

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR  
IMMEDIATE ATTENTION**

THE MATTERS RAISED IN THIS DOCUMENT WILL AFFECT YOUR SHAREHOLDING IN THE COMPANY. YOU ARE ADVISED TO READ THIS DOCUMENT IN ITS ENTIRETY BEFORE ATTENDING THE ANNUAL GENERAL MEETING WHICH HAS BEEN CONVENED BY AND IS REFERRED TO IN THIS DOCUMENT.

IF YOU ARE IN ANY DOUBT ABOUT THE ACTION YOU SHOULD TAKE, PLEASE CONSULT YOUR STOCKBROKER, SOLICITOR, ACCOUNTANT, FINANCIAL OR OTHER APPROPRIATE PROFESSIONAL ADVISER.

**XTREME RESOURCES LIMITED**  
ABN 14 120 236 142

**NOTICE OF ANNUAL GENERAL MEETING**

**and Related Information including**

**INFORMATION MEMORANDUM**

THIS DOCUMENT COMPRISES A NOTICE OF ANNUAL GENERAL MEETING OF XTREME RESOURCES LIMITED TO BE HELD AT LEVEL 2, 87 WICKHAM TERRACE SPRING HILL QUEENSLAND AT 11AM ON WEDNESDAY 29<sup>TH</sup> DAY OF APRIL 2009. INCLUDED IN THIS DOCUMENTATION IS AN INFORMATION MEMORANDUM. NOTE THAT IN ORDER FOR ANY PROXIES TO BE VALID FOR USE AT THIS ANNUAL GENERAL MEETING THESE PROXIES MUST BE COMPLETED AND RETURNED TO THE COMPANY NO LATER THAN 11AM ON THE 27<sup>TH</sup> DAY OF APRIL 2009.

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## PART 1 ABOUT THESE DOCUMENTS

Shareholders in Xtreme Resources Limited (the **Company**) are being asked to consider the Resolutions set out in this Notice and the Information Memorandum contained in these documents in connection with the transactions referred to in the Information Memorandum.

You can vote by:

- (a) attending and voting at the Meeting; or
- (b) appointing someone as your proxy to attend and vote at the Meeting on your behalf, by completing and returning the Proxy Form to the Company in the manner set out on the Proxy Form. Part 7 of this document package comprises the Proxy Forms and the manner in which the Proxy Forms are to be completed is specified in this Part 7. For the Proxy Form to be valid and therefore used at the meeting in accordance with your directions it is important that you properly follow the directions set out in the Proxy Forms.

***Please read the whole of the document carefully and determine how you wish to vote. Once you have decided how you wish to cast your vote complete the Proxy Forms and forward them to the Company in the Reply Paid envelope as required or attend in person to vote on the relevant resolutions.***

**PART 2 LETTER FROM CHAIRMAN**

6<sup>th</sup> April 2009

Dear Shareholder

On behalf of the Board, I am inviting you to support a proposed placement to Mono Resources Limited of shares in the Company which would give control of the Company to Mono Resources Limited.

With the uncertainty of the current financial climate the Company's proposed IPO was abandoned in late 2008. After some lengthy discussions with Mono Resources Limited that company has agreed to invest an amount of \$1.860M in the capital at a price of \$0.01247 per share. This would entail the allotment to Mono Resources Limited of 149,142,777 fully paid pre-consolidation shares in the Company.

Mono Resources Limited is a recently formed company which was listed on the National Stock Exchange (**NSX**) after a successful initial public offering raising in excess of \$3.300M. In anticipation of the transaction proceeding Mono Resources Limited has advanced certain funds to the Company and has also recently taken a placement of the Company's shares for 6,963,788 pre-consolidation shares at \$0.01436 per share to raise \$100,000. The advance and share placement was to provide interim funding until shareholders could be involved in the decision to move forward either in a transaction involving Mono Resources Limited or in some other manner.

As a result of the proposed transaction Mono Resources Limited will become the Company's largest shareholder holding 73.76% of the shares or a total of 156,106,565 fully paid pre-consolidation shares out of a total of 211,630,600 pre-consolidation shares if the transaction were to proceed. This percentage is calculated by adding to the shares proposed to be allotted in the Information Memorandum (for \$1.860M invested) with the number of shares recently allotted to Mono Resources Limited to raise working capital in the sum of \$100,000. As a result of the transaction, Mono Resources Limited will become the major shareholder in the Company controlling seventy three point seven six percent 73.76% of the issued shares in the Company. For the purposes of Chapter 6 of the *Corporations Act* the transaction must be approved by the Company's shareholders and shareholders must be given the opportunity to consider the available options and to make an informed decision. It is for this reason that the information attached forming part of this documentation has been prepared in order to outline in detail the available alternatives for shareholders to enable them to consider and properly vote on the matter.

Forming part of the attached documentation, and more specifically of the Information Memorandum, is a report from DMR Corporate Pty Ltd of Level 7, 470 Collins Street, Melbourne which is an Independent Expert's Report in relation to the transaction and its effect on shareholders. Shareholders should carefully read the whole of the Information Memorandum and especially the report of the Independent Expert, DMR Corporate Pty Ltd and all Annexures and Appendices to such report.

The Independent Expert's Report states *"In our opinion, the Proposed Transaction is not fair, however we consider that it is reasonable when considered in the context of the interests of the Non-associated Shareholders of Xtreme."* The report also states *"Having considered all of the matters in the attached report we consider that the shareholders should approve the Proposed Transaction, as it appears to be the only way in which the required funding will be raised to finance Xtreme over the next 12 to 24 months."*

The directors request your careful consideration of the proposed transaction with Mono Resources Limited and in arriving at a decision as to how you wish to vote in respect of the resolutions to implement the transactions you need to be mindful of the factors surrounding the transaction and the end result.

In addition to the transaction with Mono Resources Limited the Company has also determined to hold the Company's Annual General Meeting simultaneously to deal with the ordinary business of the Company that would necessarily be dealt with at an Annual General Meeting. The ordinary business of the Company at that Annual General Meeting will be to receive the accounts and to elect any director standing for re-election by rotation.

If the transaction with Mono Resources Limited is approved after being dealt with as special business, upon the allotment of the relevant shares to Mono Resources Limited the existing directors of Xtreme Resources Limited will be resigning and representatives of Mono Resources Limited will be nominated in their place and stead. Accordingly, you should note that if you approve the proposal and vote in favour of the reappointment of Mr David Hall to the Board upon completion of the meeting the existing directors will resign and a new Board will be appointed.

The Board believes that the Company should take the opportunity to complete a number of other matters at the Annual General Meeting, contingent upon the success of the Mono Resources Limited transaction:

You are being asked to approve the consolidation of the Company's share capital on a 4 for 1 basis. This means that every 4 shares you presently hold you will receive one new share after the consolidation (rounding down fractional entitlements).

You should note that if the transaction with Mono Resources Limited is not approved this resolution to consolidate the Company's shares will not be put to the Meeting.

### **Recommendation**

The directors unanimously recommend that you vote in favour of all resolutions.

***Your vote is important and as a Board we encourage you to either attend the Meeting in person or complete the Proxy Form accompanying the Notice of Meeting and return it in accordance with the directions provided.***

Yours sincerely



**Anthony Fawdon**  
Chairman

**PART 3 NOTICE OF ANNUAL GENERAL MEETING**

Notice is hereby given that the Annual General Meeting of Xtreme Resources Limited ABN 14 120 236 142 (the **Company**) will be held at Level 2, 87 Wickham Terrace, Spring Hill, Queensland at 11.00AM on Wednesday 29<sup>th</sup> day of April 2009, Brisbane time.

**Definitions**

Unless expressly otherwise provided, each capitalised term used in this Notice has the same meaning as is ascribed to it in Part 6 - Glossary of Terms.

**ORDINARY BUSINESS****FINANCIAL STATEMENTS**

Receive and consider the Financial Statements for the year ended 31 December 2008 incorporating the Profit and Loss Account for the year, and the Balance Sheet as at that date, together with the Directors' Report and the Auditor's Report thereon.

**RESOLUTIONS**

To consider and if thought fit, resolve:

**1. REMUNERATION REPORT (Non-binding resolution)**

"That the remuneration report covering directors and executives, as detailed in the Annual Report, be and is hereby approved and adopted."

**2. RE-ELECTION OF DIRECTOR – Mr David Hall**

"That Mr. David Hall, who retires by rotation in accordance with the Constitution of the Company but is offering himself for re-election, be and is hereby appointed for a further term of office."

**SPECIAL BUSINESS****RESOLUTIONS**

To consider and if thought fit, resolve:

**3. ISSUE OF SHARES - Ordinary Resolution**

"That the Company approves the issue to Mono Resources Limited of 149,142,777 Ordinary shares in the capital of the Company (on a pre-consolidation basis), subject to the payment thereof by Mono Resources Limited of an amount totalling \$1.860M".

**4. ISSUE OF OPTIONS - Ordinary Resolution subject to the approval by shareholders of Resolution 3**

"That Mr Rado Jacob Rebek, a consulting geologist proposed to be appointed by the Company, be issued with one million options in the Company (on a pre-consolidation basis) exercisable at \$0.20 each, upon and subject to the terms of his appointment agreed between him and the Company."

The options will be unlisted and exercisable within a period of three (3) years from the date of issue. The options may be exercised as to whole or in part during the option period and any shares issued pursuant to the exercise will rank pari passu with all existing shares.

**5. CONSOLIDATION OF CAPITAL - Ordinary Resolution subject to the approval by shareholders of Resolution 3**

"That the shares in the Company be consolidated on a four for one basis with effect immediately after the issue of shares to Mono Resources Limited pursuant to the approval of members in Resolution 3, so that every four shares held by a shareholder shall become one share (rounding down fractional entitlements)."

**PART 4 NOTICE REQUIREMENTS FOR RESOLUTIONS**

As all resolutions being put to shareholders, are Ordinary Resolutions, no special notice requirements are required and twenty-one (21) days prior notice having been given pursuant to this Notice of Annual General Meeting constitutes sufficient notice for the purposes of the *Corporations Act*.

## PART 5 INFORMATION MEMORANDUM

### Section 1: Introduction

#### 1.1 Background

The information in this Information Memorandum is provided to shareholders in respect of the various matters, including corporate actions, transactions and requirements of the *Corporations Act* that are submitted to shareholders for their approval in compliance with various regulatory and statutory requirements.

#### 1.2 Action required by Shareholders

The information contained in this documentation is important in deciding how shareholders should vote on the Resolutions. Shareholders should read all of the documents carefully and in their entirety. If you do not understand any part of the documentation or are in any doubt as to the course of action you should follow you should contact your legal, financial or other professional adviser immediately.

#### 1.3 Vote on Resolutions

You are encouraged to attend and vote at the Meeting. If you are unable to do so or do not wish to attend the Directors urge you to use your vote by completing and returning the enclosed Proxy Form as directed - see Part 7.

#### 1.4 Part 3 of the documentation comprises a Notice of Annual General Meeting of the Company. Ordinary Business referred to in the notice comprises two Resolutions which shareholders need to consider at the Annual General Meeting. The Special Business referred to comprises three Resolutions to be passed including the approving of the transaction with Mono Resources Limited and two others arising from that approval. **If the approval of shareholders to Resolution 3 under Special Business is not obtained then Resolutions 4 & 5 will not be put to the meeting.**

### SPECIAL BUSINESS

### Section 2 - Proposed Transaction with Mono Resources Limited

#### 2.1 Background

In early 2008 the Company announced plans to proceed with an initial public offering with a view to listing on the Australian Stock Exchange (**ASX**). A draft Prospectus was prepared and negotiations concluded with Financial Advisers, however the transaction did not proceed because of the adverse financial climate and the lack of interest by investors in exploration IPOs.

As a result the Company's plans to capitalise on the value of its mining tenements and its program to complete the operation of the mill and mining at Mt Garnet and surrounding areas was placed in jeopardy.

In the fourth quarter of 2008, as a result of an introduction by the Company's broker, Martin Place Securities Pty Ltd, discussions were initiated with Mono Resources



Limited, a company which had recently listed on the NSX and was seeking some opportunities in mining and exploration.

As a result of the discussions, Mono Resources Limited and their associates agreed in principle to make some loan advances to the Company and, subject to completion of due diligence and compliance with all statutory and regulatory arrangements, expressed an interest in subscribing capital up to an amount of \$1.860M to the Company in exchange for a shareholding which will, when added to the existing shareholding of Mono Resources Limited, total 73.76% of the issued shares in the Company upon completion.

To assist the Company, Mono Resources Limited provided assistance totalling \$150,000 to the Company, \$50,000 initially by way of loan funds and \$100,000 subsequently through a placement of six million nine hundred and sixty three thousand seven hundred and eighty eight (6,963,788) shares issued to Mono Resources Limited at a price of \$0.01436 per share.

The financial assistance provided by Mono Resources Limited has enabled the Company to continue operations.

