14 August 2018

REVIEW OF SECOND FORTUNE MINING CAMPAIGN

Summary

- **First mining campaign completed in July**
- **Good safety performance with no lost time injuries**
- **The continuity is confirmed for Main Lode ore vein along strike and vertically**
- **Gold grades for level 2 reconciled to 84% of resource grade, within expected range for size of sample given highly variable style of mineralisation**
- **Mining contractor performed well with costs in line with budget for most activities, although ground support added significantly to final costs**
- **Ore sorting successfully produced high-grade concentrate from low grade ores, but throughput rates were significantly lower than expected resulting in lower tonnages being sorted**
- **Processing at the Burbanks toll treatment facility performed well with 94% recovery**
- **Total processing and transport costs substantially higher than forecast due to larger tonnages from dilution**
- **Results for geology and resource model incorporated into new mining plan for Level 3**
- **Decision to proceed to level 3 subject to financing requirements**

The first mining campaign at Anova's Second Fortune gold mine commenced in November 2017 and was completed in July 2018. The campaign included development of a new portal and decline to intersect the old workings on level 1 and level 2, then mining, sorting and toll milling of remnant ore from level 1 and production from a full strike of new development and stoping on level 2.

Mining was conducted as a campaign to evaluate the geology and resource models, mining method, ore sorting process and toll treating arrangements prior to committing to a full development plan.

The geology model for the main vein performed well and confirmed the continuity of the vein. Mapping of the vein highlighted the simple geometry of the northern extents, confirmed the presence of higher grade shoots developed in the central zone and added to the understanding of the more complex vein structure in the southern zone. Face sampling of the veins showed good general agreement with predicted grades however the final reconciliation with the resource model showed areas of high grade were overestimated in the model by around 15% for level 2.

As flagged in previous Second Fortune updates, geotechnical problems were a significant issue. Additional costs were incurred for ground support in shallow areas of the decline. Similar problems on level 1 south resulted in dilution and the loss of areas of the stope. On level 2 there were areas of significant dilution in the stopes due to hanging wall failures. The failures in level 2 only became evident at the completion of the campaign once ore was extracted and final surveys were completed. The increased tonnages from dilution caused significant increases in both the haulage and processing costs for the first campaign.

The ore sorter performed as expected technically but did not achieve forecast production rates and less material was sorted than planned. The fines generated in the mining operation were higher than forecast causing a reduction in sortable material. Development ore was effectively sorted with greater than three times upgrade to product although the lower production rates added to unit costs for sorting.

Key points and statistics for the mining campaign are outlined below:

- Mining unit costs were in line with forecast.

- Significant savings in administration and other areas partially offset cost increases due to additional development, ground support and increased tonnes from dilution.

- Total gold produced: 3,701 oz vs forecast of 5,503 oz.

- Total tonnes milled: 37,637 vs forecast of 17,486.

- Average mill grade of 3.24 g/t vs forecast of 10 g/t.

- Toll treatment at Burbanks mill performed as forecast with 94% recovery.

- Difference in grade and tonnages largely due to unplanned dilution from hanging wall failures in stopes.

- Significantly lower than forecast throughputs and utilisation for the ore sorter with around 15,000t of low grade being sorted, compared to a forecast of 33,000t.

- Additional tonnages from dilution and less tonnes processed by sorting resulted in an additional 20,000t sent for milling, resulting in increased transport and milling costs of around $1.5m.

- Difference in total ounces is attributed in equal part to:

  o loss of ore on level 1 due to geotechnical problems with stope; and

  o overstatement of ore grades in block model next to high grade areas.

- Level 2 stope produced approximately 3,358 oz vs forecast of 4,025 oz.

- Block model reconciliation on level 2 shows model has overstated grade by approximately 18% in the vicinity of high-grade zones.

Higher costs due to additional ground support and the impact of dilution on haulage and processing costs resulted in around $2m increased costs above forecast. Total gold recovered was approximately 1,800 oz less than forecast, primarily due to losses on the first level due to poor ground and negative reconciliation with the block model. The combined impact of both higher costs and reduced revenues resulted in negative cashflows for the campaign. The problems of poor ground conditions were limited to the weathered shallow parts of the mine in the early decline and first level and not expected to be of further concern. The problems with stope hanging wall failures and consequent dilution are attributed to the use of wider development drives and no similar stability issues have been observed in the older areas of the mine. It is expected this dilution can be adequately managed using narrow development drives.

