
Dear Sirs,

Independent Expert's Report on the Proposal to acquire a 100% equity interest in Polygoal Capital Limited

1. Introduction

Background

1.1 Viagold Capital Limited ("Viagold" or "the Company") is an Australian public listed company. Viagold acts as an investment holding company and its subsidiaries are principally engaged in investment holdings, leasing, rare earth manufacturing business as well as consultancy and management services to educational institutions. The Company has been seeking suitable opportunities in the rare earth industry to provide future value to shareholders.

1.2 In January 2016, Viagold entered into an agreement to acquire a 100% equity interest in Polygoal Capital Limited ("PCL") by acquiring all of the issued shares in PCL (PCL Shares) from Mr. Zhou Hailin ("Mr. Zhou") and Mr. Liao Chang Yuan ("Mr. Liao") (collectively, the PCL Shareholders).

PCL is a privately held company owning a 100% equity interest of Zhuhai Hongjie Enterprise Management Consulting Co., Ltd. ("Hongjie") which owns a 51% equity interest of Shenzhen Xunda Investment Co., Ltd. ("Xunda"). Both Hongjije and Xunda are investment holding companies.

Xunda owns a 50% equity interest of Maoming Jinsheng Minerals Co., Ltd. ("MJSM") which principally engages in zirconium and titanium beneficiation, further processing and the recycling of rare earths from monazite.

As at 31 December 2015, Xunda, Jintan Hailin Rare Earth Co., Ltd. ("JHRE") and its shareholders entered into a series of agreements ("VIE Agreements") which, under the People's Republic of China ("PRC") Laws, gave Xunda effective control of JHRE and a 60% economic interest in JHRE's business operations. JHRE is engaging in rare earth refining and separation in PRC. Detail of the transaction can be found in the announcement of acquisition of 100% sale share of PCL dated on 22 January 2016 ("S&P announcement").

1.3 The acquisition of PCL by Viagold is referred to in this report as the "Transaction". The Transaction involves the issue of 9,000,000 shares in the Company to the PCL Shareholders, and constitutes a significant investment by the Company.

Opinion

1.4 In our opinion, the Transaction is fair and reasonable to the shareholders of Viagold other than those associated with the PCL Shareholders ("Non-Associated Shareholders").

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- 1.5 The ultimate decision however on whether to accept the Transaction should be based on shareholders own assessment of their circumstances.

Purpose of Report

- 1.6 You have requested Cheng & Cheng Limited (“C&C”) to prepare an Independent Expert’s Report to advise the Non-Associated Shareholders, whether the proposed Transaction is fair and reasonable when considered in the context of the interests of the Non-Associated Shareholders and to set out the reasons for our conclusions.
- 1.7 C&C understands and has agreed that this report will be included in or accompany the notice to convene a general meeting of Viagold shareholders and is intended to assist the Non-Associated Shareholders in their consideration of the proposed Transaction.

2. OUTLINE OF THE PROPOSED TRANSACTION

- 2.1 The Transaction involves the Company's acquisition of 100% of the issued capital of PCL through the issue of 9,000,000 ordinary shares in Viagold (“Viagold Shares”) to the PCL Shareholders.
- 2.2 Under the Transaction agreements, Viagold will also be entitled to the following benefits:
- The right to appoint two additional directors to the PCL Board who, with the current directors, shall constitute the PCL Board moving forward;
 - A Profit warranty that, for two years after completion of the Transaction, PCL shall distribute no less than RMB 13,500,000 per year to its shareholders (i.e. Viagold). The Profit Warranty is underwritten by the PCL Shareholders.
 - An indemnity from the PCL Shareholders in respect of all liabilities suffered or incurred by the Company as a result of or in connection with any tax(es) chargeable against and/or payable by PCL prior to the completion of the Transaction.
- 2.3 The following tables show the effect on the share capital of Viagold after the Transaction:

Effect on ordinary shares	Number of shares in thousands	PCL share-holders
Ordinary shares currently on issue	31,156	
Consideration shares issued to acquire PCL	9,000	9,000
Shares on issue immediately following Transaction	40,156	9,000
Completion	100%	22.41%

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- 2.4 When the Transaction is approved and completed, PCL Shareholders will be entitled (in aggregate) an interest of 22.41% of Viagold's issued ordinary shares.
- 2.5 The Non-Associated Shareholders voting interest will decrease from 100% to 77.59% as a result of the Transaction.

STRUCTURE OF REPORT

Our report is set out under the following headings:

3	PURPOSE OF REPORT
4	OPINION
5	BASIS OF EVALUATION
6	BACKGROUND
7	OVERVIEW OF POLYGOAL
8	OVERVIEW OF VIAGOLD
9	VALUATION METHODOLOGIES
10	VALUE OF POLYGOAL GROUP'S NET ASSETS
11	VALUE OF VIAGOLD SHARES
12	ADVANTAGES AND DISADVANTAGES OF THE TRANSACTION
13	CONCLUSION AS TO FAIRNESS AND REASONABLENESS

APPENDICES

I	SOURCES OF INFORMATION
II	STATEMENT OF DECLARATION & QUALIFICATIONS FINANCIAL SERVICES GUIDE

3. PURPOSE OF REPORT

- 3.1 The purpose of this report is to advise the Non-Associated Shareholders of Viagold of the fairness and reasonableness of the Transaction.
- 3.2 This report provides an opinion on whether or not the terms and conditions in relation to the transaction are fair and reasonable to the Non-Associated Shareholders.
- 3.3 The ultimate decision whether to accept the terms of the Transaction should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Transaction or matters dealt with in this report, shareholders should seek independent professional advice.
- 3.4 For the Transaction to be fair, the value of the PCL shares being acquired, must be equal to or greater than the value of the consideration, being Viagold shares. To be reasonable the shareholders must obtain an overall benefit if the transaction proceeds. In forming an opinion as to whether the Transaction is fair and reasonable, the following factors have been considered:
- the underlying value of the Viagold Shares to be issued as consideration to PCL Shareholders;
 - the underlying value of PCL Shares to be acquired by Viagold;
 - the likelihood of an alternative proposal that may realize better value for Viagold Shareholders.
- 3.5 This report has been prepared to satisfy the requirements of Chapter 10 of the Official Listing Rules of the Australian Stock Exchange ("ASX").

Australian Securities and Investments Commission Regulatory Guide

- 3.6 Australian Securities and Investments Commission ("ASIC") Regulatory Guide ("RG") 111 "Content of Expert Reports" requires, among other things, that the directors of a company need to provide shareholders with an analysis of whether a proposed transaction is fair and reasonable, when considered in the context of the interests of the non-associated shareholders. RG 111 recommends that this analysis should include an independent expert's report. The independent expert is required to state whether, in their opinion, the proposal is fair and reasonable having regard to the interests of non-associated shareholders and state the reasons for forming that opinion. This report provides such an opinion.