The provision of working capital, if this proposed transaction with Mono Resources Limited were to proceed, would enable the Company to become operational and to achieve a number of its immediate goals. Amongst these goals is the completion of a production facility to process certain quantities of ore that are presently on the Company's Mt Veteran site and to exploit some of the alluvial and hard rock deposits of the Company in its various tenement areas.

It will also assist the Company in completing the mining lease application MLA20547 which is currently pending.

Attached to this Information Memorandum is a report from DMR Corporate Pty Ltd ("DMR") which details the alternatives available for the Company and its shareholders. In the event that shareholders do not approve the transaction with Mono Resources Limited it is the view of your Directors that finding working capital to keep the Company operational will be extremely difficult even if the Company's operations were simply to be put on a care and maintenance basis. The available alternatives have been canvassed by both your Board and DMR and it is for this reason that we commend the DMR Report to you for your careful analysis.

The Independent Expert's Report states "*In our opinion, the Proposed Transaction is not fair, however we consider that it is reasonable when considered in the context of the interests of the Non-associated Shareholders of Xtreme.*" The report also states "*Having considered all of the matters in the attached report we consider that the shareholders should approve the Proposed Transaction, as it appears to be the only way in which the required funding will be raised to finance Xtreme over the next 12 to 24 months.*"

## **2.2 Change of Control**

Chapter 6 of the *Corporations Act* requires that a company may not acquire more than twenty percent (20%) of the issued shares in a company with more than fifty (50) shareholders without making a full bid for all existing securities on the same terms and conditions. Section 611 of the *Corporations Act* provides an exception where the acquisition of shares is made with the approval of shareholders of the target company in general meeting, subject to certain terms and conditions. It is for this reason that in

considering whether the resolution to approve the transaction should be passed that **Mono Resources Limited cannot and will not vote on any resolution in relation to any shares held by it.**

The number of pre-consolidation shares presently held by Mono Resources Limited is 6,963,788, which is 11.14% of the presently issued pre-consolidation voting shares of the Company. **No vote may or will be exercised in relation to these shares by Mono Resources Limited.**

If Resolution 3 is passed, the issue of 149,142,777 pre-consolidation shares to Mono Resources Limited would increase its holding of voting shares (and increase its voting power) to 73.76%.

No director or associate of Mono Resources Limited holds shares in the Company.

## **2.3 Benefits to the Company**

The Board considers the transactions with Mono Resources Limited to be attractive for the following reasons:

- (a) The world financial situation does not appear to be favourable for the raising of money for speculative exploratory mining projects.
- (b) IPOs on the scale seen in the last several years and the availability of equity investment will be severely limited for some time to come.
- (c) Although the Company's prospects remain positive, working capital is required to exploit the Company's projects and to bring it into a cash flow situation.
- (d) An IPO may be able to be considered at a more favourable time in the future.

## **2.4 Risk Factors**

The proposal to allot a substantial shareholding to Mono Resources Limited, which would give that company 73.76% of the Company is not without risk. Set out below are the risk factors which the Directors consider would apply to investments generally in the equity markets and specifically to the Company and proposed business strategy. Some of the specific risks can be mitigated through the use of safeguards and contingency plans, however many risks are outside the control of the Company and its Directors and cannot be mitigated.

In evaluating the prospects of the Company pre- and post an acquisition by Mono Resources Limited there does not appear to be any additional general risk factors which would, in the view of the Directors, adversely affect the Company. These risk factors include:

- movements in local and international economies and in local and international share and capital markets
- changes in interest rates and other economic conditions
- changes in investor sentiment and perception
- changes in metal and commodity prices

- upheaval and uncertainty due to terrorist activities, insurrection, war and general conflict
- changes in government fiscal, monetary and regulatory policies and any statutory changes

Some of the specific risk factors that would follow the acquisition of a significant part of the Company's capital would be the possibility of changing management and key personnel. Mono Resources Limited has acknowledged that it is reliant on the Company's key personnel to continue the operations of the Company successfully and contemplates that there will be minimal change in the management structure. It is intended that Mr Gary Kuo, a director of Mono Resources Limited will be actively engaged in the Company's affairs.

Mr Kuo has extensive experience in mineral and resources trading and sales.

## **2.5 Proposed New Directors & Management**

If the resolutions, both Ordinary and Special, are passed by shareholders then it is proposed that the following Board and Management changes will occur:

(a) Board Resignations

Messrs Anthony Fawdon, David Hall and Lawrence Litzow will resign.

(b) Board Retentions

None of the current Board Members will remain.

(c) New Board Appointments

Messrs G Monemvasitis, G Kuo, J Back and XL Zhang will be appointed.

(d) Management Appointments

Mr J Rebek will act as Consulting Geologist.

Set out in paragraph 2.6 is information on the proposed new directors and paragraph 2.7 provides information on Mr J Rebek.

## **2.6 Proposed New Directors**

### **Mr George Monemvasitis OMIE Aust, MAICD**

Mr George Monemvasitis is a company director and Chairman of Mono Resources Limited. A graduate in Mechanical Engineering from the Institute of Technology, Sydney, Mr Monemvasitis has over 10 years experience in engineering analysis of resource sector capital raising both within Australia and China. A member of the Australian Institute of Company Directors, Mr Monemvasitis brings a wealth of technical knowledge and corporate governance.

### **Mr Gary Kuo**

Mr Gary Kuo is an executive director of Mono Resources Limited. He has considerable experience in commodities trading, international business start ups and development and strategic alliance planning. He has and is involved in joint ventures between Australia and Chinese mining companies, including BAAO Mining Australia and BAAO (Tianjin) Mining. Mr Gary Kuo specialises in the creating strategic

commercial and government alliances between China, Taiwan, Hong Kong, Singapore, Malaysia, Indonesia and Australia within the mining sector.

**Mr Jonathan Paul Back LLB, BCL**

Mr Jonathan Back has over 18 years of experience in law and finance internationally, having spent significant periods in Europe, Hong Kong and Australia.

Jonathan first worked as a lawyer for the leading UK firm Linklaters for 4 years, specializing in large project finance transactions. This included the acquisition of the Gladstone Power Station in Queensland by a consortium expanding the Boyne Island aluminium smelter.

Jonathan then moved into investment banking, first in the UK and then in Hong Kong where he also focused on large infrastructure and energy projects including port and energy projects across Australia and Asia. Jonathan ran the Asian equity capital markets team at JPMorgan until 2007 working on numerous transactions across different industries.

Since leaving JPMorgan, Jonathan has been a principal in a partnership investing in a variety of businesses with the largest focus being on natural resources.

Mr Back is currently a Non Executive Director of Mono Resources Limited.

**Mr Xiao Long Zhang**

Mr. Xiao Long Zhang is currently the Chairman of Baao Mining Australia and the General Manager of Baao (Tianjin) Mining which is a 50/50 JV Company with Xiamen C&D Inc. in China.

Xiao Long spent his youth in Australia and later returned to China to start his first company in the local base metal trading market. He has been living in China and involved in the Chinese metal supply industry for more than 10 years.

Xiao Long later established BAAO Mining Australia and has shifted his focus on importing base metal products from international suppliers and distributes these products via the local regional channels. He had also successfully completed the 50/50 JV partnership of BAAO (Tianjin) Mining Co., Ltd with Xiamen C&D Inc. which is a large scale state owned publically listed company in China.

Mr Zhang is currently a Non Executive director of Mono Resources Limited.

## **2.7 Appointment of Consulting Geologist**

It is proposed that Mr Rado Jacob Rebek be appointed by the new Board as Consulting Geologist.

Mr Rebek is a graduate from the Faculty of Mining & Metallurgy of the University of Ljubljana Slovenia. Mr Rebek graduated in 1967 and was engaged in geological mapping in Slovenia and Algeria for several years before joining CRA Exploration in 1970.

During 34 years of employment with the Rio Tinto Group he was involved in field exploration in PNG and Australia and subsequently management of major exploration projects for the Group. From 1998 to 2000 Mr Rebek was the Exploration Director for Rio Tinto in South America based in Santiago, Chile involved in the review of iron ore potential in Brazil and the development of new copper and iron ore prospects and

other base metals. From 2001 to 2004 he was responsible for new project generation based on field work in Western Australia, Eastern Australia, Brazil, Peru, Argentina, Chile, China, Mongolia, Iran and Russia.

After retiring from fulltime employment with Rio Tinto in May 2003 Mr Rebek completed a two year consulting contract with Rio Tinto which terminated by mutual agreement in May 2005.

Since 2005 he has worked on a variety of projects in Australia and Chile for Mineral Securities Limited, Argonaut Resources NL and Hudson Resources Ltd.

## PART 6 GLOSSARY OF TERMS

### Defined Terms

**ASIC** means the Australian Securities and Investments Commission.

**Associate** has the meaning ascribed to that term in Section 12(2) of the *Corporations Act*.

**ASX** means ASX Limited (ACN 008 624 691) and any market operated by that Company.

**Board** means the Board of Directors.

**Company** means Xtreme Resources Limited (ACN 120 236 142).

**Constitution** means the Constitution of the Company, as varied or amended from time to time.

**Corporations Act** means the *Corporations Act* 2001 (Commonwealth).

**Director** means a member of the Board of Directors of the Company.

**DMR** means DMR DMR Corporate Pty Ltd (ACN 063 564 045).

**DMR Report** means the independent expert's report prepared by DMR Corporate Pty Ltd dated 26 March 2009, a copy of which is annexed to this Information Memorandum.

**Documents** means each of the Notice, Information Memorandum, Proxy Form and all other documents, that each constitutes part of this booklet and that accompany each other when sent to each shareholder.

**Information Memorandum** means the explanatory memorandum set out in Part 5 of the Documents.

**Share** means a fully paid up Ordinary share in the issued capital of the Company.

**Meeting** means the Annual General Meeting being convened by the Directors pursuant to the Notice.

**Mono Resources Limited** means Mono Resources Limited (ACN 131 715 645).

**Notice** means the Notice of Annual General Meeting of the Shareholders set out in Part 3 of these Documents and that accompanies and forms part of these Documents.

**NSX** means the National Stock Exchange of Australia Limited (ACN 000 902 063).

**Option or Options** means an option to purchase a share/s in the Company.

**Proxy Form** means the proxy forms more particularly set out in Part 7 which forms part of these Documents.

**Resolution** means any one of the resolutions set out in the Notice.

**Share** means a share, of whatever class, in the issued capital of the Company.

**Shareholder** means the holder of a Share.

**Subsidiary** has the meaning given to that term in Section 46 of the *Corporations Act*.

**Transactions** mean the application and allotment of shares and all other actions contemplated in any of the Resolutions.

### **Interpretation**

In these documents, unless the context requires otherwise:

- (a) A reference to a word includes the singular and the plural of the word and vice versa;
- (b) a reference to a gender includes any gender;
- (c) if a word or phrase is defined, then other parts of speech and grammatical forms of that word or phrase have a corresponding meaning;
- (d) a term which refers to a natural person includes a company, a partnership, an association, a corporation, a body corporate, a joint venture or a governmental agency;
- (e) headings are included for convenience only and do not affect interpretation;
- (f) a reference to a document includes a reference to that document as amended, novated, supplemented, varied or replaced;
- (g) a reference to a thing includes a part of that thing and includes but is not limited to a right;
- (h) the terms "included", "including" and similar expressions when introducing a list of items do not exclude a reference to other items of the same class or genus;
- (i) a reference to a statute or statutory provision includes but is not limited to:
  - (i) a statute or statutory provision which amends, extends, consolidates or replaces the statute or statutory provision;
  - (ii) a statute or statutory provision which has been amended, extended, consolidated or replaced by the statute or statutory provision; and
  - (iii) subordinate legislation made under the statute or statutory provision including but not limited to an order, regulation or instrument;
- (j) reference to "\$", "A\$", "Australian Dollars" or "dollars" is a reference to the lawful tender for the time being and from time to time of the Commonwealth of Australia;
- (k) a reference to an asset includes all property or title of any nature including but not limited to a business, a right, a revenue and a benefit, whether beneficial, legal or otherwise.

**PART 7 PROXIES AND PROXY FORMS**

- (a) **Right to appoint:** Each member entitled to vote at the meeting has the right to appoint a proxy to attend and vote for the member at the meeting. To appoint a proxy, use the Proxy Form sent out with this Notice.
- (b) A proxy or attorney is not entitled to vote while the member appointing them is present at the meeting.
- (c) **Who may be a proxy:** A member can appoint anyone to be their proxy. A proxy need not be a member of the Company. The proxy appointed can be described in the Proxy Form by an office held, eg "Chair of the Meeting".
- (d) **Two proxies:** A member who is entitled to two or more votes at the meeting, may appoint two proxies. Where two proxies are appointed:
  - (i) a separate Proxy Form should be used to appoint each proxy; and
  - (ii) the Proxy Form may specify the proportion, or the number, of votes that each proxy may exercise, and if it does not do so each proxy may exercise half of the votes.
- (e) **Signature(s) of individuals:** In the case of members who are individuals, the Proxy Form must be signed if the shares are held:
  - (i) by one person, by that member, or
  - (ii) in joint names, by any one of them.
- (f) **Signatures on behalf of companies:** In the case of members which are companies, the Proxy Form must be signed:
  - (i) if it has a sole director who is also sole secretary, by that director (and stating that fact next to or under the signature on the Proxy Form); or
  - (ii) in the case of any other company, by two directors or by a director and secretary.

