the number of partly paid Shares that became fully paid in the 12 months;
- (iii) plus the number of fully paid Shares issued in the 12 months with approval of holders of Shares under Listing Rule 7.1 and 7.4. This does not include an issue of fully paid Shares under the entity's 15% placement capacity without Shareholder approval;
- (iv) less the number of fully paid Shares cancelled in the 12 months.

'D' is 10%;

'E' is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with the approval of Shareholders under Listing Rule 7.1 or 7.4.

**(d) Listing Rule 7.1 and Listing Rule 7.1A**

The ability of an entity to issue Equity Securities under Listing Rule 7.1A is in addition to the entity's 15% placement capacity under Listing Rule 7.1.

At the date of this Notice, the Company has on issue 1,319,550,815 Shares. The Company therefore has a capacity to issue:

- (i) 197,932,622 Equity Securities under Listing Rule 7.1; and
- (ii) 131,955,081 Equity Securities under Listing Rule 7.1A.

The actual number of Equity Securities that the Company will have capacity to issue under Listing Rule 7.1A will be calculated at the date of issue of the Equity Securities in accordance with the formula prescribed in Listing Rule 7.1A.2 (refer to Section 2(c) above).

**(e) Minimum Issue Price**

The issue price of Equity Securities issued under Listing Rule 7.1A must be not less than 75% of the VWAP of Equity Securities in the same class calculated over the 15 Trading Days immediately before:

- (i) the date on which the price at which the Equity Securities are to be issued is agreed; or
- (ii) if the Equity Securities are not issued within 5 Trading Days of the date in paragraph (i) above, the date on which the Equity Securities are issued.

**(f) 10% Placement Period**

Shareholder approval of the 10% Placement Facility under Listing Rule 7.1A is valid from the date of the AGM at which the approval is obtained and expires on the earlier to occur of:

- (i) the date that is 12 months after the date of the AGM at which the approval is obtained; or
- (ii) the date of the approval by Shareholders of a transaction under Listing Rules 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking),

or such longer period if allowed by ASX (**10% Placement Period**).

### 3. Listing Rule 7.1A

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The effect of Resolution 7 will be to allow the Company to issue the Equity Securities under Listing Rule 7.1A during the 10% Placement Period without using the Company's 15% placement capacity under Listing Rule 7.1.

Resolution 7 is a special resolution and therefore requires approval of 75% of the votes cast by Shareholders present and eligible to vote (in person, by proxy, by attorney or, in the case of a corporate Shareholder, by a corporate representative).

### 4. Specific information required by Listing Rule 7.3A

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Pursuant to and in accordance with Listing Rule 7.3A, information is provided in relation to the approval of the 10% Placement Facility as follows:

- a) The Equity Securities will be issued at an issue price of not less than 75% of the VWAP for the Company's Equity Securities over the 15 Trading Days immediately before:
  - (i) the date on which the price at which the Equity Securities are to be issued is agreed; or
  - (ii) if the Equity Securities are not issued within 5 Trading Days of the date in paragraph (i) above, the date on which the Equity Securities are issued.
- b) If Resolution 7 is approved by Shareholders and the Company issues Equity Securities under the 10% Placement Facility, the existing Shareholders' voting power in the Company will be diluted as shown in the below table. There is a risk that:
  - (i) the market price for the Company's Equity Securities may be significantly lower on the date of the issue of the Equity Securities than on the date of the Meeting; and
  - (ii) the Equity Securities may be issued at a price that is at a discount to the market price for the Company's Equity Securities on the issue date or the Equity Securities are issued as part of consideration for the acquisition of a new asset,

which may have an effect on the amount of funds raised by the issue of the Equity Securities.

The table below shows the dilution of existing Shareholders on the basis of the current market price of Shares and the current number of Shares for variable "A" calculated in accordance with the formula in Listing Rule 7.1A.2 as at the date of this Notice.

The table shows:

- (i) two examples where variable "A" has increased by 50% and 100%. Variable "A" is based on the number of Shares the Company has on issue. The number of Shares on issue may increase as a result of issues of Shares that do not require Shareholder approval (for example, a pro rata entitlements issue or scrip issued under a takeover offer) or future specific placements under Listing Rule 7.1 that are approved at a future Shareholders' meeting; and

- (ii) two examples of where the issue price of Shares has decreased by 50% and increased by 50% as against the current market price.

**Table 2**

Variable "A" in Listing Rule 7.1A.2		Dilution		
		\$0.0075 50% decrease in Issue Price	\$0.015 Issue Price	\$0.03 100% increase in Issue Price
<b>Current Variable A</b> 1,319,550,815 Shares	<b>10% voting dilution</b>	131,955,081 Shares		
	<b>Funds raised</b>	\$989,663	\$1,979,326	\$3,958,652
<b>50% increase in current Variable A</b> 1,979,326,222 Shares	<b>10% voting dilution</b>	197,932,622 Shares		
	<b>Funds raised</b>	\$1,484,495	\$2,968,989	\$5,937,979
<b>100% increase in current Variable A</b> 2,639,101,630 Shares	<b>10% voting dilution</b>	263,910,163 Shares		
	<b>Funds raised</b>	\$1,979,326	\$3,958,652	\$7,917,305

The table has been prepared on the following assumptions:

- (i) No Options or Warrants are exercised into Shares before the date of the issue of the Equity Securities.
  - (ii) The 10% voting dilution reflects the aggregate percentage dilution against the issued Share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.
  - (iii) The table shows only the effect of issue of Equity Securities under Listing Rule 7.1A, not under the 15% placement capacity under Listing Rule 7.1.
  - (iv) The issue price is \$0.015, being the closing price of the Shares on ASX on 23 October 2014.
- c) The Company will only issue and allot the Equity Securities during the Placement Period. The approval under Resolution 7 for the issue of the Equity Securities will cease to be valid in the event that Shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities) or Listing Rule 11.2 (disposal of main undertaking).
- d) The Company may seek to issue the Equity Securities for the following purposes:
- (i) for cash consideration, in which case the Company may use the funds raised towards making (or to securing the right to make) one or more acquisitions and/or to further its existing projects; and/or general working capital; or

- (ii) non-cash consideration for the acquisition of (or securing the right to make acquisitions of) new projects and investments or to further its existing projects. In such circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3.

The Company will comply with the disclosure obligations under Listing Rules 7.1A(4) and 3.10.5A upon issue of any Equity Securities.

The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue pursuant to the 10% Placement Facility. The identity of the allottees of Equity Securities will be determined on a case-by-case basis having regard to the factors including but not limited to the following:

- (i) the methods of raising funds that are available to the Company, including but not limited to, rights issues or other issues in which existing security holders can participate;
- (ii) the effect of the issues of the Equity Securities on the control of the Company;
- (iii) the financial situation and solvency of the Company; and
- (iv) advice from corporate, financial and broking advisers (if applicable).

The allottees under the 10% Placement Facility have not been determined as at the date of this Notice but may include existing substantial Shareholders and/or new Shareholders who are not related parties or associates of a related party of the Company.

- e) A voting exclusion statement is included in the Notice. At the date of the Notice, the Company has not approached any particular existing Shareholder or security holder or an identifiable class of existing security holder to participate in the issue of the Equity Securities. No existing Shareholder's votes will therefore be excluded under the voting exclusion in the Notice.
- f) The allottees under the 10% Placement Facility have not been determined as at the date of this Notice but may include existing substantial Shareholders and/or new Shareholders who are not a related party or an associate of a related party of the Company.

Further, if the Company is successful in acquiring new assets or investments, it is possible that the allottees under the 10% Placement Facility will be the vendors of the new assets or investments.

- g) The Company previously obtained Shareholder approval under Listing Rule 7.1A at the 2013 AGM on 28 November 2013.

In accordance with Listing Rule 7.3 A.6, the total number of Equity Securities issued in the 12 months preceding the date of this Notice of Meeting is 701,925,510 representing 79.1% of the Equity Securities on issue at the commencement of the 12 month period.

The Company has issued the following Equity Securities in the 12 months preceding the date of this Notice:

**Table 3 – Previous equity issues**

Date of Issue	Number of Securities and Class	Allottee / Basis of allotment	Issue Price and discount to Market Price (if applicable) <sup>1</sup>	Form of Consideration	Valuation
17/10/14	100,000,000 Fully paid ordinary Shares  Refer Annexure C	TrailStone	\$0.01	\$1,000,000	N/A
19/09/14	185,800,000 Fully paid ordinary Shares  Refer Annexure C	Shares issued to third party placees under Prospectus lodged with ASX on 19 August 2014.	\$0.01  No discount to market	\$1,858,000	N/A
19/09/14	92,900,000 Options  Refer Annexure D	Options issued to Shareholders who subscribed for Shares under Prospectus lodged with ASX on 19 August 2014.	N/A	Non-cash	\$777,666
17/09/14	146,300,000  Fully paid ordinary Shares  Refer Annexure C	Shares issued under Shareholder Offer under Prospectus lodged with ASX on 19 August 2014.	\$0.01  No discount to market	\$1,463,000	N/A
17/09/14	73,150,000 Options  Refer Annexure D	Options issued to Shareholders who subscribed for Shares under Shareholder Offer under Prospectus lodged with ASX on 19 August 2014.	N/A	Non-cash	\$612,339
24/03/14	63,775,510 Options  Refer Annexure E	Options issued to RMB as part of the refinancing of Credit Facility of \$5M.	N/A	Non-cash	\$463,138
20/01/14	20,000,000 Options  Refer Annexure F	Frank Terranova	N/A	Non-cash	\$112,300
20/01/14	20,000,000 Options  Refer Annexure F	Frank Terranova	N/A	Non-cash	\$93,780

<sup>1</sup> Market Price means the closing price on ASX (excluding special crossings, overnight sales and exchange traded option exercises). For the purposes of this table the discount is calculated on the Market Price on the trading day prior to the date of issue of the relevant Equity Securities.



In the 12 months preceding the date of this Notice of Meeting the Company has received total cash consideration of \$4.321M from the issue of equity securities. This amount came from various equity raisings in conjunction with the TrailStone funding transaction with funds received in the period from 17 September 2014 to 17 October 2014.

To date \$0.59M of this funding has been applied to the following material items:

- Capital raising costs \$0.095M
- Purchase of Manuka Silver Project \$0.125M
- Manuka capital equipment \$0.370M

As stated in the prospectus issued to the market as part of this capital raising on 14 August 2014 the remaining funds (approx. \$3.7M) are allocated to progressing the Company's development projects. The initial outlays will be for the Manuka Silver project and include:

- Capital works \$2.5M
- Mining costs \$1.0M
- Project working capital \$0.2M

This is a statement of current intentions as at the date of this Notice. As with any budget, intervening events and new circumstances have the potential to affect the manner in which the funds are ultimately applied. The Board reserves the right to alter the way the funds are applied on this basis.

A voting exclusion statement is included in the Notice.

At the date of the Notice, the Company has not approached any particular existing Shareholder or security holder or an identifiable class of existing security holder to participate in the issue of the Equity Securities. No existing Shareholder's votes will therefore be excluded under the voting exclusion in the Notice.

## **5. Directors' Recommendation**

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The Directors unanimously recommend that Shareholders vote in favour of Resolution 7.

Resolution 7 is a special resolution and therefore requires approval of 75% of the votes cast by Shareholders present and eligible to vote (in person, by proxy, by attorney or, in the case of a corporate Shareholder, by a corporate representative).