ASX Listing Rules

- 3.7 ASX Listing Rule 10.1 states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, any of the following persons without the approval of holders of the entity's ordinary securities:

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- i) a related party of the entity;
 - ii) a child entity of the entity;
 - iii) a substantial holder in the entity (i.e. a person who, together with the person's associates, has a relevant interest, or had a relevant interest at any time in the 6 months before the transaction, in at least 10% of the total votes attached to the voting securities in the entity;
 - iv) an associate of a person referred to in i) – iii) above;
 - v) A person whose relationship to the entity or a person referred to in i) – iv) above is such that, in ASX's opinion, the transaction should be approved by security holders.

If an entity breaks this rule, ASX may require it to take the corrective action by, at its option, doing either of the following:

- i) Cancelling the transaction (or arranging for its cancellation).
- ii) Seeking the approval of holders of ordinary securities to the transaction. If approval is not obtained, the entity must cancel the transaction (or arrange for its cancellation).

The notice of meeting under Listing Rule 10.1 must include a report on the transaction from an independent expert. The report must state the expert's opinion as to whether the transaction is fair and reasonable to holders of the entity's ordinary securities whose votes are not to be disregarded. The expert's opinion as to whether the transaction is fair and reasonable must be displayed prominently in the notice of meeting and on the covering page of any accompanying documents.

4 OPINION

4.1 In our opinion, the proposed Transaction to acquire all of the issued shares of PCL in consideration of the issue of 9,000,000 Viagold shares is fair and reasonable to the Non-Associated Shareholders.

4.2 Our opinion is based solely on the information available as at the date of this report.

4.3 The principal factors that we have considered in forming our opinion are summarized below.

Fair

4.4 According to RG 111, for the Transaction to be fair, the value of PCL Shares being acquired, must be equal to or greater than the value of the consideration being paid for those PCL Shares, that being 9,000,000 Viagold Shares.

4.4.1 Based on the analysis contained in section 10 of this report, the indicative value of PCL Group acquired is between A\$15,977,000 and A\$24,079,000, with a midpoint of A\$20,028,000.

4.4.2 Based on the analysis contained in section 11 of this report, the value of the shares being issued by Viagold for 100% of PCL is estimated to be A\$15,840,000.

4.5 In our opinion the Transaction is fair as the value of 100% PCL calculated in section 10 exceeds the value of the shares being issued by Viagold. The valuation of the Viagold shares held by Non-Associated Shareholders increases as a result of the Transaction.

Reasonable

4.6 ASIC RG 111 states that a transaction is reasonable if:

- The Transaction is fair; or
- Despite not being fair the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

4.6.1 We have concluded that the Transaction is reasonable. In forming our opinion, we have considered the following relevant factors:

- Given the Company's limited capital and lack of income producing assets, it will be difficult for the Company to create significant long-term value for shareholders in its current state. The Directors of Viagold have determined that PCL has the potential to add significantly to shareholder value and provide the Company with a valuable new business opportunity. Based on currently available information, the Directors are of the view that the PCL assets, being its 30.6% effective interest in JHRE, have significant potential to provide commercially-valuable businesses in the rare earth refining and separation industry in PRC.
- MJSM is located at Xinyi City, Guangdong Province, PRC where rich mineral resources exist. One of MJSM's holding company, Guangdong Rising Nonferrous Metals Share Company Limited ("GRNONFEMET"), had signed a cooperative framework agreement of jointly exploration of Xinyi rare earth resources with the Xinyi government. It can further expand the rare earth business with support from PRC government and add values to Viagold in the near future.
- The Directors consider that the current board and management team of PCL possess the experience and skills required to successfully transition the Company into its proposed new business in the rare earth sector.
- The benefit to the Company of the Profit Warranty and the indemnity for tax liabilities (refer paragraph 2.2 of this report).
- The Transaction is expected to increase the market capitalization of the Company and provide improved liquidity of the Company's Shares.
- The Viagold Board are of the opinion that the Transaction is in the best interests of the Company's Shareholders and in the absence of a superior alternative proposal is a strategic opportunity for the Company to continue as a going concern.
- We are unaware of any alternative proposal at the date of this report that may realize better value for Viagold shareholders.

Having considered that the Transaction is fair, the other potential advantages of proceeding with the acquisition of the PCL Shares, the disadvantages if the Company does not proceed with the acquisition of the PCL Shares and the alternatives to not proceeding with the Transaction, in our opinion, the Non-Associated Shareholders should benefit if the Transaction proceeds and therefore, in our opinion, the Transaction is reasonable to the Non-Associated Shareholders.

4.7 Accordingly, in our opinion, the Transaction is fair and reasonable to the Non-Associated Shareholders.

5 BASIS OF EVALUATION

5.1 In our assessment of whether the Transaction is fair and reasonable to the Non-Associated Shareholders, we have given due consideration to the Regulatory Guides issued by the ASIC, in particular, Regulatory Guide 74 "Acquisitions Approved by Members", Regulatory Guide 111 "Content of Expert Reports" and Regulatory Guide 112 "Independence of Experts".

5.2 While ASIC Regulatory Guide 74 is strictly not relevant to the Transaction, it does provide useful guidance in that, among other things, it requires in such transaction that shareholders are provided with sufficient information to make an effective, informed decision on whether the proposed transaction is fair and reasonable. Under Regulatory Guide 111, a transaction is "fair" if the value of the asset being acquired (in this case 100% of the equity in PCL) is equal to or greater than the value of the consideration being offered (in this case, 9,000,000 Viagold Shares). Additionally, under Regulatory Guide 111 an offer is "reasonable" if it is fair. It is possible for an offer to be reasonable despite it being unfair. This would generally only occur if the expert, after considering all relevant non-financial factors, formed the opinion that the shareholders should still approve the Transaction (in the absence of any alternative proposals).

5.3 Our report has compared the likely advantages and disadvantages to Non-Associated Shareholders if the Transaction is agreed to, with the advantages and disadvantages to those shareholders if it is not. Comparing the value of the shares to be acquired under the Transaction and the value of the consideration to be paid is only one element of this assessment.

5.4 Normal valuation practice is to determine the fair market value of an asset assuming a counter party transaction between a willing and not anxious buyer and a willing but not anxious seller, clearly at arm's length. We have adopted this approach in determining the market value of 100% of the equity of PCL and Viagold.