The use of the common seal of the company on the Proxy Form is optional.

- (g) **Lodgement place and deadline:** Proxy forms must be received by the Company with the original or a certified copy of the authority under which the Proxy Form is signed (if the Proxy Form is signed by an attorney or other representative):

BY MAIL: Xtreme Resources Limited

C/- Link Market Services Limited

Locked Bag A14, Sydney South, NSW, 1235

BY HAND: Link Market Services Limited

Level 12, 300 Queen Street, Brisbane, Qld, 4000

BY FACSIMILE: (02) 9287 0309



by no later than 11.00AM (Brisbane time) on 27<sup>th</sup> day of April 2009. Please mark them to the attention of the Company Secretary.

### **CORPORATE REPRESENTATIVES**

A body corporate may appoint an individual to act as its representative to exercise any of the powers the body may exercise at meetings of a company's members. Unless otherwise stated, the corporate representative may exercise all of the powers the appointing body can exercise. The certificate evidencing the appointment of a corporate representative (or a photocopy or facsimile of it) the certificate evidencing the appointment of a corporate representative shall be sufficient evidence of the authority of the representative (or a photocopy or facsimile of it) must be received by the Company at Level 2, 87 Wickham Terrace, Spring Hill, Qld, 4000 or at PO Box 10288, Brisbane Adelaide Street, Qld, 4000 or by facsimile on (07) 3832 5300 by no later than 11.00AM (Brisbane time) on 29<sup>th</sup> day of April 2009.

### **MEMBERS WHO ARE ENTITLED TO VOTE**

In accordance with Section 1109N of the *Corporations Act*, the Directors have determined that a person's entitlement to vote at the meeting will be the entitlement of that person set out in the register of members as at 11.00AM (Brisbane time) on 27<sup>th</sup> day of April 2009.

# INDEPENDENT EXPERT'S REPORT

31 March 2009

The Directors  
Xtreme Resources Limited  
Level 2  
87 Wickham Terrace  
Brisbane Qld 4000

Dear Sirs

## INDEPENDENT EXPERT'S REPORT

### 1. Introduction

You have requested DMR Corporate Pty Ltd ("DMR Corporate") to prepare an independent expert's report in respect of Mono Resources Limited's ("Mono") acquisition of shares in Xtreme Resources Limited ("Xtreme" or "the Company"). The transaction, as set out in Section 2 below, is permitted by Section 611 of the Corporations Act 2001 ("the Act") provided it is agreed to by shareholders.

Xtreme was incorporated on 16 June 2006 as a wholly owned subsidiary of ASX listed Diatreme Resources Limited ("Diatreme"). Xtreme was incorporated for the purpose of holding and exploring gold and tin tenements originally acquired by Diatreme. In accordance with this objective Xtreme acquired Diatreme's interest in the Pyramid, Yarrol, and Georgetown Inlier Gold projects, as well as its interest in the Nymbool gold prospect, and its right to acquire the Tick Hill Gold Project under option from Mount Isa Mines Limited.

An in specie distribution of Xtreme's shares was made to Diatreme's shareholders on a 1 for 4 basis on 11 October 2007 effectively handing control of Xtreme's assets from Diatreme to the shareholders.

In October 2007 Xtreme acquired 100% of Garimperos Limited ("Garimperos"). Garimperos owns the Mt Veteran Mill and smelter (and holds ML 4349 upon which it is situated) and has submitted a mining lease application over the Summer Hill tin prospect (MLA 20547).

In July 2007 Xtreme entered into a Farm-in Agreement with Apex Silver Mines Limited in relation to the Warrigal Creek and Ironhurst prospects and in November 2007 Xtreme entered into a Heads of Agreement with Minexco Associates Pty Ltd to earn an interest in the Mt Carter prospect.

In mid 2008 Xtreme drafted a prospectus to raise approximately \$2,200,000 to fund Xtreme's exploration and development strategy. Due to the economic conditions at that time the prospectus was never issued and the capital was not raised.

The proposed issue of shares to Mono will raise approximately \$1,860,000 before transaction costs and these funds should enable Xtreme to progress its exploration activities and upgrade the mill capacity.

## **2. The Proposed Transaction**

Xtreme shareholders are asked to approve the following resolution:

- (a) the issue to Mono of 149,142,177 fully paid ordinary shares for a total consideration of \$1,860,000, or \$0.01247 per share.

Paragraph (a) above represents the Proposed Transaction.

If shareholders approve the Proposed Transaction Mono will increase its voting power in Xtreme from 11.14% to 73.76%.

The directors of Xtreme have requested DMR Corporate to independently assess whether the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders.

## **3. Summary Opinion**

In our opinion, the Proposed Transaction is **not fair, however we consider that it is reasonable** when considered in the context of the interests of the Non-Associated Shareholders of Xtreme.

Our principal reasons for reaching the above opinion are:

### **Assessment of Fairness**

In Section 9.1 we valued the Non-Associated Shareholders' (all shareholders excluding Mono) current 88.86% interest in Xtreme, at \$5,313,575 and in Section 9.2 we assessed the value of the Non-Associated Shareholders' residual interest of 26.24% after the Proposed Transaction at \$2,056,932.

As the value of the Non-Associated Shareholders interests after the completion of the Proposed Transaction (\$2,056,932) is less than the value of their interests before the Proposed Transaction (\$5,313,575), we have concluded that **the Proposed Transaction is not fair**.

### **Assessment of Reasonableness**

The Proposed Transaction **is considered to be reasonable** as the advantages of proceeding with the transaction outweigh the disadvantages of proceeding with the transaction. The key reason for this conclusion is our view that the Proposed Transaction provides Xtreme with the cash resources necessary to meet its short-term cash flow requirements, which it has not been able to secure from alternative sources.

Having considered all of the matters in the attached report we consider that shareholders should approve the Proposed Transaction, as it appears to be the only way in which the required funding will be raised to finance Xtreme over the next 12 to 24 months.

**4. Structure of this Report**

The remainder of this report is divided into the following sections:

<u>Section</u>		<u>Page</u>
5	Purpose of the Report	3
6	Xtreme - Key Information	5
7	Valuation of the Xtreme	6
8	Control Premium	9
9	Assessment of the Consideration and Fairness	10
10	Other Significant Factors	10
11	Financial Services Guide	11
<u>Appendix</u>		
A	Xtreme - 20 Largest Shareholders – 31 December 2008	14
B-1	Xtreme – Balance Sheets	15
B-2	Xtreme - Statement of Changes in Equity	16
B-3	Xtreme – Income Statements	17
B-4	Xtreme - Cash Flows Statements	18
C	Listing of Mineral Tenements and Properties	19
D	Veronica Webster - Valuation Report	20
E	Sources of Information	38
F	Declarations, Qualifications and Consents	39

**5. Purpose of the Report**

This report has been prepared to meet the following regulatory requirements:

- **Corporations Act 2001**

Section 606 of the Act contains a general prohibition on the acquisition of shares in a company if, as a result of the acquisition, any person increases his or her voting power in the company from 20% or below to more than 20%.

Section 611 of the Act contains an exception to the Section 606 prohibition. For an acquisition of shares to fall within the exception, the acquisition must be approved in advance by a resolution passed at a general meeting of the company in which shares will be acquired.

Xtreme is seeking shareholder approval for the Proposed Transaction under Section 611 of the Act, as Mono will increase its interests in Xtreme from 11.14% to 73.76%, if the Proposed Transaction proceeds.

- **ASIC Regulatory Guides**

This report has been prepared in accordance with the ASIC Regulatory Guides and more particularly:

**RG 74 – Acquisitions agreed to by shareholders (“RG74”)**

RG 74.3 The Act permits an allotment or purchase of shares agreed to by shareholders. It recognises that the shareholders of a company may choose to give up one of their basic rights, namely an equal opportunity to participate in any benefits accruing to other shareholders where the acquisition or allotment may change the control of a company.

**RG 111 – Content of Expert Reports (“RG111”)**

RG 111.21 An issue of shares by a company otherwise prohibited under S606 may be approved under item 7 of S611 and the effect on the company’s shareholding is comparable to a takeover bid. Examples of such issues approved under item 7 of S611 that are comparable to takeover bids under Ch 6 include:

- (a) a company issues securities to the vendor of another entity or to the vendor of a business and, as a consequence, the vendor acquires over 20% of the company incorporating the merged businesses. The vendor could have achieved the same or a similar outcome by launching a scrip takeover for the company .....

RG111.24 There may be circumstances in which the allottee will acquire 20% or more of the voting power of the securities in the company following the allotment or increase an existing holding of 20% or more, but does not obtain a practical measure of control or increase its practical control over that company. If the expert believes that the allottee has not obtained or increased its control over the company as a practical matter, then the expert could take this outcome into account is assessing whether the issue price is ‘reasonable’ if it has assessed the issue price as being ‘not fair’ applying the test in RG111.10.

RG111.9 It has long been accepted in Australian mergers and acquisitions practice that the words ‘fair and reasonable’ in S640 established two distinct criteria for an expert analysing a control transaction:

- (a) is the offer ‘fair’; and
- (b) is it ‘reasonable’?

That is, ‘fair and reasonable’ is not regarded as a compound phrase.

RG111.10 Under this convention, an offer is ‘fair’ if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. This comparison should be made assuming 100% ownership of the ‘target’ and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the ‘bidder’ or its associates in the target when making this comparison. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or ‘portfolio’ parcel of shares.

RG111.11 An offer is ‘reasonable’ if it is fair. It might also be ‘reasonable’ if, despite being ‘not fair’, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

As the Proposed Transaction will result in Mono's interests increasing to 73.76% of Xtreme’s voting power, ASIC Regulatory Guide 111 requires that the Proposed Transaction be assessed as if it was a takeover of Xtreme.

- **General**

The terms fair and reasonable are not defined in the Act so we have defined them for the purpose of this report as:

- Fairness - the Proposed Transaction set out in Section 2 is fair if the value of the Non-Associated shareholders' combined interests after the Proposed Transaction is equal to or greater than the value of their interests (including a premium for control) before the Proposed Transaction.
- Reasonableness - the Proposed Transaction may be reasonable whether or not it is fair as it involves consideration of other significant factors that shareholders might consider prior to voting on the resolution.

Under ASIC Regulatory Guides, what is fair and reasonable should be judged in all the circumstances of the proposal.

The methodology that we have used to form an opinion as to whether the Proposed Transaction is fair and reasonable, is summarised as:

- (i) In determining whether the Proposed Transaction is fair, we have:
  - (a) valued Xtreme and determined the current value of the Non-Associated shareholders' proportional interest in Xtreme;
  - (b) added the value of the funds to be subscribed by Mono to the current value of Xtreme and determined the value of the Non-Associated shareholders' proportional interest in Xtreme after the Proposed Transaction; and
  - (c) compared the value of the Non-Associated shareholders' proportional interest in Xtreme before the Proposed Transaction with the value of their proportional interest in Xtreme after the Proposed Transaction.
- (ii) In determining whether the Proposed Transaction is reasonable, we have analysed other significant factors, which shareholders should consider prior to accepting or rejecting the Proposed Transaction.

## **6. Xtreme - Key Information**

### **6.1 Company Background**

Xtreme's projects are located primarily in North Queensland. Xtreme has two historical mines, three advanced gold projects and several prospects on large exploration licences over proven mineralized ground. Xtreme has a balanced portfolio of advanced exploration gold and tin projects.

Xtreme aims to explore its tenements primarily for tin, gold, and nickel but will also investigate the presence of accessory mineralization such as tungsten, molybdenite and copper.

The rising gold and tin prices have allowed Xtreme to reprioritize its larger and lower grade projects such as the Summer Hill tin prospect (a historic non JORC compliant resource of 15,000,000 tonnes at between 0.15% and 1% tin) and the Nymbool gold prospect (JORC Inferred 12,000,000 tonnes at 0.4g/t gold). The historic resource estimate at Summer Hill does not comply with the requirements of the JORC Code and it is uncertain that, following evaluation and/or further exploration, the mineralization estimates will ever be reported in accordance with the JORC Code.

Xtreme will also commission a resource calculation on the shallow low grade potential (>0.5 g/t gold) at the Gettysburg and Sellheim prospects of the Pyramid Gold Project.

A detailed listing of all mineral tenements and properties is in Appendix C.

## **6.2 Share Capital**

As at the date of this report Xtreme had on issue 62,487,823 fully paid ordinary shares. The major shareholders of Xtreme on 31 December 2008 are presented in Appendix A-1. As at that date, the top 20 shareholders held 42.92% of the issued ordinary capital of Xtreme.

## **6.3 Financial Position**

Xtreme's audited balance sheets as at 31 December 2007 and 2008 are attached as Appendix B-1.

Xtreme's statement of changes in equity for the financial years ended 31 December 2007 and 2008 are attached as Appendix B-2.