The Chairman intends to exercise all available proxies in favour of Resolution 7.

## GLOSSARY

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In the Meeting Materials:

<b>A\$</b>	means Australian dollars.
<b>ASIC</b>	means Australian Securities and Investments Commission.
<b>associate(s)</b>	has the meaning given in section 12 of the Corporations Act.
<b>ASX</b>	means the Australian Securities Exchange or ASX Limited ACN 008 624 691.
<b>Board</b>	means the board of Directors of the Company.
<b>Cash Settlement Amount</b>	means the amount payable by the Company to TrailStone if the Cash Settlement Option is utilised to settle the Warrants (as further described in Annexure A).
<b>Cash Settlement Option</b>	means the settlement of the Warrants (if exercised) by the Company making a cash payment to TrailStone, equivalent to the dollar value of the Net Settlement Option (as further described in Annexure A) which will only occur if Shareholders do not approve Resolution 1 and applying the Net Settlement Option would result in a breach of the Regulatory Limits.
<b>Chairman</b>	means the chairman of the Board.
<b>Company or SXG</b>	means Southern Cross Goldfields Limited ACN 124 374 321.
<b>Concise IER</b>	means the concise/short-form Independent Expert's Report prepared by the Independent Expert included at Annexure B of this Notice of Meeting.
<b>Constitution</b>	means the constitution of the Company as in force from time to time.
<b>Corporations Act</b>	means the Corporations Act 2001 (Cth).
<b>Directors</b>	means the Directors of the Company from time to time, which as at the date of this Notice are Jon Parker, David Sproule and Kenneth Osland.
<b>Explanatory Memorandum</b>	means this explanatory memorandum that accompanies and forms part of the Notice and Meeting Materials.
<b>Financial Close</b>	has the meaning ascribed to it under the Transaction Documents for the purpose of confirming TrailStone's commitment to provide the Prepaid Gold Facility and the Credit Facility (subject to the relevant conditions precedent to each draw down) which occurred on 23 September 2014.
<b>Full IER</b>	means the full Independent Expert's Report prepared by the Independent Expert which is available online at the Company's website, via its ASX portal and in hard copy from the Company, on request.
<b>Gold Prepayment</b>	means the payment of A\$25 million by TrailStone to the Company pursuant to the Prepaid Gold Facility which was drawn down on 23 September 2014.
<b>Independent Expert or Grant Thornton</b>	means Grant Thornton Corporate Finance Pty Ltd, the independent expert engaged by the Company to prepare the Concise IER and Full IER for Shareholders to provide an opinion on whether the Standard Settlement Option is fair and reasonable to non-associated Shareholders.

<b>Independent Expert's Report or IER</b>	means both the Concise IER and the Full IER, both prepared by the Independent Expert.
<b>Key Projects</b>	means the newly acquired Manuka Silver Mine, the Mt Boppy Gold Project and the Marda Project.
<b>Listing Rules</b>	means the official Listing Rules of ASX.
<b>Meeting or Annual General Meeting</b>	means the annual general meeting of the Company to be convened by the Notice (unless the context otherwise requires), scheduled for 28 November 2014.
<b>Meeting Materials</b>	means the Notice, Explanatory Memorandum, Annexures and Proxy Form.
<b>Net Settlement Option</b>	means the settlement of the Warrants by issuing a lesser number of Warrant Settlement Shares than required by the Standard Settlement Option, with such Shares being equivalent to "in-the-money" value of the Warrants (as further described in Annexure A).
<b>Non-Associated Shareholders</b>	Shareholders of SXG other than TrailStone and/or its associates.
<b>Notice</b>	means the notice of Annual General Meeting setting out the Resolutions dated 24 October 2014 and which these Meeting Materials accompany.
<b>Notice of EGM</b>	means the notice of Extraordinary General Meeting setting out the resolutions and other meeting materials dated 5 August 2014 in respect of the meeting held on 4 September 2014.
<b>Option</b>	means an option to subscribe for a fully paid Share.
<b>Placement Capacity</b>	means the Company's capacity to issue equity securities without Shareholder approval having regard to the operation of Listing Rule 7.1 and Listing Rule 7.1A as they apply to SXG from time to time. As at the date of these Meeting Materials, SXG has full Placement Capacity available.
<b>Prepaid Gold Facility</b>	means the A\$25 million prepaid gold facility made available by TrailStone to the Company as detailed in the Notice of EGM dated 5 August 2014.
<b>Proxy Form</b>	means the proxy form accompanying the Notice.
<b>Related Bodies Corporate</b>	has the meaning given in the Corporations Act.
<b>Regulatory Limits</b>	means the limits on the Company's ability to issue equity securities within its Placement Capacity at the relevant time, and the limit on the acquisition of a relevant interest in SXG's voting Shares pursuant to the Takeover Provisions.
<b>relevant interest</b>	has the meaning given in section 608 of the Corporations Act.
<b>RMB</b>	means RMB Australia Holdings Ltd.

<b>Resolution</b>	means Resolution 1 (Acquisition by TrailStone of greater than a 20% relevant interest in SXG), Resolution 2 (Adoption of Remuneration Report), Resolution 3 (Re-election of Mr Jon Parker as a Director), Resolution 4 (Election of Kenneth Osland as a Director), Resolution 5 (Consolidation of Share Capital), Resolution 6 (Change of Company Name) and Resolution 7 (Approval of 10% Placement Facility) or all resolutions, as the context requires.
<b>Share</b>	means a fully paid ordinary share in the Company.
<b>Shareholder</b>	means a holder of Shares.
<b>Standard Settlement Option</b>	means the settlement of the Warrants by issuing up to the maximum number of Warrant Settlement Shares required to satisfy the Standard Settlement Option, being 1 billion (1,000,000,000) Shares (on the basis of 1 Share for each Warrant issued on 17 October 2014), which will only occur if Resolution 1 is approved.
<b>Takeover Provisions</b>	has the meaning ascribed to it at paragraph 3.2 of the section of this Explanatory Memorandum entitled Resolution 1 Approval for Acquisition of greater than a 20% interest in SXG Shares by TrailStone.
<b>Technical Experts</b>	means each of AMC Consultants Pty Ltd and Grays Asset Services.
<b>Technical Expert's Reports or Technical Reports</b>	means the reports by each of the Technical Experts accompanying the Notice of Meeting set out in Annexure B (as an Appendix to the Independent Expert's Report).
<b>TrailStone</b>	means TrailStone UK Ltd (a company incorporated in England and Wales with registered number 8510757) and where applicable, TrailStone UK II Ltd (a company incorporated in England and Wales with registered number 8511228).
<b>TrailStone Director</b>	means the Director appointed by TrailStone as detailed in Section 1.5 and elsewhere in Section 1 of this Explanatory Memorandum.
<b>Transaction Documents</b>	means the finance funding and equity subscription documentation required to give effect to the TrailStone Transactions, including the Prepaid Gold Facility agreement, the Credit Facility agreement, the Placement agreement, the Warrant subscription agreement and the security documents, as amended.
<b>TrailStone Group</b>	has the meaning given in Section 4.2.
<b>TrailStone Shares</b>	means 100,000,000 Shares issued to TrailStone UK Ltd on 17 October 2014 pursuant to the TrailStone Transactions.
<b>TrailStone Transactions</b>	has the meaning ascribed to it in Section 1 of this Explanatory Memorandum, with those transactions being further described in the Notice of EGM issued to Shareholders and announced on the Company's ASX portal on 5 August 2014.
<b>US\$</b>	means United States dollars.
<b>VWAP</b>	means the volume weighted average price for Shares traded on ASX, to be determined on the basis of price and volume quotes published by Bloomberg.

<b>Warrants</b>	means the Warrants issued to TrailStone UK Ltd on or about 17 October 2014, having the terms and conditions set out in Annexure A and with limited Warrant Settlement Options subject to Resolution 1 being approved.
<b>Warrant Exercise</b>	means the date on which TrailStone exercises the Warrants, which must be on or before the Warrant Maturity Date.
<b>Warrant Maturity Date</b>	means 31 December 2019, being the same maturity date which applies for the purpose of repayment of the Credit Facility.
<b>Warrant Settlement Options</b>	means the 3 separate options available to settle the Warrants upon their exercise by TrailStone, being the Standard Settlement Option (available only if Resolution 1 is passed), the Net Settlement Option (available if Resolution 1 is passed, and also available if Resolution 1 is not passed and the Regulatory Limits would not be breached by the issue of the Warrant Settlement Shares) and the Cash Settlement Option (available only if Resolution 1 is not passed).
<b>Warrant Settlement Shares</b>	means the number of Shares to be issued to TrailStone to settle the Warrants which may differ under the Standard Settlement Option and the Net Settlement Option, as further described in Annexure A of this Explanatory Memorandum.
<b>Warrant Strike Price</b>	means the price at which the Warrants may be exercised, as set out in Annexure A.

## ANNEXURE A WARRANT TERMS

An overview of the Warrants and their overall relationship to the TrailStone Transactions is given in the Overview of Key Transaction Section of this Explanatory Memorandum.

All other key terms of the Warrants are set out below.

KEY TERM	EXPLANATION
<b>Overview</b>	
<b>Purpose</b>	The Warrants were issued by SXG to TrailStone UK Ltd as part consideration for the provision of the Credit Facility by the TrailStone Group. No additional funds were raised by SXG in connection with the issue of the Warrants to TrailStone UK Ltd.
<b>Number of Warrants on issue</b>	1 billion (1,000,000,000) Warrants. Please note that if Resolution 5 (Share consolidation) is approved, this number will be revised commensurate with the ratio.
<b>Warrant Issue Date</b>	17 October 2014
<b>Warrant Maturity Date</b>	The Warrants can be exercised by TrailStone at any time on or before 31 December 2019.
<b>Warrant Settlement Options</b>	If the Warrants are exercised, the Warrants may be settled by utilising 1 of 3 settlement options as further described below. Only 2 of these settlement options involve the issue of Shares.
<b>Warrant Strike Price</b>	
<b>Warrant Strike Price (exercise price)</b>	A\$0.013 (per Warrant being exercised)
<b>Warrant Settlement Options</b>	
<b>Explanation</b>	<p>Both SXG and TrailStone recognise that the issue of Warrant Settlement Shares on the basis of 1 Share for each Warrant issued would be highly dilutive to Shareholders and would require Shareholder approval under the Takeover Provisions as well as for the purposes of Listing Rule 7.1.</p> <p>To enable the TrailStone Transactions to proceed and the Warrants to be issued, the parties have provided for 3 separate options which may be utilised to settle the Warrants following their exercise by TrailStone.</p> <p>As such, the initial issue of the Warrants is not dilutive to Shareholders and does not require Shareholder Approval.</p> <p>The settlement option that will be ultimately utilised will depend upon whether Shareholder Approval is obtained for Resolution 1, or failing that, whether the Regulatory Limits will enable the issue of Warrant Settlement Shares without further Shareholder approvals.</p>