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- 5.5 In evaluating the Transaction, we have considered the value of the PCL shares being acquired and compared this to the amount of consideration to be paid through the issue of Viagold Shares for this acquisition. We consider that the Transaction will be reasonable if on balance, the Non-Associated Shareholders in Viagold will be better off if the Transaction is approved. We have also considered the Non-Associated Shareholder's interests should the Transaction not proceed.
- 5.6 In our assessment of the Transaction we have considered, in particular, the following:
- The operational and financial position of PCL and Viagold;
 - The value of the PCL Shares, under various methodologies;
 - The value of Viagold Shares, under its listed market price;
 - The advantages and disadvantages associated with approving the Transaction;
 - Other qualitative and strategic issues associated with the Transaction.
- 5.7 The documents and information relied on for the purpose of this valuation are set out in Appendix I. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that any material facts have been withheld. The information provided has been evaluated through analysis, enquiry and review for the purpose of forming an opinion as to whether the Transaction is fair and reasonable. However, given the nature of the assignment, we do not warrant that our enquiries have identified or verified all of the matters which an audit or more extensive examination might disclose. None of these additional tasks have been undertaken.
- 5.8 We understand the accounting and other financial information provided to us has been prepared in accordance with generally accepted accounting principles.
- 5.9 An important part of the information used in forming an opinion of the kind expressed in this report is the opinions and judgment of management. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognized that such information is not always capable of external verification or validation.
- 5.10 Prior to the Transaction taking place, C&C has not been the auditor of PCL. We have analysed, reviewed and audited information provided by the Directors and management of PCL and made further enquiries where appropriate.
- 5.11 This report has been prepared after taking into consideration the current economic and market climate. We take no responsibility for events occurring after the date of this report which may impact upon this report or which may impact upon the assumptions referred to in the report. To the extent we become aware of a material change in circumstances since the date of our report, we will issue a supplementary report at the request of Viagold if so required.

6 BACKGROUND

- 6.1 Viagold is an investment holding company. Its shares are listed on ASX currently. Further information on Viagold's business operations and financials can be found at Section 8 of this report.
- 6.2 In January 2015, Viagold Mining Group Limited ("VMG"), a wholly-owned subsidiary of Viagold and MJSM entered into a Memorandum of Understanding ("MOU") to jointly develop a 5,000 tonnes rare earths comprehensive utilization project in Xinyi City, Guangdong Province, PRC. In November 2015, to continue and extend the cooperation with MJSM, VMG and Shenzhen Xingbang Investment Company Limited ("Xingbang") and Mr. Zhong Zhiming ("Mr. Zhong") entered into another MOU to propose the acquisition of Xunda. Xunda was a professional investment holding company in the rare earth industry. After further negotiation with the shareholder of Xunda, both parties agreed to complete the proposed acquisition through PCL. The group structure is an attachment to the ASX announcement made on 22 January, 2016 concerning the Transaction.
- 6.3 PCL is a privately held company. It owns a 100% equity interest in Hongjie which in turn owns a 51% equity interest of Xunda. Xunda owns a 50% equity interest of MJSM and 60% controlling interest of JHRE (through the VIE Agreements). Further information on PCL's group assets is detailed at Section 7 of this report.
- 6.4 Viagold proposes to acquire 100% of PCL in consideration of the issue of 9,000,000 Viagold Shares. The Viagold Board believes the Transaction represents an attractive investment opportunity for the Company, will add positively to the operation team and have the potential to generate significant shareholder value in the future.

7. OVERVIEW OF PCL AND ITS SUBSIDIARIES

- 7.1 PCL was incorporated in the British Virgin Islands ("BVI") on 13 April 2011. It established Hongjie on 19 September 2011 as an investment holding company.
- 7.2 JHRE was established in September 2001. It has subsequently become one of the largest private entities involved in rare earth smelting in PRC. Currently, the annual smelting and separation capacity of its yttrium and europium mine is 3,500 tonnes, which activities produce terbium oxide and europium oxide. It possesses ISO9001 quality control standard, ISO14001 environmental quality management standard, GB/T28001 occupational health and safety management standard as well as safety production standard – III. JHRE is a "star enterprise" of Changzhou, Jiangsu Province, PRC and is one of the top 20 enterprises of Jintan, Jiangsu Province, PRC.

7.3 MJSM is jointly owned by Xunda and GRNONFEMET. It is principally engaged in zirconium and titanium beneficiation, further processing and the recycling of rare earths from monazite. Currently, it is developing a 5,000 tonnes rare earths comprehensive recycling project in Xinyi City, Guangdong Province, PRC. MJSM is the only entity which possesses a rare earths recycling licence in Guangdong Province. Its main products include praseodymium, neodymium oxide, terbium dysprosium oxide and rare earth enriched slag. GRNONFEMET is listed on the Shanghai Stock Exchange (Stock code: 600259) and is the only listed company in PRC focusing on medium to heavy rare earth elements. It holds a rare earth mine development right in Guangdong Province, PRC. GRNONFEMET, together with Guangdong Rare Earth Industry Group Company Limited (“GREIG”) are subsidiaries of Guangdong Rising Assets Management Company Limited (“GRAM”). GREIG is one of the six rare earth groups determined by the China State Council. GRAM and GRNONFEMET are heavily responsible as the State rare earth group.

7.4 Restructuring

7.4.1 In November 2015, Hongjie acquired all equity interests of Xunda from Xingbang and Mr. Zhong (who originally held a 99.5% and 0.5% equity interest in Xunda respectively). Subsequently, Hongjie sold a 29% and a 20% equity interest in Xunda to Mr. Zhou and Mr. Liao respectively. Mr. Zhou is the founder of JHRE in 2001.

7.4.2 At the end of December 2015, Xunda acquired a 60% controlling interest in JHRE through its entry into the VIE Agreements (which agreements include a call option agreement, operating agreement, voting rights / proxy agreement, equity pledge agreement, and exclusive technology consulting and service agreement with JHRE and shareholders, Mr. Zhou and his daughter, Ms. Zhou Xing (“Ms. Zhou”). K-Bright Law Firm, a law firm duly licensed to practice law nationally in PRC, has expressed a legal opinion that, based on the current PRC Laws, each of the VIE Agreements is valid and legally binding under PRC Laws on each party (Xunda, JHRE, Mr. Zhou and Ms. Zhou) to such agreement: Further, none of the VIE Agreements violates any applicable PRC Laws currently in force. JHRE has been controlled by Xunda through the VIE Agreements since December 2015.

7.5 Financial Information – PCL and its subsidiaries (“PCL Group”)

7.5.1 Detailed below is the unaudited consolidated statement of financial position of PCL Group as at 31 December 2013 (“FY2013”) and 31 December 2014 (“FY2014”), and the audited consolidated statement of financial position of PCL Group as at 31 December 2015 (“FY2015”):

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	2015 RMB\$'000 (audited)	2014 RMB\$'000 (unaudited)	2013 RMB\$'000 (unaudited)
<u>Current Assets:</u>			
Cash and bank balances	1,290	17	30
Pledged bank deposit	14,000	-	-
Bills receivable	1,400	-	-
Trade receivables	6,018	-	-
Prepayments	3,475	-	-
Interest receivables	374	-	-
Other receivables	26,829	32	152
Inventories	363,108	-	-
Amounts due from related parties	6,100	-	-
	422,594	49	182
<u>Non-current Assets:</u>			
Investment in an associate	2,607	-	-
Property, plant and equipment	43,721	100	153
Intangible assets	22,010	-	-
Deferred tax assets	518	-	-
	68,856	100	153
Total Assets	491,450	149	335
<u>Current Liabilities:</u>			
Short-term borrowings	70,000	-	-
Bills payable	20,000	-	-
Trade payables	11,965	-	-
Receipts in advance	1,037	-	-
Accrued salaries, wages and benefits	1,167	3	3
Tax payables	291	-	-
Other payables	23,413	-	3
Amounts due to related parties	60,638	1,285	1,234
	188,511	1,288	1,240
<u>Non-current Liabilities:</u>			
Deferred tax liabilities	63,507	-	-
Total Liabilities	252,018	1,288	1,240
Net current assets/(liabilities)	234,083	(1,239)	(1,058)
Net assets/(liabilities)	239,432	(1,139)	(905)
<u>Equity:</u>			
Share capital	-	-	-
Retained earnings/(Accumulated losses)	72,833	(1,190)	(960)
Foreign exchange reserves	(27)	51	55
Equity attributable to owners of the parent company	72,806	(1,139)	(905)
Non-controlling interests	166,626	-	-
Total Equity	239,432	(1,139)	(905)

7.5.2 The table below shows the unaudited consolidated results of PCL Group for the financial years ended FY2013 and FY2014, and the audited consolidated results of PCL Group for the financial year ended FY2015.