## **6.4 Financial Performance**

Xtreme's audited income statements for the financial years ended 31 December 2007 and 2008 are attached as Appendix B-3.

## **6.5 Cash Flow Statements**

Xtreme's audited cash flow statement for the financial year ended 31 December 2007 and 2008 are attached as Appendix B-4.

# **7. Valuation of Xtreme**

## **7.1 Net Assets**

The net assets of Xtreme as at 31 December 2008, as per the audited financial statements, were \$2,419,013 - Appendix B-1.

On 10 February 2009 Mono subscribed \$100,000 for 6,963,788 Xtreme shares.



We have concluded that the value of Xtreme, based on the net asset backing valuation methodology is \$2,519,013.

## 7.2 Alternate Acquirer

The value that an alternative offeror may be prepared to pay to acquire Xtreme is a relevant valuation methodology to be considered.

Xtreme's exploration assets, comprising of an interest in 17 exploration areas are summarised in Appendix C.

In Section 7.1 above we concluded that the value of Xtreme, based on the net asset backing valuation methodology is \$2,519,013. Xtreme's net assets include exploration expenditure of \$2,036,707 (Appendix B-1). This means that Xtreme's net assets excluding the book value of its exploration assets are \$482,306 (\$2,519,013 less \$2,036,707).

Xtreme retained Veronica Webster Pty Ltd ("Veronica Webster") to prepare a valuation report on the exploration assets held by Xtreme for our use in preparing this report. Veronica Webster is a firm specialising in consulting to the mining industry, including preparing valuations that conform with the requirements of the Code and Guidelines for Technical Assessment and/or Valuation of Mineral and Petroleum Assets and Mineral and Petroleum Securities for Independent Expert Reports ("Valmin Code"). Veronica Webster prepared a report addressed to DMR Corporate, which valued each of the mineral assets. We have reviewed the valuation report prepared by Veronica Webster and discussed the valuation with Mr. Les Davis, a director of Veronica Webster responsible for preparation of the report. As a result of our review of the Veronica Webster report and discussions with Mr. Davis, we have used the values determined by Veronica Webster as a basis of our assessment of the value that an alternate acquirer may be prepared to pay to acquire Xtreme's mineral assets.

A copy of the Veronica Webster valuation report is set out in Appendix D.

Veronica Webster arrived at the following values in respect of Xtreme's mineral assets:

Tenement Name	Tenement ID	Interest %	February 2009 Values		
			Minimum \$ Million	Maximum \$ Million	Preferred \$ Million
Mount Veteran	ML 4349	100.00	} 1.00	10.50	4.25
Summer Hill	MLA 20547	100.00			
Yarrol	EPM 8402	100.00	0.40	0.80	0.60
Mt Steadman	EPM 12834	100.00	0.20	0.40	0.20
Gooroolba	EPM 15426	100.00	0.10	0.20	0.10
Pyramid	EPM 12887	100.00	0.20	0.40	0.20
Mount Garnet	EPM 16948	100.00	0.10	0.25	0.15
<b>Total</b>			<u>2.00</u>	<u>12.55</u>	<u>5.50</u>

As can be seen from the above table, Veronica Webster valued Xtreme's exploration assets in the range of \$2,000,000 to \$12,550,000, with a preferred value of \$5,500,000. After including the value of Xtreme's net other tangible assets of \$482,306, Xtreme is valued in a range of \$2,482,306 to \$13,032,306 million and a preferred value of \$5,982,306. In view of the large valuation range we have adopted the preferred value of \$5,982,306 as the alternate acquirer valuation.

### **7.3 Orderly Realisation of Assets**

The value achievable in an orderly realisation of assets is estimated by determining the net realisable value of the assets or business segments on the basis of an assumed orderly realisation. Consequently, this method may ignore the ability of the asset base of the business to generate ongoing future earnings at a level sufficient to justify a value in excess of the value of its assets in an orderly realisation.

We believe that this methodology has been appropriately considered in Section 7.2 above.

### **7.4 Share Price History**

Xtreme is an unlisted public company and there have been virtually no sales in its shares over the last six months.

In February 2008 1,000,000 shares were issued at a price of \$0.158 as consideration for the acquisition of the Mt Veteran mining lease.

In June/July 2008 a new issue of 3,500,000 shares was made at a price of \$0.10 per share.

Based on the issue price for the June/July 2008 capital raising and the number of shares then on issue, we consider that Xtreme is valued at \$5,552,000.

Subsequent to the terms of the Proposed Transaction being negotiated, Xtreme was in need of monies to fund its immediate operating costs. Xtreme negotiated a placement of \$100,000 from Mono, and Mono subscribed the \$100,000 for 6,963,788 Xtreme shares. This equates to a price of \$0.01436 per share. As this transaction was with Mono, we do not believe that it should be used to value Xtreme.

### **7.5 Earnings Based Valuation**

Capitalisation of earnings is a method commonly used for valuing manufacturing and service companies and, in our experience, is the method most widely used by purchasers of such businesses. This method involves capitalising the earnings of a business at a multiple which reflects the risks of the business and its ability to earn future profits. There are different definitions of earnings to which a multiple can be applied. The traditional method is to use net profit after tax. Another common method is to use Earnings Before Interest and Tax, or EBIT. One advantage of using EBIT is that it enables a valuation to be determined which is independent of the financing and tax structure of the business. Different owners of the same business may have different funding strategies and these strategies should not alter the fundamental value of the business.

As Xtreme is an exploration company with limited ongoing revenues, we consider that the capitalisation of maintainable earnings is not an appropriate methodology to use to value Xtreme shares.

## 7.6 Net Present Value of Projected Cash Flows

An analysis of the net present value of the projected cash flows of a business (or discounted cash flow technique) is based on the premise that the value of the business is the net present value of its future cash flows. This methodology requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value of the business remaining at the end of the forecast period.

Xtreme is an exploration company and whilst it has planned two-year cash expenditure budgets for exploration purposes, these cash flows are virtually all cash outflows. We have therefore concluded that this valuation methodology is not an appropriate methodology to use to value Xtreme.

## 7.7 Conclusion

A summary of the valuation methodologies that we considered to be applicable in valuing Xtreme is as follows:

VALUATION METHODOLOGY	Low \$	High \$
Net Assets	2,519,013	2,519,013
Alternate Acquirer	5,982,306	5,982,306
Share Price History	5,552,000	5,552,000

Having regard to the results of the applicable valuation methodologies, we have concluded that Xtreme should be valued based on the alternate acquirer methodology and consequently we have valued Xtreme at \$5,982,306, say \$5,980,000.

We have not adopted the share price history methodology as this reflects a capital raising in June/July 2008 and this information is now dated.

We have not adopted the net asset value methodology as this methodology is based on the balance sheet values, which in turn reflect write downs of the values of exploration properties to below the preferred value determined by Veronica Webster.

## 8. Control Premium

- 8.1 A control premium represents the difference between the price that would have to be paid for a share to which a controlling interest attaches and the price at which a share that does not carry with it control of the company could be acquired.

If the Xtreme shareholders approve the Proposed Transaction, then Mono will control 156,105,965 shares or 73.76% of Xtreme's voting power.

- 8.2 In Section 7.7 above we valued Xtreme at \$5,980,000. This value was based on the current Veronica Webster valuations of the exploration properties and as such the exploration properties are recorded at the values that the properties could possibly be sold to an outside third party.

We do not consider that there should be any additional premium for control of the exploration properties.

## 9. Assessment of the Consideration and Fairness

- 9.1 Mono is subscribing \$1,860,000 for 149,142,177 shares. As the consideration is for cash there is no requirement to perform any further valuation work in respect of the consideration.
- 9.2 In Section 7.7 above we valued Xtreme at \$5,980,000 and in Section 8 above we concluded that there should be no additional premium paid for the 73.76% control of Xtreme.
- 9.3 The Non-Associated shareholders (all shareholders excluding Mono) currently hold 88.86% of Xtreme, which means that the value of their combined interest in Xtreme is \$5,313,575 (\$5,980,000 x 88.86%).
- 9.4 If shareholders approve the Proposed Transaction the value of Xtreme will increase by the additional capital of \$1,860,000 to be subscribed by Mono. This means that the value of Xtreme will increase to \$7,840,000 (\$5,980,000 + \$1,860,000), however the Non-Associated shareholders' interest will be diluted to 26.24%. This interest will have a value of \$2,056,932 (\$7,840,000 x 26.24%).
- 9.5 As the value of the Non-Associated shareholders' interest after the Proposed Transaction (\$2,056,932) is less than the value of their interests before the Proposed Transaction (\$5,313,575), **we consider that the Proposed Transaction is not fair.**

## 10. Other Significant Factors

- 10.1 Prior to deciding whether to approve or reject the Proposed Transaction the shareholders should consider the following significant factors;

- In Section 9 we concluded that the Proposed Transaction is **not fair**.
- The equity markets are currently in turmoil and many companies are experiencing difficulties in raising capital and/or rolling over debt e.g. OZ Minerals.

Xtreme had prepared a draft prospectus in early to mid 2008, however they were unable to get various regulatory approvals to promptly proceed with the capital raising and the subsequent listing of the Company on the Australian Securities Exchange ("ASX") at that time. By late 2008 Xtreme had missed the opportunity to raise new equity due to the state of the equity markets.

- Xtreme has sought alternative sources of funding, however none of these have resulted in firm commitments to fund the Company. Drastic cutbacks in expenses were implemented in October 2008 whilst Xtreme negotiated with two interested parties about restructuring Xtreme. The directors have advised us that the Mono proposal was the better proposal for the Xtreme shareholders and they have continued to work towards the finalisation of the Mono restructure.
- The Company's resources were depleted in January 2009 and without the capital injection of \$100,000 by Mono on 10 February 2009 (or the receipt of funding from some other source), the Company may have been placed in administration in late February or March 2009.
- If funds are not received in the next 3 months then the directors would expect that Xtreme would be placed in administration.
- The interests of the Xtreme shareholders will be diluted, as they will not be given the opportunity to participate in the capital raising.

## 10.2 Conclusion

The Proposed Transaction provides Xtreme with the cash resources necessary to meet its short-term cash flow requirements over the next two years. In return for providing these cash resources, Mono will attain a 73.76% interest in Xtreme's voting power.

Having considered all of the above together with the current state of the equity markets, **we consider that, in the absence of a better offer, the Proposed Transaction is reasonable**, as it appears to be the only way in which the required funding will be raised to finance Xtreme over the next 12 to 24 months.

## 11. Financial Services Guide

### 11.1 Financial Services Guide

This Financial Services Guide provides information to assist retail and wholesale investors in making a decision as to their use of the general financial product advice included in the above report.

### 11.2 DMR Corporate

DMR Corporate holds Australian Financial Services Licence No. 222050, authorizing it to provide reports for the purposes of acting for and on behalf of investors in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues and to carry on a financial services business to provide general financial product advice for securities to retail and wholesale investors.

### 11.3 Financial Services Offered by DMR Corporate

DMR Corporate prepares reports commissioned by a company or other entity ("Entity"). The reports prepared by DMR Corporate are provided by the Entity to its members.

All reports prepared by DMR Corporate include a description of the circumstances of the engagement and of DMR Corporate's independence of the Entity commissioning the report and other parties to the transaction.

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

#### **11.4 General Financial Product Advice**

DMR Corporate provides general financial product advice. This advice does not take into account the personal objectives, financial situation or needs of individual retail investors.

Investors should consider the appropriateness of a report having regard to their own objectives, financial situation and needs before acting on the advice in a report. Where the advice relates to the acquisition or possible acquisition of a financial product, an investor should also obtain a product disclosure statement relating to the financial product and consider that statement before making any decision about whether to acquire the financial product.

#### **11.5 Independence**

At the date of this report, none of DMR Corporate, Derek M Ryan nor Mr Paul Lom has any interest in the outcome of the Proposed Transaction, nor any relationship with Xtreme, Mono or their associates.

Drafts of this report were provided to and discussed with a Director of Xtreme and its advisers. Certain changes were made to factual statements in this report as a result of the reviews of the draft reports. There were no alterations to the methodology, valuations or conclusions that have been formed by DMR Corporate.

#### **11.6 Remuneration**

DMR Corporate is entitled to receive a fee of \$22,000 for the preparation of this report. With the exception of the above, DMR Corporate will not receive any other benefits, whether directly or indirectly, for or in connection with the making of this report.

Except for the fees referred to above, neither DMR Corporate, nor any of its directors, employees or associated entities receive any fees or other benefits, directly or indirectly, for or in connection with the provision of any report.

#### **11.7 Complaints Process**

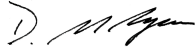
As the holder of an Australian Financial Services Licence, DMR Corporate is required to have a system for handling complaints from persons to whom DMR Corporate provide financial services. All complaints must be in writing and sent to DMR Corporate at the above address.

DMR

DMR Corporate will make every effort to resolve a complaint 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 Limited – GPO Box 3, Melbourne Vic 3000.