A new mine plan has been developed with smaller development drives and otherwise using actual costs determined from first campaign, with updated assumptions on geology and resource. Under this plan, continuation of mining deeper levels is considered viable. Discussions are continuing with various parties, including GBF, in relation to the continuation of mining at Second Fortune. Alternative

development models are also being explored which may reduce some of the costs and risks associated with the previous campaign. The company will release an update on the resumption of mining activities as soon as mine plans and financing requirements have been finalised.

Negotiations are in progress with secured lenders for terms to extend the repayment of the working capital facility. Indicative terms have been agreed to extend the term of the $3m financing facility and are subject to final documentation.

Further details are provided in the following report.

For and on behalf of the Board.

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Final Report on Second Fortune Mining Campaign

Mining

Mining contractor GBF performed well with a number of costs below budget although these were offset by additional costs related to poor ground conditions and additional ground support. Safety performance was excellent and there were no lost time injuries throughout the campaign.

Tonnes mined were approximately 10kt above plan. Additional tonnage and costs were due to:

- 240m of development on level 2 vs a budget of 210m;
- Additional stope tonnes caused by dilution; and
- Extended time of campaign with second level mining increased from six to seven months.

Total gold produced was 3,701 oz vs 5,503 oz in plan. The majority of the difference relates to the remnant ores on level 1 south that could not be recovered due to poor ground conditions.

Geology Model

The first campaign of mining has allowed detailed mapping and survey of the main vein on the first (- 48m from surface) and second levels (-64m from surface). Combined with geology and survey control from the pit, a detailed model has been constructed showing the original main vein interpretation agreed closely to final survey of the vein. Some minor structures observed in mapping on level 1 were located as expected on the lower levels but generally the vein shows good continuity and a fairly simple tabular vein in the north with increasing splays and complexity of parallel veins developing to the south of the old shaft. The main shoot development immediately north of the old shaft was also clearly observed in mining and consistent with early models.

A significant fault that was previously unknown was observed to truncate the main vein at the south end of both level 1 and 2, approximately where mining was planned to terminate on those levels. Ground conditions associated with that fault were poor, due to deeper weathering on the fault zone and the sub-parallel geometry of the fault in the stope hanging wall. This was a main contributing factor to unplanned dilution and loss of ore in the level 1 southern stope.

There is now good confidence the main vein geometry is regular and can be mined using simple long hole methods with simple face sampling for grade control. There is also good confidence that geometry and structure may be extrapolated to lower levels. Extrapolation of face grades to lower levels, particularly the shoot zones, also seems reasonable however the high variance will remain an issue for detailed modelling of grade but appears to perform as expected over larger parcels, eg. grade by stope.

Resource Model

A comparison of ore grades from underground development drive face sampling to the resource block model has been generated using face sampling results from level 2 ore drives. This comparison shows the block model in the area of level 2 may be overstating the grade by 18% (based on ratio of block model to reconciled oz's including losses). It should be noted there is a large scatter (variance) in the face sample data and the populations of the samples involved would not be considered large enough for accurate comparison.

It appears the block model has some areas of positive bias due to historic face samples being included from level 2 in the model, which the current mining campaign now shows was the highest-grade area on the level, therefore skewing the grades in that area of the model. This becomes less of a problem in lower levels as they are further removed spatially from the effect of higher grade face samples.

Ore grades from face sampling on level 2 appear to reconcile well with feed grades at the mill.

Geotechnical Issues and Dilution

Overall mining performance was in accordance with planned unit costs however final costs were adversely affected by geotechnical issues, primarily:

- Ground failures in the shallow decline;
- Hanging wall failures on level 1 stopes causing the loss of around 1,000 oz in unrecoverable stope ore and ore diluted below cut-off grade (see Figure 1); and
- Unplanned dilution in stopes on level 2 due to a hanging wall failure contributing almost 10,000 tonnes of waste to second level stope ore (see Figure 2).

In the early part of the decline and level 2 the poor ground conditions were related to the shallow levels and lower strength of partly weathered rock. These conditions improved significantly with depth.

A previously unrecognised fault was also encountered, running subparallel to the main vein and truncating the vein at its southern end. This fault is seen in Figure 1 where it contributed to the failure of the hanging wall.