	2015 RMB\$'000 (audited)	2014 RMB\$'000 (unaudited)	2013 RMB\$'000 (unaudited)
Revenue	-	-	-
Cost of goods sold	-	-	-
Gross profit	-	-	-
Other operating income	74,402	-	-
Administration Expenses	(353)	(230)	(237)
Other operating expense	(54)	-	-
Profit/(loss) before taxation	73,995	(230)	(237)
Income tax expenses	-	-	-
Net profit/(loss)	73,995	(230)	(237)
Other comprehensive income for the year (after tax)			
Items that will not be reclassified to profit or loss:-			
- Exchange gains and losses on translation of financial statements of foreign operations	(78)	(4)	-
Total comprehensive income for the year	73,917	(234)	(237)
Profit/(Loss) attributed to:			
Owners of the parent company	74,023	(230)	(237)
Non-controlling interests	(28)	-	-
	73,995	(230)	(237)
Total comprehensive income/(loss) attributed to:			
Owners of the parent company	73,945	(234)	(237)
Non-controlling interests	(28)	-	-
	73,917	(234)	(237)

Note: PCL controlled both Xunda and JHRE at the end of 2015.

7.5.3 It is noted that in FY2013 and FY2014, PCL only consolidated the financial position and result of Hongjie. In FY2015, PCL consolidated Hongjie, Xunda and JHRE (as a result of the restructure detailed in paragraph 7.4).

7.6 Financial Information – JHRE

7.6.1 Detailed below is the unaudited financial position of JHRE as at 31 December 2013 (“FY2013”) and 31 December 2014 (“FY2014”) and the audited statement of financial position of JHRE as at 31 December 2015 (“FY2015”):

	2015	2014	2013
	RMB'000	RMB'000	RMB'000
	(audited)	(unaudited)	(unaudited)
<u>Current Assets:</u>			
Cash and bank balances	1,282	2,930	5,219
Pledged bank deposits	14,000	13,100	51,090
Bills receivables	1,400	282	280
Trade receivables	6,018	62,367	12,807
Prepayments	3,475	58,158	2,404
Interest receivables	374	274	-
Other receivables	26,229	46,318	55,140
Inventories	224,286	200,723	269,727
Amounts due from related parties	5,300	5,000	5,180
	<u>282,364</u>	<u>389,152</u>	<u>401,847</u>
<u>Non-current Assets:</u>			
Property, plant and equipment	42,433	45,546	44,739
Intangible assets	13,029	13,330	13,643
Deferred tax assets	518	1,610	119
	<u>55,980</u>	<u>60,486</u>	<u>58,501</u>
Total Assets	<u>338,344</u>	<u>449,638</u>	<u>460,348</u>
<u>Current Liabilities:</u>			
Short-term borrowings	70,000	85,000	112,500
Bills payable	20,000	36,000	91,589
Trade payables	11,965	69,223	15,065
Receipts in advance	1,037	766	2,354
Accrued salaries, wages and benefits	1,167	1,223	1,107
Tax payables	291	504	5
Other payables	22,884	37,851	23,289
Amounts due to related parties	58,662	77,934	80,114
	<u>186,006</u>	<u>308,501</u>	<u>326,023</u>
<u>Non-current Liabilities:</u>			
Deferred tax liabilities	26,234	24,238	21,700
Total Liabilities	<u>212,240</u>	<u>332,739</u>	<u>347,723</u>
Net current assets	<u>96,358</u>	<u>80,651</u>	<u>75,824</u>
Net assets	<u>126,104</u>	<u>116,899</u>	<u>112,625</u>
<u>Equity:</u>			
Share capital	16,000	16,000	16,000
Retained earnings	110,104	100,899	96,625
	<u>126,104</u>	<u>116,899</u>	<u>112,625</u>

7.6.2 The table below shows the unaudited results of JHRE for the financial years ended FY2013 and FY2014, and the audited results of JHRE for the financial year ended FY2015.

	2015	2014	2013
	RMB'000	RMB'000	RMB'000
	(audited)	(unaudited)	(unaudited)
Revenue	250,448	490,283	478,348
Cost of sales	(238,863)	(468,950)	(459,323)
	<u>11,585</u>	<u>21,333</u>	<u>19,025</u>
Non-operating income	16,757	12,851	13,322
Selling and distribution costs	(1,523)	(2,931)	(2,804)
Administration Expenses	(7,895)	(9,579)	(8,596)
Finance Costs	(7,341)	(9,269)	(3,982)
Impairment loss on assets	-	(6,013)	(525)
Non-operating expenses	(77)	(312)	(75)
	<u>11,506</u>	<u>6,080</u>	<u>16,365</u>
Profit before taxation	11,506	6,080	16,365
Income tax expenses	(2,301)	(1,806)	(4,536)
	<u>9,205</u>	<u>4,274</u>	<u>11,829</u>
Net profit	9,205	4,274	11,829
Add: Depreciation and amortization	6,208	6,523	7,785
Add: Interest expenses	7,341	9,269	3,982
Add: Income tax expenses	2,301	1,806	4,536
	<u>25,055</u>	<u>21,872</u>	<u>28,132</u>
EBITDA	25,055	21,872	28,132

7.7 Basis for Qualified Opinion

We did not observe the annual counting of the physical inventories and property, plant and equipment of JHRE. We were unable to satisfy ourselves by alternative means of the inventory quantities and valuation, or the existence of the property, plant and equipment held as at 31 December 2012, 2013, 2014 and 2015. Since opening inventories and property, plant and equipment entered into the determination of the results, any adjustments found to be necessary in respect of the above matter would have a significant and consequential effect on the financial position of JHRE for the years ended 31 December 2013, 2014 and 2015, and the results for the years ended 31 December 2013, 2014 and 2015.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion (in the paragraph above), the financial statements give a true and fair view of the financial position of the PCL Group and JHRE as at 31 December 2015 and the results for the year ended 31 December 2015, in accordance with International Financial Reporting Standards.

8. OVERVIEW OF VIAGOLD

8.1 Corporate Overview

8.1.1 Viagold was officially listed on the ASX in February 1996 and has operated various businesses during its history. Its subsidiaries are principally engaged in investment, leasing, mineral trading as well as consultancy and management services to educational institutions.