Yours faithfully

**DMR Corporate Pty Ltd**



**Derek Ryan**  
Director



**Paul Lom**  
Director

**Xtreme Resources Limited****20 Largest Shareholders as at 31 December 2008**

<b>Name</b>	<b>Number of Fully Paid Ordinary Shares</b>
Doral Mineral Industries Limited	3,125,000
John Stacpoole	2,397,707
David Hugh Hall & Lynn Michele Hall <Hall Family Super Fund A/C>	2,189,210
Anthony John Fawdon & Rosemarie Monica Fawdon <Fawdon Super Fund A/C>	2,022,413
Elinora Investments Pty Ltd	2,000,000
Huntley Custodians Limited	1,392,918
Weir River Consulting <Weir River Grazing S/F A/C>	1,042,481
Super 1136 Pty Ltd	1,042,481
Chetan Enterprises Pty Ltd	1,000,000
Darcy Owen	1,000,000
Terra Search Pty Ltd	908,081
Lawrence James Litzow	781,381
Ms Wenzhen Zhang	777,836
Mr Ming Chen	642,500
Marjorie Gertrude Beaseley	625,489
Terra Search Pty Ltd	625,489
Mrs Yu-Chiao Huang	614,815
Mr Guo Ming Shi	579,205
Dr Richard Kenneth Hart & Ms Lynette Mary Hart <Hart Super Fund A/C>	533,148
National Nominees Limited	529,375
	<u>23,829,529</u>
The percentage of the total holding of the twenty largest holders of ordinary shares was 42.92%	
Source: Share register as at 31 December 2008	

**Subsequent Share Placement**

On 10 February 2009, Mono subscribed \$100,000 capital and was issued 6,963,788 fully paid shares in Xtreme. The above shareholder listing was issued before this latest share issue. Following this placement Mono has an 11.14% interest in Xtreme.



## Xtreme Resources Limited

## Balance Sheets

	Year Ended 31/12/2007 Audited \$	Year Ended 31/12/2008 Audited \$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	773,860	32,052
Receivables	25,230	26,621
Other current assets	8,419	11,210
<b>Total Current Assets</b>	<u>807,509</u>	<u>69,883</u>
<b>Non-Current Assets</b>		
Receivables	2,433	-
Available for sale financial assets	-	10,000
Property, plant and equipment	614,033	858,965
Exploration expenditure	7,405,333	2,036,707
Other	37,500	42,280
<b>Total Non-Current Assets</b>	<u>8,059,299</u>	<u>2,947,952</u>
<b>TOTAL ASSETS</b>	<u>8,866,808</u>	<u>3,017,835</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Payables	594,467	145,516
Provisions	12,577	-
Borrowings	-	50,000
<b>Total Current Liabilities</b>	<u>607,044</u>	<u>195,516</u>
<b>Non-Current Liabilities</b>		
Borrowings	149,560	403,306
<b>Total Non-Current Liabilities</b>	<u>149,560</u>	<u>403,306</u>
<b>TOTAL LIABILITIES</b>	<u>756,604</u>	<u>598,822</u>
<b>NET ASSETS</b>	<u>8,110,204</u>	<u>2,419,013</u>
<b>EQUITY</b>		
Contributed Equity	3,134,805	3,624,867
Reserves	-	-
Retained earnings	4,975,399	(1,205,854)
<b>TOTAL EQUITY</b>	<u>8,110,204</u>	<u>2,419,013</u>
Source: 2008 Financial Statements		

**Xtreme Resources Limited****Statements of Changes in Equity**

	<b>Year Ended 31/12/2007 Audited \$</b>	<b>Year Ended 31/12/2008 Audited \$</b>
Total equity at the beginning of the year	(6,155)	8,110,204
Net profit / (loss)	4,981,555	(6,181,253)
Changes in the fair value of available-for-sale financial assets	-	-
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs	3,134,804	490,062
Total equity at the end of the year	<u>8,110,204</u>	<u>2,419,013</u>
Source: 2008 Financial Statements		

## Xtreme Resources Limited

## Income Statements

	Year Ended 31/12/2007 Audited \$	Year Ended 31/12/2008 Audited \$
Revenue	11,218	71,255
Other Income - <b>Note 1</b>	5,007,344	-
	<u>5,018,562</u>	<u>71,255</u>
Employee benefits and on costs	(9,907)	(184,756)
Depreciation	(2,911)	(15,826)
Capital raising costs	-	(119,329)
Impairment of available-for-sale financial assets	-	(140,000)
Loss on sale of exploration tenements	-	(74,612)
Administration costs	(24,189)	(329,602)
Exploration expenditure written off	-	(2,338,383)
Provision for diminution in value of exploration expenditure	-	(3,050,000)
	<u>(37,007)</u>	<u>(6,252,508)</u>
Loss before income tax	<u>4,981,555</u>	<u>(6,181,253)</u>
Income tax expense	-	-
(Loss) / profit attributable to members of Xtreme Resources Limited	<u><u>4,981,555</u></u>	<u><u>(6,181,253)</u></u>
Source: 2008 Financial Statements		

**Note 1** - The 2007 figure includes:

- (a) \$4,055,834 - gain on forgiveness of loans; and
- (b) \$951,510 - gain on acquisition of assets.

## Xtreme Resources Limited

## Cash Flow Statements

	Year Ended 31/12/2007 Audited \$	Year Ended 31/12/2008 Audited \$
<b>Cash Flows from Operating Activities</b>		
Sundry receipts	2,159	100,270
Payments to suppliers and employees (GST inclusive)	(61,475)	(575,460)
Payments for exploration expenditure	(115,128)	(444,369)
Proceeds from sale of exploration	-	150,000
Interest received	3,418	7,447
<b>Net Cash used in operating activities</b>	<u>(171,026)</u>	<u>(762,112)</u>
<b>Cash Flows From / (Used In) Investing Activities</b>		
Payments for property, plant and equipment	(16,944)	(542,758)
Costs of acquisition of investment	555,733	-
Payments for security deposits	(37,500)	(9,780)
Refund of security deposits	-	5,000
<b>Net Cash from / (used in) investing activities</b>	<u>501,289</u>	<u>(547,538)</u>
<b>Cash Flows from Financing Activities</b>		
Loan from related entity	205,393	256,179
Loan to related entity	(15,820)	-
Proceeds of other loans	-	50,000
Proceeds from issue of shares	234,805	350,000
Capital raising costs	(8,930)	(88,337)
<b>Net Cash from financing activities</b>	<u>415,448</u>	<u>567,842</u>
<b>Net increase (decrease) in cash held</b>	745,711	(741,808)
<b>Cash at beginning of the period</b>	28,149	773,860
<b>Cash at end of the period</b>	<u>773,860</u>	<u>32,052</u>
Source: 2008 Financial Statements		

**Xtreme Resources Limited****Listing of Mineral Tenements and Properties****INFORMATION CURRENT AS AT 31 JANUARY 2009****Codes:**

XRL Xtreme Resources Limited  
GAR Garimperos Limited (wholly owned subsidiary of XRL)  
MIM Mount Isa Mines Limited  
DRX Diatreme Resources Limited

State	Tenement Name	Tenement ID	Area Km <sup>2</sup>	Holder	%	Comments
QLD	Mount Veteran	ML 4349	17.85Ha	GAR	100	
QLD	Summer Hill	MLA 20547	1200Ha	GAR	100	
QLD	Yarrol	EPM 8402	12	XRL	100	
QLD	Mt Steadman	EPM 12834	12	XRL	100	
QLD	Gooroolba	EPM 15426	155	XRL	100	
QLD	Pyramid	EPM 12887	189	XRL	100	
QLD	Mt Garnet	EPMA 16948	77	XRL	100	Covers EPM's 8994 & 8998
QLD	Blacks Creek	EPM 8994	6	XRL	100	Cond. Surr. for EPM 16948
QLD	Mt Garnet	EPM 8998	71	XRL	100	Cond. Surr. for EPM 16948
QLD	Langdon River	EPM 11849	87	XRL	100	Surr. Lodged late 2008 and approved by DME in Feb 2009
QLD	Warrigal Creek	EPM 13126	56	XRL	100	Surr. Lodged late 2008 – finalization in progress
TAS	Glovers Bluff	EL 47/2007	14	GAR	100	Surr. to be lodged in Feb 09
TAS	Weld River	EL 19/2008	2	GAR	100	Surr. to be lodged in Feb 09
QLD	Ironhurst	EPM 12976	6	XRL	100	To be assigned to DRX on success of the MONO deal
QLD	Tick Hill	ML's 7094, 7096 & 7097		MIM	100	The nomination of XRL as the assignee from MIM will be changed to DRX on success of the MONO deal
QLD	Tondarra	EPM 14402	155	XRL	100	Assignment to Dianne Mining Corporation lodged with DME in 2008 – still in XRL name
QLD	Teatree Creek	EPM 14675	68	XRL	100	Assignment to Dianne Mining Corporation lodged with DME in 2008 – still in XRL name

**VERONICA WEBSTER PTY. LIMITED**

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27 February 2009

Mr D M Ryan  
DMR Corporate Pty Limited  
470 Collins Street  
Melbourne Victoria 3000

Dear Sir

**RE: INDEPENDENT VALUATION OF THE MINERAL PROPERTIES OF XTREME RESOURCES LIMITED**

**1.0 INTRODUCTION**

**1.1 Outline of commission**

DMR Corporate Pty Limited ("DMR") commissioned Veronica Webster Pty Limited ("VWPL") to prepare an Independent Valuation ("Valuation" or "Valuation Report") for the mineral properties of Xtreme Resources Limited ("XRL") in Queensland.

The Valuation Report will be included in an independent expert's report to accompany an Information Memorandum to XRL shareholders.

**1.2 Information**

Mr. L Davis of VWPL has prepared the Valuation Report. He was supplied exploration data by XRL and has been instructed to rely on the information being accurate and complete. Mr Davis has relied at his own discretion on the observations and interpretations of previous explorers, exploration consultants and XRL geological staff. However, the views and conclusions expressed in this report are solely those of VWPL, L W Davis and associate Mr P N Scott.

VWPL engaged Mr P N Scott, mining engineer, of PS Associates Pty Limited to assist in the valuation of those properties containing resources and mining plans. L Davis and P Scott visited the mineral property of Mount Veteran in March 2007 and inspected the tin lodes and treatment plants of the Mount Veteran Mining Lease No 4349 "Summer Hills". Mr Davis had visited most of the other properties of XRL in 1994, 1998, 2002, 2004 and 2006. All the properties have been examined in the field except the Pyramid Project.

An appraisal of all the abovementioned information forms the basis of this report.

## 2.0 VALUATION SUMMARY

Xtreme Resources Limited has an advanced tin project, the Mount Veteran project, in far north Queensland under Mining Lease and Mining Lease application plus exploration areas where there is opportunity for tin and gold discovery.

In central and south-east Queensland, four gold projects are available and two of these, Yarrol and Mount Steadman gold prospects, contain Indicated Resources which are currently marginal to sub-economic.

The Mount Veteran project contains a treatment plant which needs about \$1.2 million to make it fully operational and upgrade it to 150 000 tonne-per-annum (“tpa”) capacity. Nearby tin resources are available sometimes as Indicated Resources and Inferred Resources but most have to be proved with further exploration. The valuation is based on a 150 000 tpa operation, lasting a minimum of seven years.

### 2.1 Summary Valuation Table

<b>Project/Prospect</b>	<b>HIGH</b>	<b>LOW</b>	<b>PREFERRED</b>
	<b>\$ million</b>	<b>\$ million</b>	<b>\$ million</b>
Far north Queensland			
Mount Veteran	10.50	1.00	4.25
Mount Garnet	0.25	0.10	0.15
South-east Queensland			
Yarrol	0.80	0.40	0.60
Mount Steadman	0.40	0.20	0.20
Gooroolba	0.20	0.10	0.10
Central Queensland			
Pyramid	0.40	0.20	0.20
<b>TOTAL</b>	<b>12.55</b>	<b>2.00</b>	<b>5.50</b>

**Table 1 Valuation of Xtreme Resources Limited Mineral Properties.**

The Mount Veteran Project has been valued by referring to modified discounted-cash-flow-rate-of-return financial models, with net-present-value (“NPV”) reported after tax.

Exploration projects are valued by “Expected Value” methods and the “Multiples of exploration expenditure method is considered occasionally for comparison but has not been reported. With Expected Value, a NPV target is assumed. For the exploration mineral properties of Xtreme Resources Limited, VWPL has assigned probabilities (the cumulative probability for the NPV, less the discounted exploration expenditure) for discovering deposits for which NPVs or cash values have been estimated. Methods are described in Appendix I.

The valuations are only valid at the date of this Valuation Report and conditional on the granting of applications for new tenements and the granting of renewal applications for existing tenements.

All estimates are in Australian dollars and rounded to the nearest A\$0.05 million.

### 3.0 TENEMENTS

The following Table lists the tenements relevant to this Report, all of which are warranted to be in good standing.