KEY TERM	EXPLANATION
Standard Settlement Option	<p><b><i>When it will be used</i></b></p> <p>If Shareholder Approval is obtained for Resolution 1, the Standard Settlement Option will be available to TrailStone at its election.</p> <p><b><i>Number of Warrant Settlement Shares</i></b></p> <p>This will result in the issue of 1 Share for each Warrant issued.</p> <p>The maximum number of Warrant Settlement Shares that may be issued to TrailStone is therefore 1 billion (1,000,000,000) Shares (subject to there being no adjustments under the terms of the Warrants).</p> <p><b><i>What will TrailStone pay?</i></b></p> <p>TrailStone will pay the Warrant Strike Price for each Warrant.</p> <p>If Shareholder Approval is obtained, and all of the Warrants are exercised, the Standard Settlement Option will result in further cash proceeds to SXG of A\$13,000,000.</p> <p><b><i>Effect of issuing Warrant Settlement Shares</i></b></p> <p>The effect of issuing that number of Warrant Settlement Shares to TrailStone is set out in detail in the section of this Explanatory Memorandum entitled “Resolution 1 Approval for acquisition of greater than a 20% interest in SXG Shares by TrailStone”).</p>
Net Settlement Option	<p><b><i>When it will be used</i></b></p> <p>The Net Settlement Option has been designed to enable the settlement of the Warrants by issuing a lesser number of Warrant Settlement Shares. If Shareholder Approval is not obtained for Resolution 1, the Net Settlement Option may only be utilised if:</p> <ul style="list-style-type: none"> <li>• SXG has sufficient Placement Capacity to issue required number of Warrant Settlement Shares at the date on which TrailStone exercises the Warrants (on or before the Warrant Maturity Date); and</li> <li>• the issue of the Warrant Settlement Shares would not result in a breach of the Takeover Provisions by TrailStone.</li> </ul> <p>SXG therefore does not intend to seek further Shareholder approval prior to issuing Warrant Settlement Shares utilising the Net Settlement Option.</p> <p><b><i>Number of Warrant Settlement Shares</i></b></p> <p><b><i>Basis for calculation</i></b></p> <p>The Net Settlement Option allows for cashless exercise of the Warrants.</p> <p>This means that rather than TrailStone paying the Warrant Strike Price and being issued with Warrants on the basis of 1 Share for each Warrant, TrailStone will not pay any consideration for the exercise of the Warrants, but will instead be issued with a lesser number of Warrant Settlement Shares representing the “in-the-money value” (a dollar value) (<b>In-The-Money-Value</b>) of the Warrants.</p>

KEY TERM	EXPLANATION
	<p>In addition, a 5% discount to the 30 trading day VWAP of the Company's Shares at Warrant Exercise will be applied (<b>Discounted Share Price</b>).</p> <p><i>Calculation</i></p> <p>The In-The-Money-Value must first be determined.</p> <p>The formulas which sit behind the calculation to determine the number of Warrant Settlement Shares may be summarised and distilled as follows:</p> $N = \text{In-The-Money-Value} \div \text{Discounted Share Price}$ <p><b>Where:</b></p> <p style="text-align: right;">N =    Number of Warrant Settlement Shares</p> <p style="text-align: right;">In-The-Money Value =    SXG's Share price at Warrant Exercise – the Warrant Strike Price</p> <p style="text-align: right;">Discounted Share Price    95% of the 30 trading day VWAP as at the date =    of Warrant Exercise</p> <p><b><i>Notes on Discounted Share Price</i></b></p> <p>As at the date of these Meeting Materials, neither the In-The-Money-Value or the Discounted Share Price can be determined.</p> <p>This is because both are dependent on SXG's Share price or 30 trading day VWAP at the date of exercise of the Warrants (which can occur at any time on or before the Warranty Maturity Date).</p> <p><b><i>What will TrailStone pay?</i></b></p> <p>TrailStone will not be required to pay the Warrant Strike Price.</p> <p>If the Net Settlement Option is utilised no further cash proceeds will be generated by the exercise of the Warrants.</p> <p><b><i>Effect of issuing Warrant Settlement Shares</i></b></p> <p>Because the Discounted Share Price cannot be determined prior to Warrant Exercise, the number of Warrant Settlement Shares to be issued under the Net Settlement Option also cannot be determined in advance.</p> <p>It will however be a lesser number of Shares than if the Standard Settlement Option were to be utilised (as the value to be settled will be limited to the In-The-Money-Value of the Warrants, rather than the full Warrant Strike Price).</p>



<b>Cash Settlement Option</b>	<p><b><i>When it will be used</i></b></p> <p>If Shareholder Approval is not obtained for Resolution 1 and the Net Settlement Option is not available (because the issue of the number of Warrant Settlement Shares required under the Net Settlement Option would breach the available Placement Capacity and/or breach the Takeover Provisions).</p> <p><b><i>Number of Warrant Settlement Shares</i></b></p> <p>Nil.</p> <p><b><i>What will TrailStone pay?</i></b></p> <p>TrailStone will not be required to pay the Warrant Strike Price.</p> <p>If the Cash Settlement Option is utilised no further cash proceeds will be generated by the exercise of the Warrants.</p> <p><b><i>What will SXG pay?</i></b></p> <p>Rather, SXG will be required to pay the Cash Settlement Amount to TrailStone, meaning that SXG must either have sufficient working capital to pay that sum, or alternatively find a way to raise the cash to discharge this payment obligation.</p> <p><b><i>Cash Settlement Amount</i></b></p> <p>The Cash Settlement Amount payable by SXG will be equal to the dollar value of the Net Settlement Option. This is equal to In-The-Money-Value calculated for the Net Settlement Option as set out above.</p> <p>As noted above, the In-The-Money-Value cannot be determined in advance of the Warrant Exercise.</p> <p>As at the date of these Meeting Materials, the Cash Settlement Amount is therefore unknown.</p>
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Grant Thornton

An instinct for growth™

# Southern Cross Goldfields Limited

Concise Independent Expert's Report and Financial Services Guide

24 October 2014



# Grant Thornton

The Directors  
Southern Cross Goldfields Limited  
Level 6  
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**Attn: Mr David Kinsman**

24 October 2014

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Dear Sirs

## **Concise Independent Expert's Report and Financial Services Guide**

### **Introduction**

Southern Cross Goldfields Limited ("Southern Cross", the "Company" or "SXG") is an Australian mining and exploration company focused on precious metals projects. Currently, Southern Cross' main focus is the development of its Manuka silver project ("Manuka Project")<sup>1</sup> and the Mt Boppy gold project ("Mt Boppy Project") both located in New South Wales. As at 10 October 2014, SXG had a market capitalisation of approximately A\$16 million.

Southern Cross has recently secured funding for its projects from TrailStone UK Ltd ("TrailStone"). The funding ("TrailStone Funding") comprises the following:

- A gold loan facility totalling A\$25 million ("Gold Loan Facility"). The Company has recently drawn-down approximately A\$11.65 million from the Gold Loan Facility<sup>2</sup>. TrailStone was granted a first ranking fixed and floating charge over all the assets and undertaking of the Company.
- A\$35 million credit loan facility (Credit Facility") to be drawn down in stages from the first half of 2015. TrailStone was granted a second ranking fixed and floating charge over all the assets and undertaking of the Company.
- A placement of A\$1 million ("Placement") to subscribe for 100 million new fully paid ordinary shares (SXG Shares) at 1c per share<sup>3</sup>. This equates to an interest in the undiluted share capital of the Company of 7.58%. The Placement was completed on 17 October 2014.

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<sup>1</sup> Southern Cross acquired the Manuka Project on 5 September 2014 from the receivers of its previous owners Cobar Consolidated Resources Limited. It was formally known as the Wonawinta Project.

<sup>2</sup> We note that the full draw-down of the Gold Loan is still subject to certain administrative post-completion conditions which are expected to be met before the Shareholders meeting.

<sup>3</sup> We note that the Placement was only completed on 17 October 2014.

The terms of the TrailStone Funding requires SXG to issue 1 billion warrants (“Warrants”) to TrailStone as partial consideration for TrailStone entering into the Credit Facility. The Warrants were issued to TrailStone on 17 October 2014. Set out below are the key terms of the Warrants:

- Strike price – 1.3c per Warrant.
- Maturity date – 31 December 2019.
- Transferrable with minimum administrative conditions required to be fulfilled.
- Exercise options:
  - If SXG shareholders not associated with TrailStone (“Non-Associated Shareholders”) do approve the exercise of the Warrants, then TrailStone has two options:
    - i) Full Settlement Option – the Warrants will be exercisable into 1 billion SXG Shares anytime up to the maturity date by the payment of the total strike price of A\$13 million (“Proposed Exercise”).
    - ii) Net Settlement Option – this effectively provides for a cashless exercise of the Warrants. The number of shares to be issued to TrailStone will only be based on the difference between the trading prices at the time of exercise and the strike price of 1.3 cents. Each Warrant will convert into a number of SXG Shares determined by the following formula

$$\text{In the money value of the Warrants}^4 / 95\% \text{ VWAP}^5$$

As discussed in the reasonableness consideration, the Net Settlement Option is more financially advantageous for TrailStone, however the Full Settlement Option will provide TrailStone with a greater interest in the issued capital of the Company. Refer to our discussions in the reasonableness section of the executive summary.

- If Non-Associated Shareholders do not approve the exercise of the Warrants, then TrailStone has two options:
  - i) Net Settlement Option – the Warrants will convert into that maximum number of SXG Shares such that TrailStone will have an interest in the share capital of the Company not exceeding the 20% threshold established by Chapter 6 of the Corporations Act and the Company has sufficient capacity under ASX Listing Rule 7.1 and 7.1A to issue the SXG Shares<sup>6</sup>. The issue by SXG of this capped

<sup>4</sup> The difference (if any) between the SXG trading price at the time the exercise notice is served and 1.3c, being the strike price.

<sup>5</sup> 95% of the 30 trading day Volume Weighted Average Share Price on the ASX.

<sup>6</sup> ASX Listing Rule 7.1 establishes that a company cannot issue more than 15% of the issued capital in any 12 month period without shareholders' approval. ASX Listing Rule 7.1A provides an entity with the ability to issue an additional 10% of the share capital over and above the limit established by ASX Listing Rule 7.1 subject to shareholders' approval.

number of shares does not require Non-Associated Shareholders approval under the Corporation Act or ASX Listing Rules.

- ii) Cash Settlement Option – SXG will pay TrailStone an amount determined as the difference between the SXG 30-trading day VWAP at the time the exercise notice is lodged and 1.3c (the strike price) multiplied by the number of Warrants on issue. The cash settlement can be paid either promptly<sup>7</sup> or in eight quarterly equal instalments. Interest will accrue on the unpaid cash amount at 16% per annum.

We note that if the SXG trading prices on the ASX are lower than the strike price at the time of exercise, there is no value in the Warrants under any of the exercise options available to TrailStone.

If Non-Associated Shareholders approve the Proposed Exercise, TrailStone will not be able to opt for the Cash Settlement Option.

Upon exercise of the Warrants under the Full Settlement Option, TrailStone's shareholding in SXG will increase from 7.58% to approximately 47.42% on an undiluted basis but including the shares issued upon the Placement. In addition, TrailStone will be able to appoint a director or observer to the Board of the Company.

We note that in conjunction with the Proposed Exercise, SXG is seeking shareholders' approval for a number of additional matters such as

- Consolidating the share capital on 1:30 ratio.
- Changing the Company's name to Black Oak Minerals Limited.
- The ability to issue equity securities up to 10% of the issued capital of the Company in accordance with ASX Listing Rule 7.1A.

We have not formed a view or included the above ancillary matters in our consideration of the Proposed Exercise.

Subject to their directors' fiduciary duties, the Directors of Southern Cross ("the Directors") unanimously recommend that the Non-Associated Shareholders vote in favour of the Proposed Exercise. Each Director intends to vote all shares they own or control in favour of the resolution to approve the Proposed Exercise.