8.2 Financial Information

8.2.1 Viagold's management and consulting services and leasing business have not performed well in recent years. Viagold and its subsidiaries incurred net losses from operations of A\$919,000, A\$1,084,000 and A\$372,000 for the years / period ended 31 March 2014, 31 March 2015 and 30 September 2015 respectively.

8.2.2 Set out below is the reviewed consolidated statement of financial position of Viagold and its subsidiaries as at 31 March 2014, 31 March 2015 and 30 September 2015.

	30 Sep 2015 A\$'000	31 Mar 2015 A\$'000	31 Mar 2014 A\$'000
<u>Current Assets:</u>			
Cash and bank balances	431	271	968
Trade and other receivables	448	925	372
	<u>879</u>	<u>1,196</u>	<u>1,340</u>
<u>Non-current Assets:</u>			
Investment property	690	669	588
Property, plant and equipment	1,114	1,054	678
	<u>1,804</u>	<u>1,723</u>	<u>1,266</u>
Total Assets	<u>2,683</u>	<u>2,919</u>	<u>2,606</u>
<u>Current Liabilities:</u>			
Trade and other payables	1,044	995	397
	<u>1,044</u>	<u>995</u>	<u>397</u>
Net current (liabilities)/assets	<u>(165)</u>	<u>201</u>	<u>943</u>
Net assets	<u>1,639</u>	<u>1,924</u>	<u>2,209</u>
<u>Equity:</u>			
Share capital	6,131	6,131	6,131
Accumulated losses	(5,024)	(4,733)	(4,506)
Attributed to the owners of the Company	<u>1,107</u>	<u>1,398</u>	<u>1,625</u>
Non-controlling interests	532	526	584
Total Equity	<u>1,639</u>	<u>1,924</u>	<u>2,209</u>

9 VALUATION METHODOLOGIES

9.1 Selection of Methodology

9.1.1 In order to assess the fairness of the Transaction, a value needs to be attributed to both Viagold Shares and to PCL Shares.

9.1.2 In assessing the value of the ordinary shares issued by Viagold to the PCL Shareholders, and the corresponding value of the PCL Shares (which value is based on the value of PCL's group assets), we have considered a range of valuation methods. ASIC Regulatory Guide 111 Content of Expert Reports states that in valuing a company the expert should consider the following commonly used valuation methodologies:

- Market Value of Shares: the quoted price for listed securities in a liquid and active market;
- Realization of Assets: the amount that would be available for distribution to security holders on an orderly realization of assets;
- Capitalization of Future Maintainable Earnings: the value of trading operations based on the capitalisation of future maintainable earnings;
- Discounted Cash Flow: the net present value of future cash flows;
- Comparable Market Transactions: the identification of comparable sale transactions.

We consider each of these valuation methodologies below.

9.1.3 Market Value of Shares as Quoted on the ASX

This method involves the valuation of an entity based on its actively traded equities, which represent the market capitalisation of the share capital of the entity, in a liquid and knowledgeable market.

Any assessment of the market value of the quoted equities needs to consider the following:

- The liquidity of the quoted equity based on the volume and frequency of trading;
- The number of 'unusual' and/or 'abnormal' trades that occur; and
- The timing and level of dissemination of information to the market

If quoted ordinary equity is traded in an active, liquid and knowledgeable market, then the market price of the quoted ordinary equity should represent the 'fair' market value of the quoted ordinary equity.

A premium may also need to be applied to the value of the quoted ordinary equity to determine the value of the equity holding in the circumstances where a party is acquiring or increasing a controlling equity position.

For the reasons set out sections 9.1.4, 9.1.5, 9.1.6 and 9.1.7, the market value of Viagold's shares, as quoted and traded on ASX, is the only practicable and appropriate method for determining the value of those shares.

At the date of this report, the last trade in Viagold shares was at A\$2.35. This compares to a volume weighted average sale price ("VWAP") over the previous 15 day, one month, two month and six month periods of A\$2.37, A\$2.25, A\$1.77 and A\$1.75 respectively.

Further, given that immediately prior to the first announcement of the Transaction (on 6th November, 2015), Viagold Shares were trading at A\$0.49, it is reasonable to conclude, based on the current market price of Viagold Shares and the VWAP of those Shares subsequent to the first announcement of the Transaction in November 2015, that the market has priced Viagold shares as if the Transaction had already occurred.

As trading in the shares of Viagold is infrequent, if a person wanted to acquire a holding in Viagold, it would ordinarily be expected that such person would have to pay a premium to acquire those shares. Given the number of Viagold shares on issue, the size of the free float and the overall lack of liquidity, in our opinion, it is likely that the current market price of Viagold shares (compared to both the price prior to the first announcement of the Transaction and the VWAP since that announcement) is reflective of buyers seeking to obtain an increased stake in Viagold in anticipation of completion of the Transaction. As we do not believe the current market price is representative of the long term value of the Viagold shares, we have discounted the current market price as the appropriate basis for valuing Viagold Shares.

Given:

- the very significant uplift in the current market price of Viagold shares subsequent to the announcement of the Transaction
- the size of the free float and the overall lack of liquidity in the market for Viagold shares; and
- the substantial premium inherent in the market value of Viagold Shares (when compared to the value of those shares if the Company was valued in any other way),

in our opinion the longer term (two month and six month) VWAP is the most appropriate basis for determining the value of Viagold shares. Further, given the very large premium that the VWAP price bears to the market price of Viagold shares immediately prior to the first announcement of the Transaction, in our opinion, no additional premium needs to be added as the VWAP price already reflects the premium that any person may be expected to pay to achieve a significant shareholding in the Company.

As the average of the two month and six month VWAP is A\$1.76, we value Viagold shares at that price. We consider that price to be the highest possible value for Viagold shares given the market price of Viagold shares prior to 6 November 2015 and the valuation that might result if any other valuation methodology was deemed appropriate. It is considered that this market price

valuation method is reasonable to the Non-Associated Shareholders as it maximizes the value of the Viagold shares.

This method is not appropriate for PCL Group as PCL shares are not currently publicly traded.

9.1.4 **Realization of Assets**

The net assets or cost based approach to value is based on the assumption that the value of all assets (tangible and intangible) less the value of all liabilities shall equal the value of the entity. The net asset value is determined by marking every asset and liability on and off the company's statement of financial position to current market values.

As Viagold's business activities have predominantly involved the provision of services (i.e. it does not have a significant business asset base), the net assets based approach is not appropriate for valuing Viagold shares.

For PCL Group, the net assets based approach is a more conservative and appropriate approach. The main assets of PCL Group as at 31 December 2015 were inventories in JHRE, including raw materials, work-in-progress and finished goods. In each case, there is reliable market data which can be used to value these inventories.