The dilution from wedge failures on level 2, as shown in Figure 2, is considered to be due to planes of weakness parallel the main vein becoming linked to the ore drive. There is no indication of similar failures on the old mine workings, where ore drives are narrower. Future mine plans will use smaller ore drives to minimise this risk.
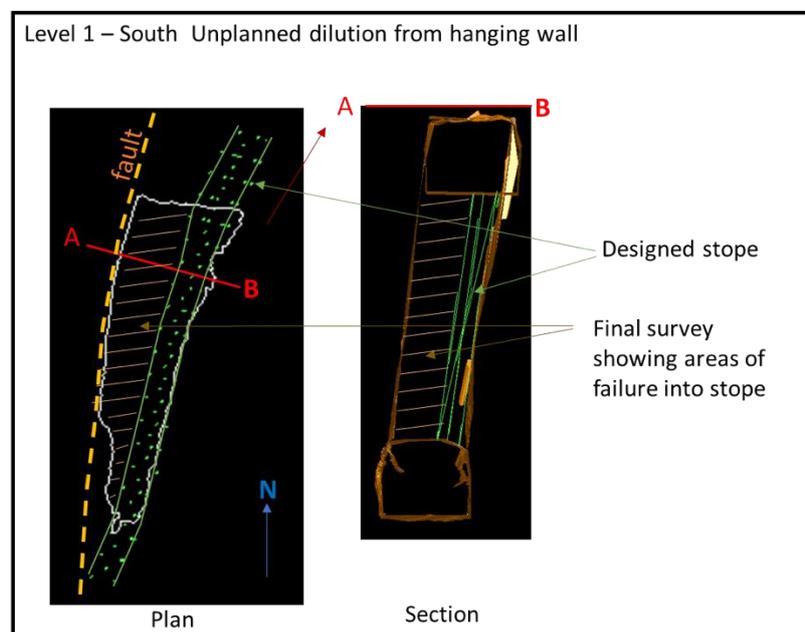
Figure 1: *Level 1 – South. Unplanned dilution from hanging wall.*
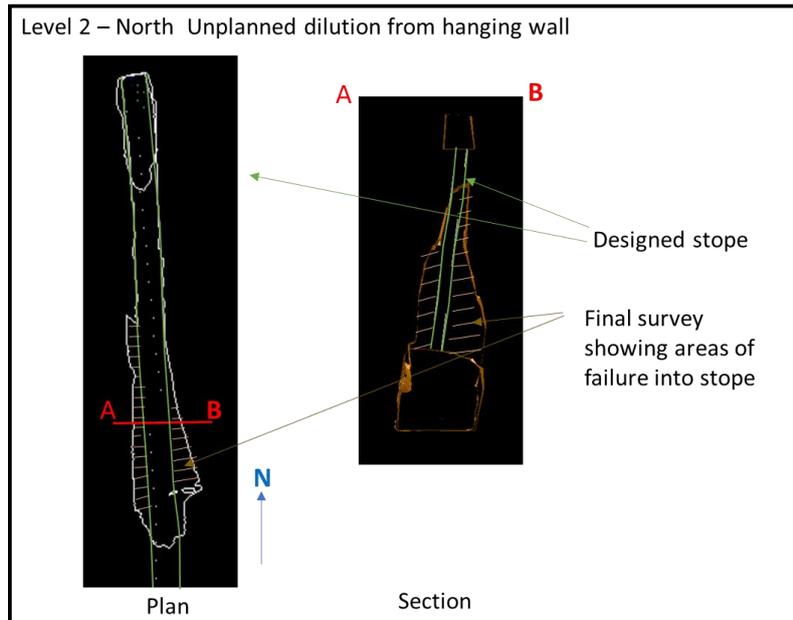
Figure 2: *Level 2 – North. Unplanned dilution from hanging wall.*

Ore Sorting

The ore sorter plant processed around 14,856t of low grade material, primarily development ore.

Of the ore processed approximately 7,500t was screened off as fines below the minimum size for sorting. The portion of fines, almost 50%, was significantly higher than forecast and reduced the effectiveness of the sorter in recovering gold from lower grade ores, as the portion sent to fines sometimes graded below cut-off grade. Fines grading above cut-off, around 1.5 g/t, were sent for milling and used as low-grade feed when other ore was not available and for flushing.