### **Purpose of the report**

The Directors of Southern Cross have engaged Grant Thornton Corporate Finance Pty Ltd ("Grant Thornton Corporate Finance") to prepare a Concise and Full independent expert's report ("the Concise Report" and "the Full Report", respectively) to express an opinion as to whether the issue of up to 1 billion SXG Shares to TrailStone upon exercise of the

<sup>7</sup> Within five business days of receiving the relevant notice of exercise.

Warrants is fair and reasonable to the Non-Associated Shareholders in accordance with Item 7 of Section 611 of the Corporations Act, 2001.

For the purpose of this report, independent technical specialists, namely AMC Consultants Pty Ltd (“AMC”) and Grays Asset Services (“Grays”), were engaged to conduct an independent review and assessment of the mineral assets held by Southern Cross and the plant and equipment associated with the Manuka Project.

AMC’s report (the “AMC Report”) and Grays’ report (the “Grays Report”) are included as Appendix E and Appendix F to the Full Report respectively. The Full Report is available online, on the Company’s website and also available by request from the Company.

### Basis of assessment

In accordance with the requirements of ASIC Regulatory Guide 111 *Contents of expert reports* (“RG 111”), we have estimated whether or not the Proposed Exercise is fair for the Non-Associated Shareholders by comparing the fair market value of SXG before the Proposed Exercise on a control basis with the fair market value of SXG post the Proposed Exercise on a minority basis. We have also analysed the likely advantages, disadvantages and other factors to be considered by the Non-Associated Shareholders in relation to the Proposed Exercise.

### Summary of opinion

**Grant Thornton Corporate Finance has concluded that the Proposed Exercise is NOT FAIR BUT REASONABLE to Non-Associated Shareholders.**

### *Fairness assessment*

Set out below is a summary of our valuation assessment.

Assessment of fairness - Proposed Exercise (Non-Participating Shareholders)	Section Reference	Low (cents)	High (cents)	Mid-point (cents)
Fair market value of Southern Cross before Proposed Exercise (on a control basis)	2	1.800	3.791	2.795
Fair market value of Southern Cross after Proposed Exercise (on a minority basis)	3	1.348	2.219	1.784
Increase / (decrease) in value per Southern Cross Share		(0.452)	(1.571)	(1.012)
Increase / (decrease) in value per Southern Cross Share (%)		(25.1)%	(41.5)%	(36.2)%

Source: GTCF calculations

Our assessment of the fair market value of SXG on a control basis before the Proposed Exercise is higher than our assessment of SXG on a minority basis after the Proposed Exercise. Accordingly, we have concluded that the Proposed Exercise is not fair to the Non-Associated Shareholders.

SXG Shareholders should be aware that our assessment of the value per SXG Share post the Proposed Exercise does not reflect the price at which SXG Shares will trade if the Proposed Exercise is approved. The price at which SXG Shares will ultimately trade depends on a range of factors including the liquidity of SXG Shares, macro-economic

conditions, the underlying performance of the business and the supply and demand for SXG Shares.

Further, we note that our valuation assessment of SXG is based on the fair market value concept and it does not reflect the risks attached to the potential capital structure of the Company going forward which could be materially weighted toward debt funding if the Gold Facility and the Credit Facility are fully drawn down and in the absence of a large capital raising.

#### *Sensitivity analysis on the value of the Warrants*

We note that in our valuation assessment of SXG post the Proposed Exercise, we have had regard to the Full Settlement Option due to the following:

- SXG is seeking Non-Associated Shareholders' approval for the issue of up to 1 billion shares to TrailStone (i.e. scenario under the Full Settlement Option).
- It is not possible at this point in time to calculate the number of shares to be issued to TrailStone under the Net Settlement Option<sup>8</sup>.

In assessing the fair market value of Southern Cross after the Proposed Exercise, we have allowed for the funds of A\$13 million that would be received from TrailStone at the time of exercise of the Warrants and the additional 1 billion shares to be issued upon exercise. However, we have also considered in our valuation assessment the time value of the Warrants as if the Warrants were exercised at the time of maturity (i.e. 31 December 2019). The time value<sup>9</sup> of the Warrants has been assessed at approximately A\$9 million. Refer to section 2.9 of the Concise Report for further details.

Given it is not known at this point in time when and if TrailStone will exercise the Warrants, we have set out in the table below a sensitivity analysis of the value of SXG after the Proposed Exercise in conjunction with exercise of the Warrants immediately after Shareholders' approval of the Proposed Exercise and half way through the maturity period (31 December 2017).

	Section Reference	Base Case	Immediate Exercise	Mid-period Exercise
Number of Southern Cross shares after the Proposed Transaction				
Adjusted equity value of Southern Cross on a minority basis (post) - mid-point (\$000)	3	41,375	41,375	41,375
Add back the value of the Warrants - mid-point <sup>(1)</sup> (\$000)	2.9	-	6,922	3,461
Equity value of Southern Cross on a minority basis (post Warrants adj.) (\$000)		41,375	48,297	44,836
Number of shares outstanding (diluted) (in '000s shares)	3.3	2,319,551	2,319,551	2,319,551
<b>Equity value per shares (post Warrants adj.) - cents</b>		<b>1.784</b>	<b>2.082</b>	<b>1.933</b>

*Note (1): Calculated on a minority basis*

*Source: Management*

<sup>8</sup> In order to calculate the number of SXG Shares to be issued to TrailStone under the Net Settlement Option, the exercise date and the share price at the time of exercise are required.

<sup>9</sup> Investors are willing to pay a premium (time value) over the intrinsic value of the Warrants (difference between the trading prices and the strike price as given the exercise price is fixed, any future increases in the share price of SXG will be reflected by commensurate gains in the intrinsic value. Given the Warrants have a maturity of 5 years, the time value of money is significant.



### ***Reasonableness assessment***

For the purpose of assessing whether or not the Proposed Exercise is reasonable to the Non-Associated Shareholders of Southern Cross, we have considered the following likely advantages, disadvantages and other factors associated with the Proposed Exercise.

### ***Advantages***

#### *Avoidance of paying the Cash Settlement Option*

If the Proposed Exercise is not approved, the Company may be required to pay the Cash Settlement Option upon conversion of the Warrants. As set out in the table below, the value of the Cash Settlement Option may be material in circumstances where SXG's share price materially increases over the life of the Warrants.

Cash Settlement Option sensitivity				
SXG Trading prices (cents)	1.50	2.50	3.50	4.50
Strike price (cents)	1.30	1.30	1.30	1.30
<b>Difference (cents)</b>	<b>0.20</b>	<b>1.20</b>	<b>2.20</b>	<b>3.20</b>
No. warrants on issue (millions)	1,000	1,000	1,000	1,000
<b>Cash Settlement Option Payment (\$)</b>	<b>2,000,000</b>	<b>12,000,000</b>	<b>22,000,000</b>	<b>32,000,000</b>

*Source: GTCF calculations*

In relation to the above potential cash payment, we note the following:

- SXG is a small exploration and development company with limited cash resources and it may be required to access additional debt and/or equity funding in order to be able to pay the Cash Settlement Option. This additional funding may not necessarily be available, which may jeopardise the ability of the Company to continue as a going concern, or it may only be available at terms materially dilutive for Non-Associated Shareholders.
- Whilst the Company currently has a significant undrawn facility as part of the TrailStone Funding, we note that there are restrictions on the use of the TrailStone Funding which cannot be utilised to repay other external debt or liabilities such as the Cash Settlement Option payment.
- As at the date of this report, the market capitalisation of SXG is approximately A\$16 million and the drawn-down debt facility is approximately A\$11.65 million which implies a market gearing (debt/equity) of 77%. This is atypically high for an exploration/development company. The gearing level may further increase if additional debt is drawn down from the TrailStone Funding (A\$48.5 million of undrawn facilities). In our opinion, if the Cash Settlement Option payment becomes due and payable, the Company may face challenges to raise additional debt facilities if the current market conditions and gold price still prevail at the time of exercise of the Warrants.

By approving the Proposed Exercise, the Non-Associated Shareholders remove potential risks attached to the Cash Settlement Option payment.

*Greater alignment of the interest between TrailStone and the Non-Associated Shareholders*

Upon exercise of the Warrants, if TrailStone opts for the Full Settlement Option, it will acquire a relevant interest in the Company of approximately 47.42% on an undiluted basis and become a strategic investor/partner in the Company. TrailStone may also provide further financial and operational support going forward if required. In addition, TrailStone will be further aligned with the interests of the Non-Associated Shareholders rather than predominately being the major secured creditor of the Company.

*Capital injection of A\$13 million.*

If the Proposed Exercise is approved and TrailStone elects for the Full Settlement Option, TrailStone will be required to pay A\$13 million in cash upon exercise of the Warrants. We note the following advantages for the Company:

- The additional cash resources may assist the Company in funding some of the upfront capital expenditure to expedite the commencement of production at its key projects if the Warrants are exercised shortly after the Shareholders meeting.
- The A\$13 million cash injection may assist SXG in having a more balanced capital structure and mitigate any potential future financial risks arising from adverse market conditions.

However, as discussed in more details in the other factors section of this executive summary, TrailStone may opt for the Net Settlement Option which does not provide any additional cash to SXG.

*Warrant Strike Price represents a premium to the current share price*

The strike price of the Warrants is at a premium to the historical trading prices of SXG and in line with the current trading prices.

Southern Cross Goldfields	Share price (cents)	Strike price (cents)	Premium / Discount (%)
Closing price of SXG before 8 July 14 <sup>1</sup>	1.000	1.300	30.0%
Closing price of SXG before 5 September 14 <sup>2</sup>	0.800	1.300	62.5%
5 day VWAP of SXG up to 9 October 2014	1.334	1.300	(2.5)%
1 month VWAP of SXG up to 9 October 2014	1.139	1.300	14.1%
3 month VWAP of SXG up to 9 October 2014	1.090	1.300	19.3%
6 month VWAP of SXG up to 9 October 2014	1.103	1.300	17.9%

Note (1): On 8 July 2014, Southern Cross announced new debt funding of A\$60 million with TrailStone

Note (2): On 5 September 2014, Southern Cross announced the revision of the funding with TrailStone and the removal of equity-raise pre-condition

Source: Capital IQ and GTCF calculations

***Disadvantages***

*The Proposed Exercise is not fair*

The Proposed Exercise is not fair based on our valuation of SXG on a control basis before the Proposed Exercise. However, we note that the Warrants have already been issued and

accordingly the terms, including the strike price, cannot be amended and Non-Associated Shareholders are only asked to vote on the Proposed Exercise.

#### *Dilution for existing shareholders of SXG*

The exercise of the Warrants will result in a significant dilution for the Non-Associated Shareholders' interest in the Company. However, whilst the interest of the Non-Associated Shareholders in the current assets of SXG will be diluted materially upon exercise of the Warrants, they will also receive a similar pro-rata interest in the A\$13 million cash injection if TrailStone opts for the Full Settlement Option. If TrailStone opts for the Net Settlement Option, there will be no mitigation to Non-Associated Shareholders' dilution.

#### *Decreases the likelihood of future takeover offer*

Upon exercise of the Warrants if the Full Settlement Option is selected, TrailStone will hold 47.42% of the enlarged issued capital of SXG on an undiluted basis. This shareholding would likely represent a potential deterrent to a takeover bid for the Company. In our opinion, the likelihood of the Company receiving a takeover offer will reduce upon conversion of the Warrants.