For the purpose of this report, we have relied on the valuation report ("LCH report") issued by LCH (Asia-Pacific) Surveyors Limited ("LCH") on 15 March 2016. Details of LCH are set out in the following paragraph. The LCH report included an enterprise value of JHRE as at 31 December 2015. JHRE's net assets contributes over 90% of the net asset value of PCL Group. For other net assets of PCL Group, we will base on our audited findings for FY2015.

Background of LCH

LCH is a firm of professional surveyors and international valuation consultants with offices / representation offices in Hong Kong and Beijing of the People's Republic of China and Philippines and associate offices in Malaysia, Singapore, Thailand, Japan, Canada and the United States of America. It started its operation in Hong Kong in 1994 as a professional asset advisory and valuation consultant to multi-national enterprises and listed incorporations with bases or interests in the Greater China and Asia-Pacific regions. Its personnel come from various areas / countries and, in particular, from various internationally recognized professional associations such as the Hong Kong Institute of Surveyors, the Royal Institution of Chartered Surveyors and the American Society of Appraisers. Its members are also qualified professional valuers in their locality such as the Registered Professional Surveyors in Hong Kong, Registered Business Valuer registered with the Hong Kong Business Valuation Forum, Registered Professional Housing Manager in Hong Kong, Certified Public Valuers in China, Registered Real Estate Appraisers in China, Certified Real Estate Appraisers in the Philippines, Members of the Institution of Surveyors Malaysia and

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Members of the Singapore Institute of Surveyors and Valuers. Its personnel also comprise of Authorized Person in Hong Kong, Structural Engineer and licensed building works contractor in Hong Kong. LCH is capable and knowledgeable in providing tailor-made appraisal strategies and approaches to comply with various needs of its clients such as merger and acquisition, public floatation of company's equity interest, feasibility study, incorporation in company accounts and financial statements, statutory requirement, litigation and compensation claims, internal management reference, allocation of overall business purchase price and, fairness opinion.

We have satisfied ourselves as to qualifications and independence of LCH from PCL and have placed reliance on their report.

9.1.5 **Capitalisation of Future Maintainable Earnings**

Under the earnings based valuation method, the value of the business is determined by capitalising the estimated future maintainable earnings of the business at an appropriate capitalisation rate or multiple of earnings. The multiple is a co-efficient, representing the risk that the business may not achieve forecast earnings. This method is appropriate in valuing a business when there is a history of earnings, the business is established and it is assumed the earnings are sufficiently stable to be indicative of ongoing earnings potential.

This method is not considered appropriate for the valuation of Viagold as the Company's result for the previous years have not been positive or stable.

It is also not appropriate for the valuation of PCL Group as there have been material fluctuations in the historical financial performance of PCL and the underlying assets and, therefore, significant assumptions would be required to be made in order to undertake any form of valuation using this method. Given the uncertainties and risks in making such assumptions, we do not regard the capitalisation of future maintainable earnings as an appropriate method for valuing the PCL Shares.

9.1.6 **Discounted Cash Flow**

Discounted cash flow valuations involve calculating the value of a business on the basis of the net cash flows that will be earned from the business over its life. The cash flows are discounted to reflect the risk involved with achieving the forecast cash flows.

This method again involves material assumptions and projections. For Viagold, the above-mentioned poor financial results in the recent years means that any valuation based on this method is likely to be satisfactory or to a yield a result that appropriately values the existing assets of assets of Viagold. The valuation is also likely to be significantly less than a market capitalisation valuation, which would not be favourable to the Non-Associated Shareholders.

For PCL, similar to section 9.1.5 above, significant assumptions would be required to be made in order to undertake any form of valuation using this method. Given the uncertainties and risks in making such assumptions, we do not regard the discounted cash flow as an appropriate method for valuing the PCL Shares.

9.1.7 **Comparable Market Transactions**

This methodology involves the identification of comparable sale or equity raising transactions for similar businesses to that being valued. It needs to rely on analysing available similar transacted comparable. In most cases, finding good market comparable is often difficult (particularly for those mergers and acquisitions) for there is no single marketplace where similar assets change hands between buyers and sellers, who are well informed and have no special motivations or compulsions to buy or to sell, are recorded.

We consider that this method is not appropriate for valuing Viagold or PCL Group as we are not aware of any comparable transactions which would form a reasonable basis for valuing either the Viagold Shares or the PCL Shares.

9.1.8 **Financial information relied upon in applying selected valuation method**

We have reviewed the financial information for PCL Group in FY2013 and FY2014 to the extent available and audited the financial information for PCL Group in FY2015. Ultimately, the management of the respective companies is responsible for the preparation and presentation of the financial information provided. The purpose of our review in FY2013 and FY2014 is to establish that the financial information used is not materially misstated. This review does not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit for FY2013 and FY2014 and, accordingly, we do not express an audit opinion on these financial years.

10 VALUE OF PCL GROUP'S NET ASSETS

10.1 General

10.1.1 This section sets out our assessment of the underlying value of PCL Group.

10.1.2 We have selected the realization of assets as the valuation methodology for PCL Group's net assets as detailed in section 9.

10.1.3 For the purpose of this report we are relying upon the LCH report, which provides a valuation of JHRE's net assets, of which PCL holds an effective controlling interest of 30.6%. For other net assets, we are relying on our audited result with necessary impairment of any idle tangible assets to derive the market values.

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10.2 Valuation procedures adopted by LCH

- 10.2.1 LCH has performed the appraisal by adopting the following procedures:
- to read the materials provided by PCL management and based on the content of the materials to arrive at their opinion;
 - to conduct a limited scope inspection at the locations of the business of JHRE to have a better understanding of the nature of JHRE;
 - to hold discussions with relevant personnel and to review various accounting and financial documents in order to understand the scope of their assets and their operations;
 - to conduct appropriate study in order to obtain necessary industry and market information to support our opinion of value;
 - to conduct valuation using the valuation reports prepared by PRC local valuation firms to value JHRE's net assets using the respective standards of value that is most appropriate;
 - to document findings and conclusion in an appraisal report.

10.3 The basis of valuation and assumptions by LCH

- 10.3.1 LCH valuation has been made on the assumptions that:
- The JHRE's net assets are valued on the basis of "Market Value" in continued use or as a going concern;
 - A hypothetical willing and able buyer will not pay more to acquire the JHRE's net assets than he can reasonably expect to earn in the future from an investment in the JHRE's net assets;
 - the legally interested party in the JHRE's net assets has free and uninterrupted rights to assign the JHRE's net assets for the whole of the unexpired terms as granted under the relevant approvals;
 - all the authorities from any organization have been or can be readily obtained or renewed on which the valuation contained in our report is based;
 - the legally interested party in the JHRE's net assets has adequate working capital to operate the business of JHRE from time to time;
 - the JHRE's assets can be sold in the market in its existing state;
 - the management of JHRE has adopted reasonable and necessary security measures against any disruption to the normal business of JHRE; and
 - the JHRE's net assets can be freely disposed and transferred free of all encumbrances for its existing uses in the market.