State	Tenement Name	Tenement ID	Area Km <sup>2</sup>	Holder	%	Comments
QLD	Mount Veteran	ML 4349	17.85Ha	Garimperos Limited	100	
QLD	Summer Hill	MLA 20547	1200Ha	Garimperos Limited	100	
QLD	Yarrol	EPM 8402	12	XRL	100	
QLD	Mount Steadman	EPM 12834	12	XRL	100	
QLD	Gooroolba	EPM 15426	155	XRL	100	
QLD	Pyramid	EPM 12887	189	XRL	100	
QLD	Mount Garnet	EPM 16948	77	XRL	100	Covers former EPM's 8994 & 8998
QLD	Ironhurst	EPM 12976	6	XRL	100	To be assigned to DRX on success of the Mono Resources Limited deal
QLD	Tick Hill	ML's 7094, 7096 & 7097		MIM	100	The nomination of XRL as the assignee from MIM will be changed to DRX on success of the Mono Resources Limited deal

Equatorial Coal Limited holds a royalty over the Mount Steadman Prospect amounting to 5% of the value of gold produced after deducting mining and treatment expenses.

XRL currently is relinquishing, assigning or selling other tenements and these are not included in the Valuation, although they are in XRL's name. VWPL has estimated values (December 2008) for the Tick Hill and Ironhurst tenements to be assigned to the related Diatreme Resources Limited ("DRX").

### 4.0 BRIEF OVERVIEW OF XRL PROJECTS

XRL has several advanced exploration areas for tin and gold in Queensland. At the majority of these, preliminary field surveys are completed and drill programs have been prepared. Since mid 2007, the Company has commenced upgrade and refurbishment work at the Mount Veteran Mill and premises, has conducted limited exploration and has been undertaking environmental studies as part of the Summer Hill mining lease application process.

No material exploration has taken place on other tenements elsewhere during this period.

#### 4.1 Mount Veteran (Mount Veteran ML 4349 and Summer Hill MLA 20547).

The Mount Veteran tin project is situated in the Mount Garnet district of Far North Queensland. The area is recognised as one of Australia's major tin provinces where tin mining has been carried out over a period of more than 100 years. Mining has been conducted from this area at times of favourable tin demand and prices. The district has a history of small tonnage operations based on very rich mineralisation.



The Mount Veteran project contains a treatment plant which needs about \$1.2 million to make it fully operational and upgrade it to 150,000 tpa capacity. Nearby tin resources are available sometimes as Indicated Resources and Inferred Resources but most have to be proved with further exploration. The valuation is based on a 150 000 tonne-per-annum (“tpa”) operation, lasting a minimum of seven years.

The 17 ha mining lease contains a 20 tonne per hour Processing Mill and a Smelter (the smelter has only a licence for 3.5 tonnes of metal per year), 300 mega litres of dam capacity, three phase power and camp and offices. VWPL has been instructed to rely on the previous (1999) on “going operation” valuation by Ellis Hughes of \$1 088 000. In April 2007, R & L Atkinson estimated a current indicative “replacement value” of \$5 000 000 to \$6 000 000.

The Summer Hill tenement is subject to an acquisition agreement with Ralph De Lacey dated approximately 14 March 2007. A final payment of \$80 000 is payable to DeLacey by 30 April 2009 for the Summer Hill tenement.

#### **4.1.1 Summer Hill tin lodes**

No systematic exploration of the whole potential of the Summer Hill tin field has been carried out but rather ad hoc searching for high-grade patches to fulfill the immediate requirements of the treatment facilities for cash-flow generation.

In 1985, Greg Kater and Associates Pty Ltd (“Kater”) estimated the tonnes for the principle lodes in the vicinity of the treatment plant.

	<b>Tonnes</b>
Dalcouth	500 000
Summer Hill	6 000 000
Tom Hood	4 000 000
Mt Veteran	700 000
Viking	2 000 000
Divide	800 000
Extended	250 000
May Day	600 000
<b>TOTAL</b>	<u><b>15 100 000</b></u>

Kater classified these tonnes as inferred and stated:-

“Recent bulk testing and past mining experience indicates head grade tenor varies between 0.15% and 1% tin overall, whilst observation of numerous exposures indicates patches of higher grades (several percentages) of tin can be easily selected for quality control of head grade.

Based on the large quantity of mineralised Lode available, there is a high probability that at least 500,000 to 1,000,000 tonnes could be produced, using careful quality control and blending, to maintain a head grade of 0.6% to 0.7% Sn.

On current exposure and development, there is sufficient; resource to easily achieve this head grade by quality control at a rate of 30,000 to 60,000 tonnes per year for at least 10 years.”

In the opinion of VWPL other workers have confirmed Kater's findings. In the last 30 years small parcels of measured and indicated resources have been estimated and some of these have been exploited. In 1988, John Sainsbury Associates estimated an Indicated 815 000 grading 0.66% tin and 290 000 tonnes Inferred at a grade of 0.5% tin.

VWPL believes that if XRL explores systematically (trenching and drilling) with a budget of \$300 000 per annum then it is possible to discover resources sufficient to provide a feed of 150 000 tonnes grading 0.7% tin, each year for several years. The Valuation is accordingly based on a 150 000 tpa operation.

## 4.2 Mount Garnet (Mt Garnet EPM 16948)

EPM 16948 was granted on 17 February 2009 for a term of five years. It covers the area of the previous long standing EPMs 8994 and 8998 which were surrendered in favour of the new EPM.

### 4.2.1 Nymbool gold-copper prospect

The Nymbool gold-copper prospect is situated immediately north-west of the township of Mount Garnet in Northern Queensland. XRL plans extra drilling at the Nymbool Gold Prospect and the Ambrose Gully Gold Prospect where bulk low-grade gold mineralisation has been discovered and low-grade resources have been outlined. The deposit is associated with quartz porphyry, near the contact zone of two granitoids.

In 2002, resources were estimated by DRX using several alternative geological models. The favoured model provides an estimate of 2.4 million tonnes of Indicated and Inferred resources with an average grade of 0.7 g/t gold, (including 1 million tonnes at an average grade of about 1 g/t gold, using a lower cut-off grade of 0.5 g/t gold). These resources could be extracted from a pit with a waste to mineralisation ratio of 2.2 to 1. Drilling by DRX in 2003 can be expected to have added more tonnes at a similar grade but no estimates have been carried out pending new drilling programs.

This prospect has been well drilled out and the gold mineralisation is in broad, unfortunately very low-grade zones with very little grade variation. A resource estimation at different cut-offs, by L Davis, showed that tonnes diminish severely if economic grades are achieved:

Limit Cut off g/t gold	Head grade g/t gold	% tonnes recovered	Tonnes at 15,000,000 above 0.1g/t gold (170,000 ounces)	Ounces Gold Recovered
0.2	0.39	80	12,000,000	150,000
0.3	0.47	50	8,000,000	120,000
0.4	0.55	30	4,500,000	80,000
0.5	0.65	15	2,500,000	50,000
0.6	0.75	8	1,300,000	30,000
0.7	0.85	4	600,000	15,000
0.8	0.95	2	300,000	9,000
0.9	1.06	1	150,000	5,000
1.0	1.16	0.5	90,000	3,000
1.1	1.27	0.3	50,000	2,000

There is little opportunity to generate a higher grade/lower tonnage resource through selectively mining the deposit. The deposit size and grade tenor is such that the only likely mining method would be by bulk heap leach. There are insufficient resources present to justify the capital cost of

building a treatment plant close to the deposit, and the low grade precludes the option of hauling the ore to treatment facilities elsewhere.

Essentially a gold price in the region of US\$1100/ounce will be required to make this deposit economically heap leachable, as it stands. At US\$1100/ounce a resource of approximately three times the size would prove attractive. Metallurgical studies would be required to determine the percentage of unrecoverable gold within the 0.4 g/t head-grade.

At current gold prices finding additional resources of a similar grade tenor will not greatly assist; clearly what is required is the location of higher grade material, preferably at favourable strip ratios.

It should be noted that the work carried out by A M Murray of Rockcombe Pty Ltd, (Nymbool Porphyry dated 31<sup>st</sup> July 1996), does provide a slightly better grade than that utilised by L Davis, with a favoured model of 2.4 million tonnes grading 0.73 g/t gold. (56 000 ounces contained gold). A preliminary strip ratio of 1.22:1 was quoted by Murray

The presence of copper in the low concentrations reported is likely to cause significant metallurgical problems in any heap leach operation. Copper is potentially a major cyanide consumer. This can be expected to greatly outweigh the value of any copper recovered.

It is likely that only oxide ore types will be amenable to heap leaching; similarly the costs of mining fresh rock in a sulphide environment will prove much higher than mining of oxides.

Prior to any further drill testing it is recommended that some metallurgical test work be carried out, particularly with respect to the effects of the copper, likely recovery in fresh mineralisation as well as oxide mineralisation.

#### **4.2.2 Other gold prospects**

At the Nymbool Prospect, XRL has identified extensive (15 m wide) areas of alteration in the granitoids and an auriferous (to 3.6 g/t gold) quartz bearing zone (25 m wide and cropping out intermittently over 100 m ), which might represent a feeder system containing elevated gold.

At Ambrose Gully, where very little work has been carried out, it is proposed to investigate the granitoid/sediment contact areas for gold mineralised in “greisensed” areas.

#### **4.2.3 Smiths Creek Tin Mine**

The Smiths Creek Tin Mine was discovered in 1901 and produced tin from both open cut and underground workings between 1903 and 1909. When the mine closed in 1909, the underground operation was estimated to have produced about 60 000 tonnes of ore at an average grade of about 4% tin per tonne. An additional 23 800 tonnes were won by open-cutting mineralisation estimated to have graded approximately 0.7% tin.

The mineralisation is a series of quartz-tourmaline, tin-copper-tungsten rich pipes in a chlorite shear zone.

The original operation was based on a 6 m to 10 m wide pipe with grades up to 10 to 15% tin, which was mined down to 167 m. Up to 35% by volume of copper in the ore hampered tin recovery and production.

After closure, modern exploration has failed to define resources.

Smith's creek mine has recently been gridded, soil sampled, mapped, costeamed, and surveyed with ground magnetometry. The ground magnetic response has been integrated with geological mapping and spectral imagery (Aster) interpretation to produce target areas within the Smiths Creek Mine lode system.

XRL is planning drill down to 170 m vertical to evaluate the depth extensions of Smiths Creek "No 1 and 2 ore bodies", to test all the magnetic targets and targets of lode development outside the mined mineralisation.

### 4.3 Yarrol Gold Prospect

The Yarrol Gold Prospect is located 25kms south east of Monto, it was mined in the late 1800s, with an estimated production of some 300 tonnes grading 10 g/t gold.

The Yarrol Gold Project contains prospects which are characterised by gold mineralisation of porphyry or intrusive-related styles. Small Measured and Indicated gold resources have been defined at the Yarrol Gold Prospect and the Mount Steadman Gold Prospect. In this district, another company has a successful operation at the Mount Rawdon Gold Mine. XRL intends to further drill test the Yarrol and Mount Steadman gold prospects.

The Yarrol resources might be commercially viable under favourable metallurgical, geotechnical, and financial conditions and XRL will proceed to investigate these issues.

At Central Ridge Prospect an in-situ (geological) Indicated resource of 273 000 tonnes grading 1.5 g/t gold was estimated using a bottom cut-off grade of 0.5 g/t gold and a top cut of 20.0 g/t gold. With no top cut the grade becomes 3.1 g/t gold.

At "Yarrol North" Prospect an Indicated Resource of 877 000 tonnes grading 1.5 g/t gold (cut-off grade of 0.5 g/t gold) was estimated. With a higher bottom cut-off (1.2 g/t gold) the resource becomes 431 000 tonnes grading 2.1 g/t gold. Rockcombe Pty Ltd ("Rockcombe"), estimated a resource of 780 000 grading 1.6 g/t contained within a "conceptual pit" with a strip ratio of 5.2:1 using a 0.5 g/t cut-off, (contained gold, 40 000 ounce), (dated 25<sup>th</sup> July 1997). At a 1g/t cut-off the resource becomes 404 000 grading 2.0 g/t contained within a conceptual pit with a strip ratio of 4.9:1, (contained gold, 26 000 ounces).

It is proposed to complete a program of deeper RC drilling on the Yarrol Gold Prospect to locate extensions to the known areas of gold Mineralisation. Attention will also be paid to the continuity of higher-grade zones. In late 2006, P Scott considered that attention should be given to drilling additional holes down dip, particularly on four drill sections. Deepest holes in these sections were

	Hole No	Depth of intersection (down hole)	Length/grade
Section 4	YARC 59	90m	<a href="#">8m @ 3.2g/t</a>
Section 5	YARC 63	60m	20m@ 0.97 g/t
Section 6	YARC 24	55m	<a href="#">9m @ 2.94 g/t</a>
Section 7	YARC 32	66m	7m @ 1.34 g/t

A key issue with Yarrol North is the fact that 86% of the ore identified is primary; with only 14% oxide (any further down dip drilling will increase the primary ore tonnage). Metallurgical work needs to be carried out to assess in particular the heap leach potential and the anticipated

performance utilising a conventional carbon-in-pulp/carbon-in-leach (CIP/CIL) processing plant of the primary mineralisation.