#### **Other factors**

##### *Full exercise of the Warrants vs Net Settlement Option*

The substance of the terms of the Warrants are such that in our opinion if Non-Associated Shareholders' approval is obtained in relation to the Proposed Exercise, TrailStone may be better off, purely from a financial perspective, to opt for the Net Settlement Option due to the following:

- It will not be required to pay the strike price of 1.3 cents per share (totalling A\$13 million).
- Based on the formula for the calculation of the shares to be issued under the Net Settlement Option, TrailStone will benefit from a 5% discount to the 30 trading day VWAP.
- The Net Settlement Option always offers a superior financial outcome to TrailStone as set out in the sensitivity analysis below.

	Full Warrant Exercise				Net Settlement Option			
SXG Trading prices (cents)	1.50	2.50	3.50	4.50	1.50	2.50	3.50	4.50
Strike price (cents)	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
<b>Difference (cents)</b>	<b>0.20</b>	<b>1.20</b>	<b>2.20</b>	<b>3.20</b>	<b>0.20</b>	<b>1.20</b>	<b>2.20</b>	<b>3.20</b>
No. shares to be issued (millions) <sup>(1)</sup>	1,000	1,000	1,000	1,000	140	505	662	749
Market value of the shares issued upon exercise (\$)	15,000,000	25,000,000	35,000,000	45,000,000	2,105,263	12,631,579	23,157,895	33,684,211
Less total strike price paid by Trailstone (\$)	(13,000,000)	(13,000,000)	(13,000,000)	(13,000,000)	-	-	-	-
<b>Net market value for Trailstone (\$)</b>	<b>2,000,000</b>	<b>12,000,000</b>	<b>22,000,000</b>	<b>32,000,000</b>	<b>2,105,263</b>	<b>12,631,579</b>	<b>23,157,895</b>	<b>33,684,211</b>
<b>Trailstone Shareholding in SXG (%)</b>	<b>47.42%</b>	<b>47.42%</b>	<b>47.42%</b>	<b>47.42%</b>	<b>16.46%</b>	<b>33.17%</b>	<b>38.44%</b>	<b>41.03%</b>

*Note (1): Under the Net Settlement Option is determined as the value difference divided by 95% of the trading price and multiplied by the number of Warrants on issue.*

*Source: GTCF calculations*

Notwithstanding the discussion above, TrailStone may decide to opt for the Full Settlement Option in order to achieve a greater shareholding in SXG. As set out in the table above, where SXG's trading prices are marginally above the strike price, the number of shares to be issued to TrailStone under the Net Settlement Option is limited and accordingly its influence over the Company may be diminished.

#### *Alternative monetisation option for TrailStone*

If the Proposed Exercise is not approved, TrailStone may seek to monetise the Warrants by selling them to a number of parties in order to ensure that upon exercise the takeover provision in Section 6 of the Corporations Act and ASX Listing Rules 7.1 and 7.1A are not breached<sup>10</sup>.

#### *The Warrants and the TrailStone Funding*

We note that whilst SXG is only seeking Shareholders' approval for the exercise of the Warrants, the Warrants were issued to TrailStone as part of the TrailStone Funding. The Gold Facility, Credit Facility and the Warrants were negotiated as part of a unique funding arrangement.

It is likely that without the potential upside offered to TrailStone by the Warrants, the TrailStone Funding would have not be made available to the Company based on the existing terms. The Warrants will become valuable to TrailStone only in conjunction with an increase of the share price above the strike price (1.3 cents). Non-Associated Shareholders will also benefit from this share price growth. In addition, the terms of the Warrants fully align the interest of TrailStone to those of the Non-Associated Shareholders.

#### *Valuation of SXG on a 100% basis*

As discussed in our fairness section above, our valuation assessment of SXG before the Proposed Exercise has been undertaken on a 100% basis and incorporating the application of a premium for control in accordance with the requirements of RG111. However, we note that upon exercise of the Warrants, TrailStone will approximately hold 47.42% of the undiluted issued capital of the Company if the Full Settlement Option is selected. Under the Net Settlement Option, TrailStone's shareholding may be materially lower than 47.42% depending on the trading prices of SXG.

TrailStone has also indicated that it currently has no intention to change the members of the Board of the Company. In our opinion, it is unlikely that TrailStone would be willing to pay a full premium for control under these circumstances.

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<sup>10</sup> ASX Listing Rule 7.1 establishes that a company cannot issue more than 15% of the issued capital in any 12 month period without shareholders' approval. ASX Listing Rule 7.1A provides an entity with the ability to issue an additional 10% of the share capital over and above the limit established by ASX Listing Rule 7.1 subject to shareholders' approval. In addition, Section 606 of the Corporations Act prohibits the acquisition of a relevant interest in the issued voting shares of a company if the acquisition results in the person's voting power in the company increasing from either below 20% to more than 20%, or from a starting point between 20% and 90%, without making an offer to all shareholders of the company.

*Directors' recommendations and intentions*

Subject to their directors' fiduciary duties, the Directors of Southern Cross unanimously recommend that the Non-Associated Shareholders vote in favour of the Proposed Exercise. Each Director intends to vote all shares they own or control in favour of the resolution to approve the Proposed Exercise.

***Reasonableness conclusion***

Based on the qualitative factors identified, it is our opinion that the Proposed Exercise is reasonable to the Non-Associated Shareholders.

**Overall conclusion**

After considering the abovementioned quantitative and qualitative factors relevant to the Non-Associated Shareholders, we have formed our opinion that the Proposed Exercise is **NOT FAIR BUT REASONABLE** for the Non-Associated Shareholders.

**Other matters**

Grant Thornton Corporate Finance has prepared a Financial Services Guide in accordance with the Corporations Act. The Financial Services Guide is set out in the following section.

The decision as to whether or not to approve the Proposed Exercise is a matter for each shareholder of Southern Cross based on their own views of value of Southern Cross and expectations about future market conditions, Southern Cross' performance, risk profile and investment strategy. If the shareholders are in doubt about the action they should take in relation to the Proposed Exercise, they should seek their own professional advice.

This report constitutes a Concise Report. The Full Report is available online, on the Company's website and also available by request from the Company.

Yours faithfully

GRANT THORNTON CORPORATE FINANCE PTY LTD



ANDREA DE CIAN  
Director



LIZ SMITH  
Director



24 October 2014

## **Financial Services Guide**

### **1 Grant Thornton Corporate Finance Pty Ltd**

Grant Thornton Corporate Finance Pty Ltd (“**Grant Thornton Corporate Finance**”) carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by Southern Cross Goldfields Limited (“**Southern Cross**” or “**the Company**”) to provide general financial product advice in the form of an independent expert’s report in relation to the proposed issue of ordinary shares to TrailStone UK Ltd (“**TrailStone**”). This report is included in the Notice of Meeting and Explanatory Memorandum in relation to the Proposed Exercise.

### **2 Financial Services Guide**

This Financial Services Guide (“**FSG**”) has been prepared in accordance with the Corporations Act, 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

### **3 General financial product advice**

In our report we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

### **4 Remuneration**

When providing the Concise Report, Grant Thornton Corporate Finance’s client is the Company. Grant Thornton Corporate Finance receives its remuneration from the Company. In respect of the Concise Report, Grant Thornton Corporate Finance will receive from SGX a fee of approximately A\$70,000 plus GST, which is based on commercial rates plus reimbursement of out-of-pocket expenses in relation to the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this report.



## **5 Independence**

Grant Thornton Corporate Finance is required to be independent of SGX and TrailStone in order to provide this report. The guidelines for independence in the preparation of an independent expert's report are set out in Regulatory Guide 112 *Independence of expert* issued by the Australian Securities and Investments Commission ("ASIC"). The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

*"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with Southern Cross and Southern Cross (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation the Proposed Exercise.*

*Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the Proposed Exercise, other than the preparation of this report.*

*Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the Proposed Exercise. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.*

*Grant Thornton Corporate Finance considers itself to be independent in terms of Regulatory Guide 112 "Independence of expert" issued by the ASIC.*

## **6 Complaints process**

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Financial Industry Complaints Services Complaints Handling Tribunal, No F-3986. All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service who can be contacted at:

PO Box 579 – Collins Street West  
Melbourne, VIC 8007  
Telephone: 1800 335 405

Grant Thornton Corporate Finance is only responsible for this report and this FSG. Complaints or questions about the Notice of Meeting and Explanatory Memorandum should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

## **Compensation arrangements**

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.



# Contents

	Page
1 Valuation methodologies	14
2 Valuation assessment of Southern Cross before the Proposed Exercise	15
3 Valuation assessment of Southern Cross after the Proposed Exercise	27





## **1 Valuation methodologies**

### **1.1 Selected valuation methodology**

Grant Thornton Corporate Finance has selected the market value of net assets as the primary method to assess Southern Cross' equity value prior to the Proposed Exercise. The market value of net assets is based on the sum of parts of Southern Cross operating and exploration assets, and other assets and liabilities. Specifically, in assessing the fair market value of Southern Cross, Grant Thornton Corporate Finance has aggregated:

- The market value of its key mineral assets, i.e. the Marda Project, the Mt Boppy Project, (collectively referred to as the "Gold Projects"), the Sandstone Project and the Manuka Project.
- The value of other assets and liabilities owned by Southern Cross.
- Deducted costs associated with the Proposed Exercise.

Prior to reaching our valuation conclusions, we have considered the reasonableness of our valuation having regard to the market approach, specifically a rule of thumb valuation methodology based on a multiple of resources. In addition, we have also considered the quoted share price of Southern Cross. The cross check valuations have only been included in the Full Report.

### **1.2 Independent technical specialist for Southern Cross**

For the purpose of this report, Grant Thornton Corporate Finance has engaged AMC to review and express an opinion on the reasonableness of the technical assumptions included in the financial model provided to Grant Thornton Corporate Finance by Southern Cross Management, and to prepare a valuation of the exploration assets of the Company which was completed in accordance with the VALMIN Code<sup>11</sup>.

In addition, Grant Thornton Corporate Finance has engaged Grays to review and express an opinion on fair market value of the plant and equipment associated with the Manuka Project.

A copy of AMC's Report and Grays' Report are included as Appendix E and Appendix F to the Full Report respectively.

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<sup>11</sup> The VALMIN Code is binding on members of the Australasian Institute of Mining and Metallurgy when preparing public independent expert reports required by the Corporations Act concerning mineral and petroleum assets and securities. The purpose of the VALMIN Code is to provide a set of fundamental principles and supporting recommendations regarding good professional practice to assist those involved in the preparation of independent expert reports that are public and required for the assessment and/or valuation of mineral and petroleum assets and securities so that the resulting reports will be reliable, thorough, understandable and include all the material information required by investors and their advisers when making investment decisions.

## 2 Valuation assessment of Southern Cross before the Proposed Exercise

As discussed in section 1, we have selected the sum of the parts valuation approach to assess the fair market value of Southern Cross shares on a control basis before the Proposed Exercise. In assessing the market value of net assets of Southern Cross, Grant Thornton Corporate Finance has aggregated the following:

- Market value of the Mt Boppy Project
- Market value of the Manuka Project.
- Market value of the Marda Project
- Market value of other exploration assets owned by Southern Cross
- Value of other assets and liabilities owned by Southern Cross
- Deducted the net present value of corporate overhead costs not directly related to the exploration and exploitation of its mining assets
- Considered the market value of other securities on issue such as options and warrants
- Deducted costs associated with the Proposed Exercise.