10.4 Factors considered in the valuation by LCH

- 10.4.1 For the purpose of the valuation, the valuation of JHRE's net assets required consideration of a number of pertinent factors affecting JHRE's ability to generate future investment returns. The factors considered in the valuation included the following:
- the nature of JHRE's assets;
 - the nature and the going concern business of JHRE;
 - the quality of JHRE's assets;
 - the capability of the management of JHRE to renew all the necessary licenses, permits and approvals to make the business ongoing;

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- the capability of the management of JHRE to maintain its existing clientele and working relationship with its suppliers;
 - the capability of the management of JHRE to continue the existing marketing strategy to maintain and attract customers or potential customers;
 - the capability of the management of JHRE to maintain its existing qualification and management standards;
 - the capability of the management of JHRE to trade up-to-date products;
 - the commitment of the management of JHRE to protect the JHRE's net assets against any disruption of the normal business of JHRE;
 - the commitment of the management of JHRE to maintain a cost effective and stable supply chain of the products to be distributed to the customers;
 - the economic and industry data affecting JHRE in the relevant locality;
 - market-derived investment returns in similar nature of entities; and
 - the risks facing JHRE and JHRE's net assets.

10.5 Approach to value and valuation result by LCH

LCH has valued the net assets of JHRE by reference to the audit report of JHRE issued by the PRC local auditor for the year ended 31 December 2015. Net assets included: 1) the monetary assets which comprised cash and bank balances, bills receivables, trade and other receivables; 2) the tangible assets which comprised properties, plant and equipment and inventories; 3) the intangible assets which comprised land use right; and 4) the liabilities which comprised short-term borrowings, bills payables, tax payables, trade and other payables.

For monetary assets, LCH has adopted the book costs in their valuation. For real estate related fixed assets, LCH conducted an on-site inspection to understand the scope and character of real estate related assets and, based on the information gathered, reviewed the valuation report prepared by a PRC local valuation firm. For non-real estate related fixed assets, LCH reviewed the book values of the non-real estate related asset and conducted a sampling valuation of the material items included in the fixed asset list.

For inventory, it comprised raw materials, in-tank work-in-progress and finished products. In conducting the valuation, LCH have mainly relied on the information provided to us by JHRE and on the valuation report prepared by the Local Valuer. LCH conducted reviews of their professional competence, the reasonableness of the valuation method they adopted, and the reliability of the source of external information they adopted in supporting their analysis.

For land use right, LCH adopted the valuation report prepared by a PRC local valuation firm. The total value of the intangible assets was RMB 22,010,000.

For Liabilities, LCH relied on the 2015 audit report of JHRE, and based on agreed procedures, adopted the book costs in the valuation.

10.6 Valuation of PCL Group's net assets other than JHRE's net assets

10.6.1 The other net assets represents less than 1% of total net assets value of PCL Group. In assessing the fair value of these assets, we have selected the realization of assets as the valuation methodology.

The other net assets mainly comprised the assets in MJSM (including deferred tax assets, other prepayments and receivables which amounted to RMB0.8 million, RMB1.6 million and RMB2.8 million, respectively). We have carried out procedures we considered necessary to assess the fair value of these assets and concluded that the carrying values are not materially different from the fair value. As the amount is immaterial and certainly to the benefit of Viagold, we have not taken this into account in the assessment of the fairness and reasonableness of the transaction.

10.7 Result of valuation

10.7.1 By adopting the asset-based approach, LCH estimated that there could be a significant upside to the value of JHRE concluded by the PRC local valuation firm. Using the upside prices quoted by local suppliers and the quantities adopted by the local valuation firm in the valuation, LCH estimated that the upside value of inventories could be up to approximately RMB 424 million. As such, taking into account of both the valuation of JHRE by LCH and our audited financial information of the PCL Group's net assets other than JHRE's net assets (i.e. net liabilities of RMB 1.5 million), we concluded that the base and upside net assets value of PCL Group would amount to approximately RMB 242 million and RMB 363 million respectively.

10.7.2 The range of net assets value of PCL Group is derived as follow:

	Base RMB'000	Upside RMB'000	Midpoint RMB'000
Value of net assets of PCL Group	241,556	363,282	302,419
Less: Non-controlling Interests	168,100	252,578	210,339
Attributable to shareholders of PCL	73,456	110,704	92,080
In A\$'000	15,977	24,079	20,028

Note: the translation currency rate is the middle rate sourced from the Bank of China on 22 January 2016 (which is AUD100 =RMB459.76).

10.7.3 The range of fair values of PCL Group's net assets is between A\$15,977,000 and A\$24,079,000, with a midpoint of A\$20,028,000 on a controlling interest basis.

11. VALUE OF VIAGOLD'S NEW ISSUED SHARES

11.1 General

11.1.1 This section sets out our assessment of the underlying value of Viagold shares.

11.1.2 We have selected the market value of shares as the valuation methodology for Viagold as detailed in section 9.

11.2 Market value of shares

11.2.1 Our valuation of Viagold shares is based on the adjusted VWAP of the market price quoted in the ASX which is A\$1.76 per share (*note 9.1.3*).

11.2.2 The consideration shares to be issued to acquire PCL is 9,000,000. This equates to a value of A\$15,840,000 by multiplying A\$1.76 per share.

12 ADVANTAGES & DISADVANTAGES OF THE TRANSACTION

12.1 Approach to assessing Fairness and Reasonableness

C&C has followed the guidelines of ASIC Regulatory Guide 111 in assessing the fairness and reasonableness of the Transaction. In forming its conclusions in this report, C&C compared the advantages and disadvantages for Non-Associated Shareholders if the Transaction proceeds.

12.2 Advantages of the Transaction

12.2.1 Given the Company's limited capital and lack of income producing assets, it will have difficulty in creating significant long-term value for shareholders in its current state. The Directors of Viagold have determined that PCL has the potential to increase Viagold shareholder value and provide the Company with a future business direction. Based on currently available information, the Directors are of the view that the PCL assets, being its 30.6% and 25.5% effective interests in JHRE and MJSM respectively, have significant potential to facilitate Viagold's entry into the rare earth industry which is expected to be of benefit to Viagold's shareholders.

12.2.2 The Directors consider that the current board and management team of PCL possess the experience and skills required to successfully transition the Company into its proposed new business in the rare earth sector.

12.2.3 The Transaction will increase the market capitalisation of the Company and ought to improve liquidity of the Company's Shares.

12.2.4 The Viagold Board are of the opinion that the Transaction is in the best interests of the Company's Shareholders and in the absence of a superior alternative proposal is a strategic opportunity for the Company.

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- 12.3 Disadvantages of the Transaction
- 12.3.1 There may be other opportunities Viagold will not be able to undertake to increase the value of its listing if it accepts this Transaction.
- 12.3.2 The Non-Associated Shareholders voting interest will decrease from 100% to 77.59% as a result of the Transaction.