The ore sorter throughput was significantly lower than the forecast of 33,000t, due to a number of factors affecting the production rate of the sorter. While production rates improved through the campaign, factors such as inconsistent feed and the asymmetric shape of the waste associated with quartz ore, (resulting in a thinner layer of material on the feeder to the plant) resulted in lower than planned throughput rates.

The ore sorted performed as expected technically and produced around 2,000t of quartz concentrate product at 6.9 g/t, processed from diluted development ore grading 1.8g/t. The average product grade was lower than the forecast 11.9 g/t due to lower head grades in the feed material and the use of lower sensitivity setting to minimise losses in rejects.

The campaign demonstrated the sorter works as intended for removing dilution and upgrading low-grade material, however the throughput rates need to be improved to reduce costs and better manage the time delay for delivery of product. It is considered likely that the throughput could be improved through changes to circuit configuration and other efficiencies to maximise utilisation.

Milling

Toll milling at Burbanks has performed according to expectations, with an unreconciled recovery of 94.4% vs a budget of 95%. Mill feed assays reconciled well with diluted face sample grades and circuit feed grades. No significant issues were encountered during the milling campaign in relation to reagent usage or other variable costs. Tonnes sent to the mill were approximately 20kt higher than forecast due to the increased mining dilution and the lower tonnage processed through the ore sorter.

Conclusions from First Campaign

The critical risks relating to geology and resource are now much better understood and provide good confidence for further mining plans. In particular, good geological continuity of the ore vein has been demonstrated both laterally and between levels, although greater complexity in the vein structure is observed in the south end.

The campaign showed the reconciliation differences, whilst significant overall, were for level 2 within expectations for an orebody with such high variance in grades and low number of data points. The comparison of reconciled grades from level 2 to the lower levels provides higher confidence for planning further development.

The most significant economic impact on the project was due to geotechnical issues, resulting in the loss of ore on level 1 and unplanned dilution on both levels. The strategy of managing this risk though ore sorting was limited by the lower than expected throughput and sub optimal utilisation of the sorter. The geotechnical problems in the decline and level 1 were largely related to the weathering at shallow depths and did not present a problem for the deeper levels. The fault that contributed to hanging wall failure on level 1 is now better understood and can be avoided on lower levels and the wedge failures that appear to be related to the wider development drives may be managed in future by reducing the drive size.

The toll milling campaign demonstrated the ores perform well metallurgically and have provided a good cost base for future development plans. The relatively high cost of transport and tolling using Burbanks do however amplify the risk associated with dilution and were a significant factor in the overall cost increases and reduced cashflow from the project.

Whilst the project risks around geology, resource and mining have been reduced or are now better understood, the problems encountered with geotechnical failures require addressing in future mining plans. The current resource and geology model have been demonstrated to be suitable for future mine planning with considerations taken into account for the reconciliation differences observed around the high-grade face samples in the current model. These issues will have little impact on the deeper levels of the model.

Going Forward

A new mine plan has been developed using smaller development drives which are expected to significantly reduce unplanned dilution through reducing production rates. Using costs determined from the first campaign, with updated assumptions on geology and resource, continuation of mining deeper levels is considered viable.

Discussions are continuing with various parties, including GBF, in relation to the continuation of mining at Second Fortune. Alternative development models are also being explored which may reduce some of the costs and risks associated with the previous campaign.

Competent Person Statement

The information in this report that relates to Exploration Results is based on information compiled by Mr Lauritz Barnes, Principal Consultant Geologist, Trepanier Pty Ltd. Mr Barnes is a shareholder of Anova Metals. Mr Barnes is a member of both the Australian Institute of Geoscientists and the Australasian Institute of Mining and Metallurgy, and has sufficient experience of relevance to the styles of mineralisation and types of deposits under consideration, and to the activities undertaken to qualify as Competent Persons as defined in the 2012 Edition of the Joint Ore Reserves Committee (JORC) Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Barnes consents to the inclusion in this report of the matters based on his information in the form and context in which they appear.

Refer to Exterra Resources Limited's (ASX:EXC) announcement titled Feasibility Study Confirms Robust High Grade Gold Mine and dated 25 May 2017 for further information in relation to the Second Fortune Mineral Resources and Ore Reserve estimate for the Second Fortune project. The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and, in the case of estimates of Mineral Resources and Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the original market announcements continue to apply and have not materially changed. The company confirms that the form and context in which the competent persons findings have not been materially modified from the original announcement.