Set out below is a summary of our valuation assessment.

Southern Cross before the Proposed Exercise Valuation assessment (in A\$000s unless stated otherwise)	Section Reference	Low A\$000s	High A\$000s	Mid-point A\$000s
Fair value of Mt Boppy Project	2.1.4	14,118	16,731	15,425
Add: Fair value of Marda Project	2.2.4	28,541	40,776	34,659
Add: Fair value of Manuka Project	2.3	12,014	24,414	18,214
Add: Fair value of Sandstone Project	2.4	499	499	499
Add: Other exploration & development tenements	2.5	900	1,500	1,200
<b>Total mining assets value</b>		<b>56,072</b>	<b>83,919</b>	<b>69,995</b>
Add: Adjusted other assets & liabilities	2.6	(7,926)	(7,926)	(7,926)
Less: Value of Southern Cross' existing options	2.8	(2,166)	(2,496)	(2,331)
Less: Estimated corporate overheads expenses	2.7	(13,853)	(13,853)	(13,853)
Less: Value of Southern Cross Warrants	2.9	(8,371)	(9,626)	(8,999)
<b>Equity value of Southern Cross on a control basis</b>		<b>23,756</b>	<b>50,018</b>	<b>36,887</b>
Existing number of shares outstanding (shares) (in '000s)	2.10	1,319,551	1,319,551	1,319,551
<b>Equity value per Southern Cross share on a control basis (cents)</b>		<b>1.800</b>	<b>3.791</b>	<b>2.795</b>

Source: GTCF calculations

As set out above, we have assessed the fair market value of Southern Cross before the Proposed Exercise between 1.8 cent and 3.8 cent with a mid-point of 2.8 cent on a control basis.



## 2.1 Mt Boppy Project

### 2.1.1 Introduction

We have assessed the fair market value of the Mt Boppy Project based on the DCF methodology. Grant Thornton Corporate Finance has engaged AMC, to review and express an opinion on the reasonableness of the technical assumptions included in the financial model provided by Southern Cross Management (the “Boppy Model”) in relation to the reserves, production profile, ore grades, operating and capital expenditure. AMC has reviewed the Boppy Model and has modelled two production scenarios:

**Boppy Base Case or Boppy Case 1:** An operational plan of approximately 2.5 years where the ore production is based primarily on ore reserves (JORC code defined) estimates and a component of other mineral resources (JORC code defined) for which AMC believe there is a high confidence of future conversion to ore reserves<sup>12</sup>. The operating assumptions in relation to Boppy Case 1 are set out in the Full Report.

**Boppy Upside Case or Boppy Case 2:** Includes reserves/resources under Boppy Case 1 with an additional 80kt of ore added at the end of the mine life to simulate the likely conversion of mineral resources into ore reserves. The operating assumptions in relation to Boppy Case 2 are set out in the Full Report.

Based on AMC’s review and suggested changes to the Boppy Model, Grant Thornton Corporate Finance has assessed the net present value of the Mt Boppy Project using ungeared, real and post-tax cash flows, having regard to our assessment of the future gold prices, economic factors and discount rate.

We also note that as a result of Southern Cross’ recent acquisition of the Manuka Project, Southern Cross Management is currently intentioned to abandon its plans to upgrade the plant at Mt Boppy and instead haul the ore for processing to the Manuka Project site.

This aspect has not been considered in the Boppy Model as Southern Cross Management is at a preliminary stage of their analysis. However, Southern Cross Management are of the view that the benefit in terms of the capital expenditure saved (approximately A\$9 million) will be offset by the increased cost of haulage as well as the cost to modify the plant and equipment at Manuka to process gold instead of silver. Southern Cross Management have also advised that the processing costs at Manuka will be comparable to those at Mt Boppy. AMC has reviewed the high level and indicative estimate undertaken by the Company and it does not believe that it is unreasonable.

Refer to the Full Report for our overview of key assumptions underpinning the forecast cash flows.

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<sup>12</sup> Being a small volume of inferred mineral resources



## 2.1.2 Economic assumptions

### *Gold prices*

Based on the analysis and discussion set out in the Full Report, the following table summarises the real US-dollar denominated prices for gold used in our valuation assessment.

Gold price assumptions	2014	2015	2016	2017	2018	Long Term
<b>US\$/oz (real terms)</b>						
GT adopted gold price	1,260	1,250	1,230	1,210	1,210	1,240

*Source: Broker reports, publicly available information and Grant Thornton Corporate Finance assumptions*

It is to be noted that due to short mining life of the Mt Boppy Project, the long term economic assumptions (gold price, exchange rate etc.) are not relevant for the valuation of the Mt Boppy Project. However, these long term economic assumptions are considered for valuing the Marda Project.

Set out in the following graph, we have plotted our mid-point assessment of the long term real gold price against the historical gold price (real) for the last 12 years.

### Historical real gold price



*Source: Capital IQ*

### *Exchange Rates*

The following table summarises our assessment of the forecast real exchange rates adopted in our valuation assessment:

	US\$/A\$					
Foreign exchange rate assumption (real)	2014	2015	2016	2017	2018	Long term
<b>A\$1.00 = US\$</b>						
Exchange rate	0.91	0.88	0.85	0.83	0.83	0.83

*Source: Capital IQ, Broker reports, publicly available information and GTCF assumptions*

*Inflation*

For the purpose of our valuation assessment, we have adopted a blended long term inflation rate of 2.3% per annum in line with the Reserve Bank of Australia target inflation between 2% and 3% per annum and the US long term inflation rate of 2%. The cash flows used in our valuation assessment are in real terms.

*Discount rate*

The cash flows assumptions associated with the Mt Boppy Project have been prepared on a real, ungeared and post-tax basis. Accordingly, Grant Thornton Corporate Finance has applied a real, post-tax Weighted Average Cost of Capital ("WACC") between 10.7% and 11.8% with a mid-point of 11.2% in relation to the Mt Boppy Project<sup>13</sup>. Our assessment of the discount rate captures the following risks:

- Uncertainty associated with the development stage nature of this asset.
- Risks identified in the AMC report including:
  - Technical and metallurgical recovery risk due to pit mining of ore body at depth.
  - Inferred Mineral Resource may be lower in volume and grade than current estimates.
  - Capital costs for plant refurbishments being difficult to estimate.
  - Throughput not being achieved in the upgraded treatment plant.

We note that in our assessment of the discount rate, we have had regard to the target capital structure for SXG's assets in accordance with the fair market value principle. The actual capital structure of SXG going forward is likely to be more weighted towards debt than its peers if the TrailStone Funding is drawn down in full. The financial circumstances of the Company and this additional risk have not been taken into account in our assessment of the discount rate.

**2.1.3 Other assumptions**

- Depreciation – The Boppy Model provides an estimate for forecast monthly depreciation and assumes that capital expenditure is depreciated on a straight line basis over the current production schedule.
- Income tax - Income tax has been calculated by applying the Australian statutory company tax rate of 30% to the notional taxable income after allowing for tax losses. However, we have been advised by Southern Cross Management that the Company has a tax loss balance of approximately A\$44.1 million (gross) as at 30 June 2014 which, based on preliminary tax advice, is expected to be utilised across the Mt Boppy Project and the Marda Project. We have incorporated a portion of Southern Cross' tax losses in our

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<sup>13</sup> For Mt Bobby Case 2 we have uplifted the discount rate by 0.5% for the last period where the additional 80kt of ore is produced



calculation of fair market value of Mt Boppy with the balance being utilised in our valuation assessment of the Marda Project.

#### 2.1.4 Valuation summary of Mt Boppy

The following table summarises our valuation assessment of Mt Boppy. We note that the low and high ends of our range are estimated in conjunction with Mt Boppy Case 1 and Case 2 respectively.

Mt Boppy Project	Mt Boppy Case 1	Mt Boppy Case 2
	A\$000s	A\$000s
Fair value of Mt Boppy Project	14,118	16,731

Source: Grant Thornton Corporate Finance calculations

Grant Thornton Corporate Finance has assessed the market value of Mt Boppy Project between A\$14.1 million and A\$16.7 million based on the DCF approach.

#### 2.1.5 Gold premium

We have not applied a gold premium in our valuation assessment of Mt Boppy. Refer to the Full Report for discussion.

#### 2.1.6 Sensitivity analysis

We have conducted certain sensitivity analysis on the Mt Boppy Project to highlight the impact caused by movements in certain key variables such as exchange rate, gold price and discount rate.

The following table summarises our results:

Sensitivities In (A\$000s unless stated otherwise)	NPV of Mt Boppy Project		% change	
	Low	High	Low	High
Base case	14,118	16,731		
<b>Gold prices (real)</b>				
10% increase	17,381	20,670	23.1%	23.5%
10% decrease	10,856	12,792	(23.1)%	(23.5)%
<b>Exchange rate</b>				
1% increase	13,795	16,341	(2.3)%	(2.3)%
1% decrease	14,448	17,129	2.3%	2.4%
<b>Discount rate</b>				
1% increase	15,088	17,821	6.9%	6.5%
1% decrease	13,806	16,433	(2.2)%	(1.8)%

Source: GTCF calculations

## 2.2 Marda Project

### 2.2.1 Introduction

We have assessed the fair market value of Marda Project based on the DCF methodology. Grant Thornton Corporate Finance has engaged AMC to review and express an opinion on the reasonableness of the technical assumptions included in the financial model provided by Southern Cross Management (the “Marda Model”) in relation to the reserves, production profile, ore grades, operating and capital expenditure. AMC has prepared two production scenarios:

**Marda Base Case or Marda Case 1:** An operational plan of 3.5 years having regard to the current level of JORC defined ore reserves and a component of JORC defined resources that are included in the mine plan provided in the FS of November 2013. Based on AMC’s review, the Marda Model assumes the commencement of project development in August 2016 and processing of ore in February 2017.

**Upside Marda Case or Marda Case 2:** Marda Case 2 utilises the same assumptions as Marda Case 1 for the first 3.5 years and includes an additional 900kt of ore at a grade of 2.2g/t added to the end of the mine life to reflect the likely conversion of mineral resources into ore reserves as well as further exploration success in the Marda region<sup>14</sup>.

Based on AMC’s review and suggested changes to the Marda Model, Grant Thornton Corporate Finance has assessed the net present value of the Marda Project using ungeared, real and post-tax cash flows, having regard to our assessment of the future gold prices, economic factors and discount rate.

Refer to the Full Report for our overview of key assumptions underpinning the forecast cash flows.

### 2.2.2 Economic assumptions

We have relied upon the economic assumptions (i.e., gold price, exchange rate and inflation) utilised in the valuation assessment of the Mt Boppy Project for our valuation assessment of the Marda Project (see section 2.1.2 for further discussion of these assumptions). However, in our valuation assessment of the Marda Project, we have separately assessed the discount rate to account for the unique, specific risks associated with the Marda Project.

#### *Discount rate*

The cash flows assumptions associated with the Marda Project have been prepared on a real, ungeared and post-tax basis. Accordingly, Grant Thornton Corporate Finance has

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<sup>14</sup> The 900kt represents 50% of the Marda Project’s inferred resource converting into ore reserves

applied a real, post-tax WACC of between 10.7% and 11.8% with a mid-point of 11.2% in relation to the Marda Project <sup>15</sup>.

Our assessment of the discount rate takes into account the fact that the Marda Project is a greenfields open pit operation in which no historical mining or ore processing has been undertaken in the area. Further, we have considered the risks identified by AMC in relation to the Marda Project.