Recommendations are:

- instigate heap leach testwork on the primary material.
- carry out standard cyanidation tests on primary material to determine if it is refractory in nature.
- assess minability of primary ore, blasting requirements, etc.
- prepare a block model.
- run mine optimisation to obtain an optimum pit shape, use this to determine further drilling, etc.
- consider drilling more holes down dip.
- carry out “desktop” environmental analysis (closure plan, bond calculations, etc).

#### **4.4 Mount Steadman**

Mount Steadman gold prospect is located south of the township of Mt Perry. There are a number of old workings on the property: Mt Steadman, Venus and London mines, which were worked in the late 1800s then intermittently to the 1940s. These were obviously very high grade, with the Venus mine carrying molybdenite, and bismuth with fine gold in the laminae.

Recent exploration has focused on the Fitzroy Prospect, 1 km to the east of the old Mount Steadman Mine, where approximately 1.2 million tonnes grading 0.9 g/t is quoted as an Indicated Resource (contained gold, 35 000 ounces). This resource is associated with a zone of sheeted quartz veining, with widths of 20 m plus at approximately 1 g/t gold grade.

An initial estimate in 2007 suggested that a tightly-controlled, small-scale operation could be viable at gold prices between US\$ 650/ ounce and US\$ 750/ ounce inclusive of capital. If the resource size could be increased to say, 5 million tonnes grading 1 g/t gold, the project could possibly be economically viable at current 2009 prices.

At Mount Steadman, there are drill intersections of “ore-grade” material which are outside the present shallow defined resource and there is also potential for extensions to the mineralisation along strike and at depth.

#### **4.5 Gooroolba**

EPM 15426 (of approximately 325 square kilometres) is located some 30 km south of Mount Perry in South-east Queensland.

The general geology is dominated by acid to intermediate volcanics and minor sediments of the Triassic Aranbanga Volcanics Group. This north-westerly trending sequence is intruded by dacitic and rhyolitic phases of Late Triassic age.

Copper and gold mineralisation and old mines are common in the general area – Mount Perry in the north, Mount Steadman in the east and Ban Ban Springs and Coalstoun Lakes to the south.

The area is considered prospective for intrusive related gold-copper mineralisation (including “porphyry” styles).

## 4.6 Pyramid

The Drummond Basin region is important for economic gold deposits such as Pajingo, Yandan and Wirralie - high-grade gold mineralisation of the low-sulphidation, epithermal style.

The tenement contains several prospects showing gold bearing epithermal style quartz veins - the Sellheim – Gettysberg – Marrakesh - Pradesh line of prospects, which extends over several kilometres. No deep diamond core drilling has been undertaken on several of these prospects.

The Sellheim and Gettysberg prospects in the Pyramid tenement contain epithermal-style quartz veins and are hosted within sequences that are equivalent to those hosting the deposits of Pajingo located further west. A low-grade gold zone containing patchy higher-grade intersections has been discovered at Gettysberg in several older drill campaigns. The best intersections from these drilling programs are:-

Hole No.	From(m)	To(m)	Width(m)	g/t Au
MDRC031	0	8	8	18.08
MDRC033	52	76	24	4.96
MDRC034	28	44	16	2.48

Further drilling to an average depth of about 130 m, has failed to define improved grades and coherent zones of mineralisation. Low tenor gold mineralisation was developed over long intersections, from 30 to 114 m down-hole. This mineralisation is interpreted to plunge to the north and mineralised zones are open to the east and down-dip.

Initial activity will be directed at the Gettysberg and Sellheim prospects and priority will be given to drilling a postulated flat-plunging gold zone at Gettysberg at greater depths than previous campaigns, to test for a high-grade core within the low-tenor gold zone.

## 5.0 VALUATION OF XRL PROJECTS

### 5.1 Methods of valuation

The Mount Veteran Tin and is valued by referring to modified discounted-cash-flow-rate-of-return (“DCFRROR”) procedures (Appendix I), to obtain a net present value (“NPV”) for the mining project. This involves designing a mine plan and making the necessary estimates and assumptions to mine and treat the mineralisation.

At the Yarrol established gold resources, DCFRROR methods were considered but rejected as assumptions were judged as too unreliable.

All other prospects are treated as straightforward exploration using Expected Value methods (Appendix I).

Expected Value methods and the “Multiples of exploration expenditure method” is considered occasionally for comparison but has not been reported. With Expected Value, a NPV target is assumed. For the mineral properties of XRL, VWPL has assigned probabilities (the cumulative probability for the NPV, less the discounted exploration expenditure) for discovering deposits for which NPVs or cash values have been estimated. Methods are described in Appendix I.

### **5.1.1 Programs and budgets**

XRL has a satisfactory and clearly defined exploration and expenditure programs, which is reasonable having regard to its stated objectives, and enough exploration has taken place in the last two years to maintain the tenements. There is no funding available for these programs and the Valuation accounts for this.

## **5.2 Mount Veteran Valuation**

VWPL stresses that a detailed mining and financial model has not been derived from classified resources under the JORC Code: it is a likely scenario based on the outcomes of previous mining ventures and the current geological information. The target tonnes of contained tin are considered probable but the exact distribution of tonnage and tenor of mineralisation has to be established by evaluation drilling and trenching. The project is an advanced exploration scenario.

### **5.2.1 Assumptions**

The following case studies (with sensitivities) were examined:

Capital in pre-production year of \$2 000 000.

Mined grade – 0.5 to 0.7% Sn

Metal prices observed: current tin prices are around ~US\$11,000 spot and on 27th February, US\$10,505 for 15 months (also nominal US\$10 000 at a \$A/US\$ exchange rate of 0.7.

Reserve - 1 000 000 tonnes ore mined in seven years; 150 000 tonnes per year.

Pre-start capital costs of \$2.0 million.

Exploration costs of \$300 000 in the first year and \$150 000 per annum.

Mine recovery of 95%.

Tin plant recovery of 70%.

Tin concentrate grade of 60%.

Mining cost per tonne \$3.25: opencut mining to 30 m.

Treatment cost per tonne \$18.

Rehabilitation of nil to \$50 000.

Tax rate 30%.

While the mill and other facilities are on the existing ML 4349, the bulk of the resources are located on MLA 20547. The timing for granting and approval conditions of this MLA are uncertain and this has been considered in the valuation provided.

The resultant after-tax NPVs from a variety of scenarios range from \$1.0 million to \$10 million and our preferred range of NPV value of \$5 million takes into account a high level of risk for changes in tin prices and the grade of mineralisation treated. VWPL believes that in current economic conditions the valuation provided is a fair and reasonable estimate.

The financial exposure to treatment plant upgrade and exploration, amounting to \$2 300 000, is an acceptable risk. The valuation of the Mount Veteran tin property provided by VWPL in all cases assumes that the current infrastructure is upgraded and utilised. As such, only a low estimated value of this infrastructure after project completion and environmental rehabilitation is considered. This value is not comparable to the current “going concern” and sale values available for the project.

Should either of the sensitivities of price and grade become very favourable then the project will escalate in value considerably. However, should the tin price fall below US\$10 000 (at the \$A/US\$ exchange rate of 0.70), then the project is only breakeven at between 0.6% and 0.65% tin reserve grade. When the operation commences, it should be possible to determine the optimum economic grades to mine with respect to the prevailing tin price.

### **5.3 Yarrol valuation**

If both the metallurgy and the mining characteristics of the mineralisation are favourable, on the resource generated by Rockcombe, a very small scale mining operation could be established at current gold prices. Similarly the grade of this ore would allow it to be hauled a limited distance to be processed as a satellite deposit, in conjunction with ore from elsewhere. A development strategy might be to attempt to build “critical mass” by identifying a number of similar deposits within a 30 km radius.

Although DCFROR methods were considered, unlike Mount Veteran, the assumptions were not precise enough for meaningful results and our nominal discounts for prevailing market conditions are major. In short, the property remains in the exploration phase while treatment characteristics are uncertain.

We have generated a value range between \$0.40 and \$0.8 million with a preferred value of \$0.6 million, using Expected Value and other techniques (see Appendix 1).

### **5.4 Mount Steadman valuation**

At Mount Steadman, the best chance of enhancing the resource would appear to be following up drill intersections of “ore-grade” material which are outside the present shallow defined resource. There is also high-risk potential for extensions to the mineralisation along strike and at depth.

Based on exploration potential for the Mount Steadman tenement, using Expected Value methods, a valuation range from \$0.2 million to \$0.4 million results; preferred value \$0.2 million. We have considered the production royalty.

### **5.5 Pyramid valuation**

The low-grade gold zone containing patchy higher-grade intersections should be tested at greater depths than previous campaigns, to test for a high-grade core within the low tenor gold zone. Numerous opportunities for greenfield style exploration are available at Pyramid but unattractive in the current investment climate.

Based on exploration potential for the Pyramid tenement, using Expected Value methods, a valuation range from \$0.2 million to \$0.4 million results; preferred value \$0.3 million.

### **5.6 Mount Garnet valuation**

VWPL recommends that at Nymbool metallurgical test work be carried out, particularly with respect to looking at the effects of the copper, likely recovery, and what can be achieved with the sulphide ore. If results are positive drilling, to establish and evaluate more resources may be considered.

Limited drilling is recommended for Smiths Creek Tin Mine.

For the Expected Value of the Mount Garnet exploration, see Table 2.



## 5.7 Gooroolba valuation

The exploration is at an early stage. In the current economic climate, greenfields activity is unattractive.

For the Expected Value, see Table 2.

## 5.8 Summary Valuation Table

Exploration Project	Exploration risk to continue in %	Target NPV \$millions	Chance given to target NPV in %	Cumulative probability for discovery (preferred case)	Value \$ million		
					High	Low	Preferred
<b>Mount Veteran</b>					10.5	1.0	4.25
<b>Yarrol</b>	40 to 80	1	95	0.22 (1 in 5)	0.8	0.4	0.6
		5	4	0.01 (1 in 90)			
		150	1	0.002 (1 in 450)			
<b>Mount Steadman</b>	20 to 70	1	95	0.10 (1 in 10)	0.4	0.2	0.2
		5	4	0.004 (1 in 250)			
		150	1	0.001 (1 in 1000)			
<b>Pyramid</b>	20 to 70	1	95	0.10 (1 in 10)	0.4	0.2	0.2
		5	4	0.004 (1 in 250)			
		150	1	0.001 (1 in 1000)			
<b>Mount Garnet</b>	20 to 70	1	95	0.05 (1 in 20)	0.25	0.1	0.15
		5	4	0.002 (1 in 450)			
		150	1	0.0006 (1 in 1800)			
<b>Gooroolba</b>	30 to 70	1	95	0.1 (1 in 15)	0.2	0.1	0.1
		5	4	0.004 (1 in 300)			
		150	1	0.001 (1 in 1250)			
<b>TOTALS</b>					<b>12.55</b>	<b>2.0</b>	<b>5.50</b>

**Table 2. Valuation of Xtreme properties.**

## 3.0 COMPARISON WITH PREVIOUS VALUATIONS

In 1984, Terrence Willstead and Associates valued Mount Veteran Minerals Pty Limited at about \$4 million which included \$3 million (replacement value) for the plant and equipment (included earthworks, dams and reservoirs) and \$590 000 for the MLs (includes tin resources assumed as 100 000 tonnes grading 0.5% tin).

In August 2007, VWPL placed a preferred value on Mount Veteran of between 3.1 and 4.1 million when the tin price was about \$10 000 and the AUD\$/US\$ was 0.75. Since that time the tin price has moved to higher than US\$20 000, then back to US\$11 350 (16 February 2008), closer to current and 15 month forward prices at the date of this Report.

VWPL valued some of the other XRL mineral properties in 1994, 2000 and 2004 at times when the gold price was considerably less and when exploration investment was very poor. Direct comparison is often meaningless. Exploration work has change the character of the properties.

On 01 April 2007 (updated on 03 August 2007), VWPL prepared an Independent Valuation for the mineral properties of Garimperos Limited (properties now owned by XRL) in north Queensland. The exploration status of the mineral properties has changed for commodity prices and exploration/mining environment with severe downward pressure on these. Consequently, our current valuation for the same properties is lower. Gold is trading very high currently and this means that gold resources justify revaluation. However, in the case of Mount Steadman and Yarrol the affect of a poor investment environment, higher costs and the absence of sufficient tonnages of readily treatable mineralisation has offset this trend in gold price.

#### **4.0 SOURCES OF INFORMATION**

Abundant technical information of XRL is mainly unpublished. ASX reports contain the resource figures.

#### **5.0 DECLARATION**

##### **5.1 Qualifications and Experience**

This report has been prepared by Veronica Webster Pty Limited which has operated in Australia serving the mining industry since 1980.

Mr. L W Davis who is a duly authorised representative and director of VWPL has prepared the opinion report, which includes an assessment of fair market value of the mineral tenements of Garimperos. Mr Davis has had over 40 years experience in the minerals industry, is a registered Chartered Professional (Geology), and is affiliated with the Aus. I.M.M., and the A.I.G. He specialises in mineral resource/reserve estimations, advanced project assessment and exploration management.