13 CONCLUSION AS TO FAIRNESS AND REASONABLENESS

13.1 Fairness

- 13.1.1 According to RG 111, for the Transaction to be fair, the value of the PCL shares being acquired must be equal to or greater than the value of the consideration, being Viagold shares.
- 13.1.2 Based on the analysis contained in section 11 of this report, the value of the shares being issued by Viagold for acquiring 100% equity interest of PCL is A\$15,840,000.
- 13.1.3 Based on the analysis contained in section 10 of this report, the indicative value of PCL Group acquired is between A\$15,977,000 and A\$24,079,000, with a midpoint of A\$20,028,000.
- 13.1.4 In our opinion the Transaction is fair as the value of 100% PCL calculated in note 13.1.3 exceeds the value of the shares being issued by Viagold in note 13.1.2. The valuation of the Viagold shares held by Non-Associated Shareholders increases as a result of the Transaction.

13.2 Reasonableness

ASIC Regulatory Guide 111 states that a transaction is reasonable if:

- The Transaction is fair; or
- Despite not being 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.

We have concluded that the Transaction is fair and therefore also reasonable. In forming our opinion we have also considered the following relevant factors.

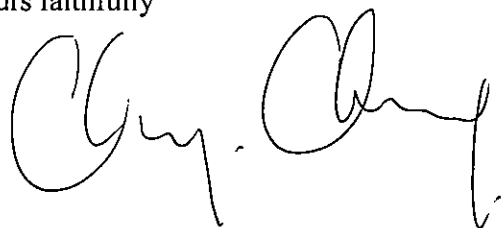
- Given the Company's limited capital and lack of income producing assets it will have difficulty in creating significant long-term value for shareholders in its current state.

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- The Directors of Viagold have determined that PCL has the potential to increase Viagold shareholder value and provide the Company with a future business direction. Based on currently available information, the Directors are of the view that the PCL assets, being its 30.6% effective interest in JHRE, have significant potential to facilitate Viagold to entering into the rare earth industry which will benefit shareholders interest.
 - The Directors consider that the current board and management team of PCL possess the experience and skills required to successfully transition the Company into its proposed new business in the rare earth sector.
 - The Transaction will increase the market capitalisation of the Company and provide increased liquidity of the Company's Shares, subject to the Company meeting the requirements of Chapters 1 and 2 of the ASX Listing Rules.
 - The Transaction will be safeguarded by a profit warranty that for two years after completion of the Transaction, the shareholders of PCL shall distribute no less than RMB 13,500,000 per year to the Company or its nominee. Otherwise they shall pay the balance.
 - The Viagold Board are of the opinion that the Transaction is in the best interests of the Company's Shareholders and in the absence of a superior alternative proposal is a strategic opportunity for the Company to continue as a going concern.
 - We are unaware of any alternative proposal at the date of this report that may realise better value for Viagold shareholders.

Having considered that the Transaction is fair, the potential of the PCL business and the alternatives of not proceeding with the Transaction, in our opinion the Non-Associated Shareholders of Viagold should benefit if the Transaction proceeds and therefore, in our opinion the Transaction is reasonable.

Yours faithfully



Cheng & Cheng Limited
Certified Public Accountants

Hong Kong

Chan Shek Chi
Practising Certificate number P05540

APPENDIX I - SOURCES OF INFORMATION

- Publicly available information on Viagold including media releases, ASX announcements and websites;
- ASIC Regulatory Guide 74 'Acquisitions Approved by Members';
- ASIC Regulatory Guide 111 'Content of Expert Reports';
- ASIC Regulatory Guide 112 'Independence of Expert's Reports';

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APPENDIX II - STATEMENT OF DECLARATION & QUALIFICATIONS

Confirmation of Independence

Prior to accepting this engagement, Cheng & Cheng Limited (“C&C”) determined its independence with respect to Polygoal Capital Limited and its subsidiaries (“Target Group”) with reference to ASIC Regulatory Guide 112 (RG 112) titled "Independence of Expert's Reports". C&C considers that it meets the requirements of RG 112 and that it is independent of the Target Group.

Also, in accordance with s648 (2) of the Corporations Act we confirm we are not aware of any business relationship or financial interest of a material nature with the Target Group, its related parties or associates that would compromise our impartiality.

Mr. Gabriel Chan, the partner of C&C, have prepared this report. Neither he nor any related entities of C&C has/have any interest in the promotion of the Transaction nor will C&C receive any benefits, other than normal professional fees, directly or indirectly, for or in connection with the preparation of this report. Our fee is not contingent upon the success or failure of the proposed transaction, and has been calculated with reference to time spent on the engagement at normal professional fee rates for work of this type. Accordingly, C&C does not have any pecuniary interests that could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion under this engagement.

C&C provided a draft copy of this report to the Directors and management of PCL for their comment as to factual accuracy, as opposed to opinions, which are the responsibility of C&C alone. Changes made to this report, as a result of the review by the Directors and management of PCL have not changed the methodology or conclusions reached by C&C.

Reliance on Information

The statements and opinions given in this report are given in good faith and in the belief that such statements and opinions are not false or misleading. In the preparation of this report, C&C has relied upon information provided on the basis it was reliable and accurate. C&C has no reason to believe that any information supplied to it was false or that any material information (that a reasonable person would expect to be disclosed) has been withheld from it. CC evaluated the

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information provided to it by the Target Group as well as other parties, through enquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base its report. Accordingly, we have taken no further steps to verify the accuracy, completeness or fairness of the data provided.

The sources of information that we relied upon are outlined in Appendix I of this report.

PCL has provided an indemnity to C&C for any claims arising out of any misstatement or omission in any material or information provided by PCL to CC in preparation of this report.

Qualifications

C&C carries on business at Level 10, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong with a medium-sized business with 8 partners and more than 230 staff. Partners from C&C are certified public accountants and are therefore qualified to provide this report.

Consent and Disclaimers

The preparation of this report has been undertaken at the request of the Directors of Viagold. It also has regard to relevant ASIC Regulatory Guides. It is not intended that the report should be used for any other purpose than to accompany the Notice of General Meeting to be sent to Viagold shareholders. In particular, it is not intended that this report should be used for any purpose other than as an expression of C&C's opinion as to whether or not the proposed Transaction is fair and reasonable.

C&C consent to the issue of this report in the form and context in which it is included in the Notice of General Meeting to be sent to Viagold shareholders.

Shareholders should read all documents issued by Viagold that consider the proposed Transaction in its entirety, prior to proceeding with a decision. C&C had no involvement in the preparation of these additional documents, with the exception of our report.

This report has been prepared specifically for the Non-associated shareholders of Viagold. Neither C&C, nor any member or employee thereof undertakes responsibility to any person, other than a Non-associated shareholder of Viagold, in respect of this report, including any errors or omissions howsoever caused. This report is "General Advice" and does not take into account any person's particular investment objectives, financial situation and particular needs. Before making an investment decision based on this advice, you should consider, with or without the assistance of a securities advisor, whether it is appropriate to your particular investment needs, objectives and financial circumstances.

Our opinions are based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Furthermore, financial markets have been particularly volatile in recent times. Accordingly, if circumstances change significantly, subsequent to the issue of the report, our conclusions and opinions may differ from those stated herein. There is no requirement for C&C to update this report for information that may become available subsequent to this date.