### 2.2.3 Other assumptions

*Depreciation* – The Marda Financial Model provides an estimate for forecast monthly depreciation and assumes that capital expenditure is depreciated over the life of mine.

*Income tax* - Income tax has been calculated by applying the Australian statutory company tax rate of 30% to the notional taxable income after allowing for tax losses. As mentioned in section 2.1.3 above, we have applied a portion of Southern Cross' tax losses to offset taxable income in the Marda Model. Based on the above factors, we have considered tax losses in our valuation assessment for the Marda Project.

### 2.2.4 Valuation summary of the Marda Project

The following table summarises our valuation assessment of the Marda Project. We note that the low and high ends of our range are estimated in conjunction with Marda Case 1 and Case 2 respectively.

	Marda Case 1	Marda Case 2
Marda Project	A\$000s	A\$000s
Fair value of Marda Project	28,541	40,776

*Source: Grant Thornton Corporate Finance calculations*

Grant Thornton Corporate Finance has assessed the market value of the Marda Project between A\$28.5 million and A\$40.8 million on a control basis.

### 2.2.5 Gold premium

Similarly to Mt Boppy, we have not applied a gold premium to our assessed NAV in our valuation assessment of the Marda Project.

<sup>15</sup> Similarly to our valuation assessment of Mt Boppy, we have uplifted the discount rate applied to the Marda Case 2 by 0.5% in the outer years.





## 2.2.6 Sensitivity analysis

We have conducted certain sensitivity analysis on the Marda Project to highlight the impact caused by movements in certain key variables. The following tables summarise our results:

Sensitivities In (A\$000s unless stated otherwise)	NPV of Marda Project		% change	
	Low	High	Low	High
Base case	28,541	40,776		
<b>Gold prices (real)</b>				
10% increase	43,280	59,607	51.6%	46.2%
10% decrease	13,803	21,946	(51.6)%	(46.2)%
<b>Exchange rate</b>				
1% increase	27,082	38,912	(5.1)%	(4.6)%
1% decrease	30,030	42,678	5.2%	4.7%
<b>Discount rate</b>				
1% increase	28,383	40,536	(0.6)%	(0.6)%
1% decrease	28,701	41,019	0.6%	0.6%

Source: GTCF calculations

## 2.3 Manuka Project<sup>16</sup>

AMC has assessed a value of the Manuka Project's exploration properties by applying the Past Exploration Expenditure method and a market-based method looking at comparable and actual transactions.

In their consideration of the value of the Manuka Project, AMC state that they also had regard to the price that Southern Cross paid being A\$375,000 plus a commitment to A\$5.8 million of environmental liabilities associated with the leases.

Based on the above, AMC has calculated a range of values between A\$4.3 million and \$16.7 million for the Manuka Project (refer to section 5 of the AMC Report included in the Full Report).

Grays has assessed the market value of the plant and equipment pertaining to the Manuka Project on the following basis:

- Market value for existing use of A\$12 million.
- Estimated auction realisation value of A\$3.4 million.

<sup>16</sup> Formerly known as Wonawinta



In our valuation assessment, we have adopted the mid-point of Grays' assessment as we are of the opinion that it better reflects the current status of the processing plant.

Accordingly, the total value of the Manuka Project has been estimated between A\$12.0 million and A\$24.4 million.

## **2.4 Sandstone Project**

As the Sandstone Project's tenements are in the process of being sold, we have assessed the fair market value of this asset by reference to the expected sale price. We note that Southern Cross will retain the plant and equipment relating to the Sandstone Project for use in the Marda Project and has only sold the mining tenements and mining information.

Based on the terms of the agreements and discussion with Management, we have adopted a fair market value of A\$0.5 million for the mining tenements relating to the Sandstone Project based on the probability factors (assessed by Southern Cross Management) in relation to the contingent consideration.

## **2.5 Other tenements owned by Southern Cross**

AMC has separately assessed the value of exploration licence EL8452 located adjacent to Mt Boppy mining leases and associated exploration potential. AMC has assessed the fair value to be approximately A\$0.2 million.

In addition, AMC has separately assessed the value of the northern part of the Marda tenement are which does not have any defined resources but is considered to be prospective for gold and base metal deposits. AMC has assessed the value of these tenements to be in the range of A\$0.65 million to A\$1.3 million.

## **2.6 Other assets and liabilities owned by Southern Cross**

For the purpose of this report, we have assessed the fair market value of other assets and liabilities of Southern Cross based on the audited balance sheet as at 30 June 2014. The net book value of those assets and liabilities are assumed to reflect their fair market values.

The table below sets out the audited balance sheet as at 30 June 2014 and Grant Thornton Corporate Finance's adjustments to reflect Southern Cross' other assets and liabilities fair market value as at the date of this report:



Southern Cross Gold Fields Ltd Balance sheet	Section Reference / Note	30-Jun-14 unadj balance A\$000s	Adjustments A\$000s	Adjusted balance A\$000s
<b>Current assets</b>				
Cash and cash equivalents	Note 1	2,718	1,417	4,135
Trade and other receivables (current)		395	-	395
Assets classified as held for sale	Note 2	469	(469)	-
<b>Total current assets</b>		<b>3,582</b>	<b>948</b>	<b>4,530</b>
<b>Non-current assets</b>				
Trade and other receivables (non current)		115	-	115
Property, plant and equipment	Note 3	4,244	(4,244)	-
Tenement acquisition costs	Note 4	6,813	(6,813)	-
Other financial assets	Note 5	408	(408)	-
<b>Total non-current assets</b>		<b>11,580</b>	<b>(11,465)</b>	<b>115</b>
<b>Total assets</b>		<b>15,162</b>	<b>(10,517)</b>	<b>4,645</b>
<b>Current liabilities</b>				
Trade and other payables		783	-	783
Provisions (current)		112	-	112
Loans	Note 6	5,000	6,650	11,650
<b>Total current liabilities</b>		<b>5,895</b>	<b>6,650</b>	<b>12,545</b>
<b>Non-current liabilities</b>				
Provisions (non current)	Note 7	1,434	(1,408)	26
Deferred tax liability	Note 8	787	(787)	-
<b>Total non-current liabilities</b>		<b>2,221</b>	<b>(2,195)</b>	<b>26</b>
<b>Total liabilities</b>		<b>8,116</b>	<b>4,455</b>	<b>12,571</b>
<b>Net assets</b>		<b>7,046</b>	<b>(14,972)</b>	<b>(7,926)</b>
<b>Total adjusted other assets and liabilities</b>				<b>(7,926)</b>

Source: Southern Cross' Financial Statement for the period ended 30 June 2014, Management and GTCF calculations

We note the following in relation to the above table:

**Note 1** – Southern Cross Management have advised that the cash and cash equivalent balance as at the Valuation Date is approximately A\$3.3 million, which implies an uplift of A\$0.6 million from the cash balance as at 30 June 2014. In addition, we have adjusted the cash balance for the Placement (A\$1 million) and the transaction expenses estimated in conjunction with the Proposed Exercise of A\$200,000.

**Note 2** – Assets classified as held for sale (A\$469,000) refer to the Sandstone Project mining tenements value which has been included in our valuation assessment elsewhere, as set out in section 2.4.

**Note 3** – The value of these assets has mostly been captured in the DCF analysis and/or valuation assessments of the Mt Boppy Project, the Marda Project and the Sandstone Project.



**Note 4** – Tenement acquisition costs of A\$6.8 million include the acquisition costs related to tenements in the Mt Boppy Project, the Marda Project and the Sandstone Project. Hence, the value has been captured in the valuation of those assets.

**Note 5** – Other financial assets (A\$408,000) relate to the Mt Boppy environmental bonds and have been considered in our valuation of the Mt Boppy Project.

**Note 6** – Loans (A\$5 million) relate to the secured loan with RMB, which as mentioned earlier in this report has been repaid from funds from the TrailStone Facility. In addition, we have considered the A\$11.65 million draw down from the Gold Facility.

**Note 7** – Provisions (A\$1.4 million) have been adjusted to exclude the rehabilitation costs in relation to the Marda Project (A\$1 million) and the Mt Boppy Project (A\$0.4 million). The remaining balance relates to Southern Cross' long service leave provisions.

**Note 8** – Refers to deferred tax liabilities in relation to the timing differences which we have not considered in our valuation assessment.

## **2.7 Corporate overheads**

Southern Cross incurs on-going corporate costs which are not directly related to the exploration and exploitation of its mining assets. These costs are associated with maintaining offices, the executive management teams, finance and corporate administration.

From a fair market value perspective for Southern Cross before the Proposed Exercise, we have excluded from the capitalised value of corporate overheads costs associated with maintaining a listing status such as annual listing fees, registry fees and non-Executive Directors' fees, which a potential purchaser of Southern Cross is unlikely to pay for.

Based on the discussions with Southern Cross Management, annual corporate overheads excluding one-off expenses have been assessed at approximately A\$2.9 million per annum on a pre-tax basis.

We have assessed the capitalised value of the corporate overheads to be approximately A\$13.9 million having regard to the net present value of future net of tax corporate overheads using our mid-point discount rate of 11.2%.

## **2.8 Options**

Southern Cross currently has approximately 365.2 million Southern Cross Options on issue with different exercise prices and expiry dates. The value of the Southern Cross Options has been determined using the Binomial Option Model. We have assessed the total value of Southern Cross options to be in the range between A\$2.2 million and A\$2.5 million.

## **2.9 Warrants**

As at the date of our report, TrailStone had been issued with one billion warrants. We have assessed the value of the Warrants using Binomial Option Theory with regard to the following key assumptions:



- Strike price of 1.3 cents and maturity date of 31 December 2019
- The underlying share price of 1.3 cents which is consistent with the current trading prices.
- A risk free rate of 2.97%, being the yield on the average yield of Australian Government Bonds with a comparable life to the Warrants.
- Volatility ranging from 80% to 100%. We note that given the Warrants expire in five years, we have adopted a more conservative view of the future volatility compared with historical levels.

The following table sets out our calculations of the value of the Warrants:

	Low	High
Underlying share price (A\$)	0.013	0.013
Exercise price (A\$)	0.013	0.013
Expiry date	31-Dec-19	31-Dec-19
Interest rate (%)	2.97%	2.97%
Volatility (%)	80.0%	100.0%
<b>Value per Warrant (A\$)</b>	<b>0.008</b>	<b>0.010</b>
Number of Warrants	1,000,000,000	1,000,000,000
<b>Value of Warrants (A\$)</b>	<b>8,371,000</b>	<b>9,626,000</b>

*Source: GTCF calculations*

## 2.10 Number of shares on issue

The number of shares outstanding includes the shares on issue as at the date of this report plus the 100 million ordinary shares to be issued upon completion of the Placement.

## 2.11 Valuation cross check

Prior to reaching our valuation conclusions, we have considered the reasonableness of our valuation having regard to the market approach, specifically a rule of thumb valuation methodology based on a multiple of resources. In addition, we have also considered the quoted share price of Southern Cross. The cross check valuations have only been included in the Full Report.

### 3 Valuation assessment of Southern Cross after the Proposed Exercise

In this section of the report, we have estimated the fair market value of the shares in Southern Cross after the Proposed Exercise on a minority interest basis.

In assessing the fair market value of Southern Cross after the Proposed Exercise, Grant Thornton Corporate Finance has aggregated the following:

- The market value of Southern Cross before the Proposed Exercise on a control basis
- Applied a minority basis.
- Consider the proceeds from the exercise of the Warrants and the dilutionary impact of the Warrants

Set out below is a summary of our valuation assessment.