Mr. Davis has had 40 years experience in the minerals industry, particularly exploration for precious metals and base metals, mining geology, ore resource/reserve estimation and property evaluation. He held senior positions with Electrolytic Zinc Co of Australasia Limited, Freeport Minerals Corporation of Australia, Tenneco Oil & Minerals and Amad NL before joining Veronica Webster Pty Limited in 1985. Mr. Davis is a registered Chartered Professional (Geology) and is affiliated with The Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists.

His principle qualification is Bachelor of Science (Special Geology) Leics., UK. His professional affiliations are as follows:-

- Fellow - The Australasian Institute of Mining & Metallurgy:103477
- Chartered Professional Geology CPGeo
- Fellow - Australian Institute of Geoscientists
- Member -Geological Society of Australia

## DMR

Mr P N Scott of PS Associates Pty Limited assisted in the Valuation Report. Mr Scott has over 26 years experience in the minerals industry, particularly mining for precious metals and base metals; has held senior positions with Otter Gold Mines Group, Normandy Group, Aztec Mining and a number of overseas mining companies. His responsibilities have frequently included the evaluation and subsequent development of open pit and underground ore bodies.

Mr Scott holds an honours degree in mining engineering from the Royal School of Mines London (UK), is an Associate of the Royal School of Mines (UK), is a Fellow of the Australian Institute of Mining and Metallurgy, a member of the Institute of Materials (UK), and is a Chartered Engineer (UK).

Mr Scott holds first class mine manager certificates for both the Northern Territory and Western Australia for the management of open pit and underground metalliferous mines.

### **5.2 Independence**

Veronica Webster Pty Limited L W Davis and P N Scott have no conflict of interest in preparing this report. The report has been commissioned by DMR with payment to be made for services rendered solely on a standard time-fee basis. The companies and consultants preparing this report have no association with XRL nor have they any financial interest in or entitlement to XRL or any associates of XRL.

### **5.3 Limitations and requirements**

The views expressed in this report are solely those of Veronica Webster Pty Limited, and L W Davis. When conclusions and interpretations credited specifically to other parties are discussed within the report, then these are not necessarily the views of Veronica Webster Pty Limited or L W Davis.

L Davis observes Section 947B of the Corporations Act 2001. In accordance with Corporations Regulation 7.6.01 (1) (u) and Corporations Amendment Regulations 2003 (No. 7) 2003 No. 202, the Valuation Report is not financial product advice but is intended to provide expert opinion on matters relevant to the mineral properties of XRL. L Davis and VWPL are not operating under an Australian financial services licence and the advice in the Valuation is an opinion on matters other than financial products and does not include advice on a financial product.

All references to mineral resources are consistent with the most recent Australasian Code (and Guidelines to the Code) for Reporting of Identified Mineral Resources and Ore Reserves: Reports prepared by the Joint Committee of The Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia (JORC).

In preparing the Report, VWPL will observe Guidelines for Technical Assessment and/or Valuation of Mineral and Petroleum Assets and Mineral and Petroleum Securities for Independent Expert Reports (The Valmin Code), which is referred to by the Australian Securities and Investment Commission ("ASIC") and the Australian Securities Exchange ("ASX"). As well, ASIC Practice Notes 43, ASIC Practice Note 55; former NCSC Release 149, will also be observed.

#### **5.4 Consents**

Veronica Webster Pty Limited has consented to the inclusion of the Valuation Report in the Independent Expert's Report by DMR for an Information Memorandum to XRL shareholders.

For and on behalf of

**VERONICA WEBSTER PTY LIMITED**

**L W DAVIS**

**BSc (Special Geology), Leics. UK, FAusIMM, FAIG, CPGeo**

## **APPENDIX I**

### **VALUATION PROCEDURES**

#### **1.0 Valuation Methodology**

Projects, which contain indicated or measured resources from which mining reserves can be defined may then be the subject of feasibility studies based on estimations for amounts, rates and the costs of production together with the revenue defined from sales. The discounted cash-flow-rate-of-return ("DCFRROR") method may then be applied to express the value of the project in terms of present day money, often called the Net Present Value ("NPV") using a variety of interest rates. For selected cases the return on invested funds or internal rate of return ("IRR") expressed as a percentage is estimated.

DCFRROR is obviously the more accurate when the assumptions for the financial models are known with confidence; contracts for work and sales, etc. The more reliable the assessment of the resources/reserves, costs of mining and treatment, capital costs of mining and treatment, recovery in the mining and treatment processes, metal prices, exchange rates and all the associated operation issues, the more accurate the DCFRROR method becomes. But it is always subject to assumptions and uncertainties of the estimations of a current nature and also for those in the future life of the project. The DCFRROR technique cannot take into account abrupt and radical changes to market conditions.

For long-life projects where operations are expected to continue to some time in the future with only rough estimates for costs and sales and based on resources which may not be Indicated or Measured resources, a modified DCFRROR can be applied. The NPV derived from such models may be discounted to obtain an Expected value or an Expected NPV ("ENPV"). This is a probabilistic approach and the probability factors are judged by and are the responsibility of the valuer.

Valuation of exploration tenements, which have geological prospectiveness but no defined resources, is more subjective and therefore contentious. Methods which can be applied include, when appropriate, expected value probability, multiples of past relevant and future committed expenditure, joint venture terms and points rating methods.

A brief description and commentary on some inherent advantages and disadvantages of subjective valuation technique follows.

#### **1.1 Expected Value of Discovery (probabilistic method)**

In phased exploration, a programme of work is planned to increase the value of the property. At the completion of the programme, the results are assessed and a decision is made whether or not to engage in a further programme. This process continues, ideally until there arrives a point of withdrawal or commercial discovery. At any stage, the probability of continuing or withdrawing may be forecast and also the probability of discovering various sizes and styles of mineral deposits and their NPV. The probability factors are judged by and are the responsibility of the valuer.

A simple example of the procedure is as follows. The probability factors for continuing each stage of work are multiplied together, steps 1 to 5, and then multiplied by the value of the predicted discovery. In the example, the probability for any discovery has been estimated to have a probability of 0.013 (step 5). This is about one chance in 80. The value of the overall discovery is a notional NPV, which may be a product of several possible discoveries (A, B and C, in the example). In that case each possible discovery must be considered to be a percentage of the NPV.

Activity	Probability of proceeding	Cumulative probability
1 Early exploration (committed expenditure)	100% or 1.0	1
2 Follow up activity	70% or 0.7	0.7
3 Drill testing	30% or 0.3	0.21
4 Evaluation drilling	20% or 0.2	0.04
5 Feasibility study	30% or 0.3	0.013
A Discovery NPV = \$2.0 million	80% or 0.8	0.010
B Discovery NPV = \$5.0 million	19% or 0.19	0.002
C Discovery NPV = \$20 million	1% or 0.01	0.0001

The chance of discovery of a deposit with a NPV of \$20 million has been estimated as one in 10,000 (probability 0.0001); the chance of a discovery of a deposit with a NPV of \$5 million has been estimated as one in 500 (probability 0.002); and the chance for a discovery of a deposit with a NPV of \$2 million has been estimated as one in a 100 (probability 0.01). The values of these individual chances are \$2,000, \$10,000 and \$20,000, respectively. When added the chance is \$32,000. Exploration expenditures should be accounted for.

The method is extremely sensitive to the selected probability factors and a number of cases need to be compared. It is a useful method when there is enough geological evidence to limit the potential size of the discovery giving credibility to the relative probability for the value of a potential discovery. Other methods cannot account directly for these aspects.

## 1.2 Multiples of Cost of Valid Work

The present value of previous work (past expenditure method) and committed work, when it is relevant to enhancing the value of the Project and therefore warranting an objective future programme is often the first considered method for exploration projects.

Expenditure that has been assessed as relevant generally is multiplied by a factor of between 0.5 and 3.0 (the prospectivity enhancement multiplier or "PEM") to value the property at a particular stage of development. This range of PEM is common in Australia. (For higher- and lower-cost countries the factors would be different). Factors of less than 0.5 may be selected, depending on the considered potential. In our opinion factors of above 2.0 should not be used, unless strong indications of potential for economic mineralisation have been identified. This usually means that there are encouraging intersections and perhaps estimated resources.

It is common to include committed expenditure as part of that already incurred.

High levels of past expenditure are indicative usually of historical prospectiveness but at some point in time further exploration will not be justifiable. Future discoveries in properties with modest expenditure levels will be undervalued by the method. Often, when applying the method of "multiple cost of valid work" there is potential bias towards higher valuations for older projects.

## 1.3 Points Rating System

In this method, points are awarded for various forms of geological prospectiveness, presence of mineralisation, anomalism and structures. In addition factors are applied to account for the current financial, commodity and stock

market climate. Other methods do this indirectly. This method instills a regimen so that these parameters and issues must be considered specifically and it is a useful method for comparative purposes.

#### **1.4 Joint Venture Terms, Capitalisation of Earnings, Yardstick and Real Estate Approaches**

##### ***Joint Venture Terms***

The minimum commitment by a joint venture partner establishes a minimum base value for the property. In most joint ventures the incomer agrees to expend a certain sum over a specified time period to earn equity, for example:

\$2 million over a four year period to earn 60% interest

This arrangement can be used to value the property by time-discounting the money and suggesting the probability for the deal to be completed, thus:

$\$2 \text{ million} \times 0.88 \text{ (time discount)} \times 0.4\text{--}0.8 \text{ (probability range)} \times 60\%$   
= \$0.42 - \$0.84 million

The method does not place any upside potential on the asset. It often gives a good value estimate for situations where the vendor is under some pressure to dispose of the asset.

##### ***Real Estate Methods***

The simple face value of transactions that have taken place at similar properties and projects may be compared. Clearly current transactions are more useful as they reflect the trends and mood of the time, while older transactions require factoring for CPI, price changes, etc. The real estate approach is seldom simple to apply because, apart from all projects being unique:

- Deals are affected onerously when either the vendor or purchaser has special reasons to sell or buy such as financial pressures or needing the funds for a different project.
- The criteria of “knowledgeable and willing” parties may not apply.
- The value may not relate to the value of making the project successful and may not be a technical valuation.
- The parties are not always completely independent of each other.

In short, the sum that some party might be willing to pay is not necessarily the true value.

##### ***Yardstick Values***

This method assigns a value per unit of commodity, which has been estimated to be contained on the project. This must vary greatly to account for the resource or reserve classification and the assumed costs for extraction and treatment. The availability and ownership of useful plant and facilities will alter cases radically.

For gold operations a range of from \$10 per ounce - for inferred underground resources - to \$40 per ounce - for open pit probable reserves - was recognised by some valuers (circa 1990s).

### **Sources of Information**

The following sources of information have been utilised and relied upon in the course of preparing this report:

- Draft Notice of Annual General Meeting and Explanatory Memorandum;
- Tenement Valuation reports prepared by Veronica Webster Pty Ltd dated 3 August 2007 and 27 February 2009;
- Audited financial statements of Xtreme for the financial years ended 31 December 2007 and 2008;
- Reviewed financial statements for the half-year ended 30 June 2008;
- Audited financial statements for the eight months ended 31 August 2008;
- Xtreme's listing of top 20 shareholders as at 31 December 2008;
- Xtreme's share transfers for the period from 1 January 2008 to the date of this report;
- Diatrene Notice of General Meeting and attachments - 4 October 2007;
- Xtreme draft prospectus; and
- Discussions with two Directors.



**Declarations, Qualifications and Consents****1. Declarations**

This report has been prepared at the request of the Directors of Xtreme pursuant to Section 611 of the Act to accompany the notice of meeting of shareholders to approve the Proposed Transaction. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposed Transaction is fair and reasonable.

The procedures that we performed and the enquiries that we made in the course of the preparation of this report do not include verification work nor constitute an audit in accordance with Australian Auditing Standards, nor do they constitute a review in accordance with AUS 902 applicable to review engagements.

**2. Qualifications**

Mr Derek M Ryan and Mr Paul Lom, directors of DMR Corporate prepared this report. They have been responsible for the preparation of many expert reports and are involved in the provision of advice in respect of valuations, takeovers and capital reconstructions and reporting on all aspects thereof.

Mr Ryan has had over 35 years experience in the accounting profession and he is a Fellow of the Institute of Chartered Accountants in Australia. He has been responsible for the preparation of many expert reports and is involved in the provision of advice in respect of valuations, takeovers and capital reconstructions and reporting on all aspects thereof.

Mr Lom is a Fellow of the Institute of Chartered Accountants in Australia and a Registered Company Auditor with more than 30 years experience in the accounting profession. He was a partner of KPMG and Touche Ross between 1989 and 1996, specialising in audit. He has extensive experience in business acquisitions, business valuations and privatisations in Australia and Europe.

**3. Consent**

DMR Corporate consents to the inclusion of this report in the form and context in which it is included in the Explanatory Memorandum.