Southern Cross after the Proposed Exercise Valuation assessment (in A\$000s unless stated otherwise)	Section Reference	Low A\$000s	High A\$000s	Mid-point A\$000s
<b>Equity value of Southern Cross on a control basis</b>	2	<b>23,756</b>	<b>50,018</b>	<b>36,887</b>
Less: Minority discount %	3.1	23%	23%	23%
<b>Equity value of Southern Cross on a minority basis (post)</b>		<b>18,274</b>	<b>38,475</b>	<b>28,375</b>
Add: Cash received from exercise of warrants	3.2	13,000	13,000	13,000
<b>Adjusted equity value of Southern Cross on a minority basis (post)</b>		<b>31,274</b>	<b>51,475</b>	<b>41,375</b>
Number of shares outstanding (diluted) (in '000s shares)	3.3	2,319,551	2,319,551	2,319,551
<b>Equity value per Southern Cross share on a minority basis (cents)</b>		<b>1.348</b>	<b>2.219</b>	<b>1.784</b>

Source: GTCF calculations

As set out above, we have assessed the fair market value of Southern Cross after the Proposed Exercise between 1.35 cent and 2.22 cent with a mid-point of 1.78 cent on a minority basis.

#### 3.1 Minority discount

In arriving at a market value of Southern Cross on a minority basis we have applied a discount to the valuation of Southern Cross on a control basis. Evidence from Australian studies indicates that the premium for control on successful takeovers has typically been in the range of 20% to 40% in Australia. The minority discount range implied by the inverse of the premium for control is between 17% and 29%<sup>17</sup>. In our valuation assessment, we have adopted a minority discount of 23% which is approximately the midpoint of the range of the minority discount.

#### 3.2 Impact of the Warrants Exercise

As discussed in the executive summary to this report, if Non-Associated Shareholders approve the Proposed Exercise, TrailStone will have two options to exercise the Warrants:

<sup>17</sup> Minority interest discount = 1-(1/(1+control premium))



- Full Settlement Options, whereby TrailStone will be issued 1 billion shares after the payment of a total strike price of A\$13 million.
- Net Settlement Option which allows for a cashless exercise of the Warrants. Under this scenario, the number of shares to be issued to TrailStone can only be determined at the time of exercise and it will depend on SXG's trading prices at the point in time.

In our valuation assessment of SXG after the Proposed Exercise, we have had regard to the Full Settlement Option due to the following:

- SXG is seeking Non-Associated Shareholders' approval for the issue of up to 1 billion shares to TrailStone in accordance with the Full Settlement Option.
- It is not possible at this point in time to calculate the number of shares to be issued to TrailStone under the Net Settlement Option.

In assessing the fair market value of Southern Cross after the Proposed Transaction, we have allowed for the funds of A\$13 million that would be received from TrailStone at the time of exercise of the Warrants, however, we have also left in our valuation assessment the time value of the Warrants assessed at approximately A\$9 million (mid-point) before the Proposed Exercise due to the following:

- Given that SXG does not pay any dividend and it is not expected to do so in the foreseeable future, it is unlikely that TrailStone will exercise the Warrants right away.
- Any rationale investors will try to maximise the time value of the Warrants and accordingly exercise the Warrants towards the maturity date.
- If the Warrants are exercised right away, the time value of the Warrants, assessed at A\$9 million (mid-point) before the Proposed Conversion, will be foregone by TrailStone and passed/shared with the SXG Shareholders as a whole.
- TrailStone can realise the time value of the Warrants or a large component of it by selling the Warrants to a number of investors.
- Our valuation approach is conservative and provides an indication to the Non-Associated Shareholders of the maximum level of dilution.
- The key reason why TrailStone may decide to exercise the Warrants immediately would be to ensure a greater control over the affairs of the Company as its shareholding will increase from 7.58% to approximately 47.42%. However, we note the following:
  - TrailStone is entitled to appoint a board member if it holds more than 10% of the issued capital of the Company. Accordingly, it will be sufficient to exercise a small component of the Warrants to be entitled to this right.
  - TrailStone has provided the Company with A\$60 million funding facilities and accordingly it should already be in a position to have a strong influence over the



operations of the Company going forward given it has a first and second ranking securities over all assets and undertakings of Southern Cross.

Base on the above discussion, we are of the opinion that our valuation assumption in relation to the Warrants is reasonable.

### **3.3 Number of shares on issue**

The number of shares on issue before the Proposed Exercise has been increased by 1 billion to take into account the exercise of the Warrants.



## **ANNEXURE C    TERMS AND CONDITIONS OF SHARES**

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All Shares rank equally.

The following is a summary of the more significant rights and liabilities attaching to Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Shareholders. To obtain such a statement, persons should seek independent legal advice.

Full details of the rights and liabilities attaching to Shares are set out in the Company's constitution, a copy of which is available for inspection at the Company's registered office during normal business hours.

### **(a)      General meetings**

Shareholders are entitled to be present in person, or by proxy, attorney or representative to attend and vote at general meetings of the Company.

Shareholders may requisition meetings in accordance with the Corporations Act and the Company's Constitution.

### **(b)      Voting**

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, at general meetings of Shareholders or classes of Shareholders:

- each Shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- on a show of hands, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- on a poll, every person present who is a Shareholder or a proxy, attorney or representative of a Shareholder shall, in respect of each Share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for each Share held, but in respect of partly paid Shares shall have a fraction of a vote for each partly paid Share. The fraction must be equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited). Amounts paid in advance of a call are ignored when calculating the proportion.

### **(c)      Dividends**

Dividends are payable out of the Company's profits and are declared or determined to be payable by the Directors. Subject to the rights of persons (if any) entitled to Shares with special rights to dividends, dividends declared will be payable on the Shares in proportion to the amount for the time being paid or credited as paid in respect of each Share.

The Directors may carry forward so much of the profits remaining as they consider ought not to be distributed as dividends by transferring those profits to a reserve.

### **(d)      Transfer of Shares**

A Shareholder may transfer Shares by a market transfer in accordance with any computerised or electronic system established or recognised by ASX or the Corporations Act for the purpose of

facilitating transfers in Shares or by an instrument in writing in a form approved by ASX or in any other usual form or in any form approved by the Directors.

Generally (subject to formal requirements and to the registration of the transfer not resulting in a contravention of or failure to observe the provisions of a law of Australia including the transfer not being in breach of the Corporations Act or the ASX Listing Rules), the Shares are freely transferable.

**(e) Meetings and notice**

Each Shareholder is entitled to receive notice of and to attend general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the constitution of the Company, the Corporations Act or the Listing Rules.

**(f) Winding up**

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company, divide among the Shareholders in kind the whole or any part of the property of the Company, and may for that purpose set such value as the liquidator considers fair on any property to be so divided, and may determine how the division is to be carried out as between the Shareholders or different classes of Shareholders.

The liquidator may, with the sanction of a special resolution of the Company, vest the whole or any part of any such property in trustees on such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no Shareholder is compelled to accept any Shares or other securities in respect of which there is any liability.

**(g) Shareholder liability**

As all Shares on issue are fully paid Shares, they are not subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

**(h) Future increase in capital**

Subject to restrictions on the issue or grant of securities contained in the Corporations Act, Listing Rules and SXG's constitution, the Directors may issue, allot or dispose of Shares on terms determined by the Directors, at the issue price that the Directors determine and to Shareholders whether in proportion to their existing Shareholdings or otherwise, and to such other persons as the Directors may determine.

**(i) Variation of rights**

Subject to the relevant restrictions in the Corporations Act and Listing Rules, if at any time the Share capital is divided into different classes of Shares, the rights attached to any class may (unless otherwise provided by the terms of issue of the Shares of that class), whether or not the Company is being wound up, be varied or abrogated in any way with the consent in writing of the holders of three-quarters of the issued Shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the Shares of that class.

**(j) Alteration of Constitution**

The Constitution of the Company can only be amended by a special resolution passed by at least three quarters of Shareholders present and voting at the general meeting. At least 28 days written notice of the special resolution must be given.

## **ANNEXURE D    TERMS AND CONDITIONS OF UNLISTED OPTIONS ISSUED TO SHAREHOLDERS**

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The Options issued to Shareholders who subscribed for Shares under the Prospectus lodged with ASX on 19 August 2014 and under Shareholder Offer under Prospectus lodged with ASX on 19 August 2014 (**Shareholder Options**):

- have an exercise price equivalent to the Warrant Strike Price, being \$0.013;
- have an expiry date of 31 December 2019;
- are be unlisted, and SXG has not applied for quotation of the Shareholder Options;
- are exercisable over fully paid ordinary Shares in the Company; and
- Shares issued upon exercise of any of the Shareholder Options will rank equally with all existing Shares on issue for which quotation on the ASX will be sought;
- there are no participating rights or entitlements inherent in the Shareholder Options and holders will not be entitled to participate in any new issue to Shareholders of the Company during the currency of the Shareholder Options (ie without exercising the options);
- if there is any reorganisation of the capital of the Company including, without limitation, a consolidation or subdivision of any of the issued capital of the Company, or a pro rata bonus issue of Shares, the Shareholder Options must be reorganised in the way required under the Listing Rules; and
- the rights of the holder may be changed to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

## **ANNEXURE E    TERMS AND CONDITIONS OF UNLISTED OPTIONS ISSUED TO RMB**

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The Options issued to RMB (**RMB Options**):

- have an exercise price of \$0.0196 cents per Option;
- have an expiry date of 24 March 2016;
- are unlisted, and SXG has not applied for quotation of the RMB Options;
- are exercisable over fully paid ordinary Shares in the Company;
- Shares issued upon exercise of the RMB Options will rank equally with all existing Shares on issue for which quotation on the ASX will be sought,
- there are no participating rights or entitlements inherent in the RMB Options and RMB will not be entitled to participate in any new issue to Shareholders of the Company during the currency of the RMB Options (ie without exercising the RMB Option);
- if there is any reorganisation of the capital of the Company including, without limitation, a consolidation or subdivision of any of the issued capital of the Company, or a pro rata bonus issue of Shares, the RMB Options must be reorganised in the way required under the Listing Rules; and
- RMB's rights may be changed to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

## **ANNEXURE F    TERMS AND CONDITIONS OF UNLISTED OPTIONS ISSUED TO FRANK TERRANOVA**

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The Company has issued to Frank Terranova (a former director of SXG) 20 million Options which have an exercise price of A\$0.03 and 20 million Options which have an exercise price of A\$0.04 (**Terranova Options**), and otherwise on the following terms:

- have an expiry date of 31 December 2017;
- are unlisted, and SXG has not applied for quotation of the Terranova Options;
- are exercisable over fully paid ordinary Shares in the Company; and
- Shares issued upon exercise of the Terranova Options will rank equally with all existing Shares on issue for which quotation on the ASX will be sought;
- there are no participating rights or entitlements inherent in the Terranova Options and Mr Terranova will not be entitled to participate in any new issue to Shareholders of the Company during the currency of the Terranova Options (ie without exercising the Terranova Options);
- if there is any reorganisation of the capital of the Company including, without limitation, a consolidation or subdivision of any of the issued capital of the Company, or a pro rata bonus issue of Shares, the Terranova Options must be reorganised in the way required under the Listing Rules; and
- Mr Terranova's rights may be changed to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

