

ASX Announcement

29 March 2017

Focus and South32 Agree to Revised Royalty

Focus Minerals Ltd (“Focus”) is pleased to announce that it has renegotiated a royalty over its Lancefield Gold Project (“the Project”) with South32 Royalty Investments Pty Ltd (“South32”). Following the renegotiation, Focus is in the process of planning a substantial exploration program on the Project and looks forward to updating the market on its progress in the near future.

The Original Royalty

Western Mining Corporation (“WMC”) sold the Project to Metex Resources in 1995. Part of the consideration of this sale was a royalty, payable to WMC on ore mined from the affected tenements (listed at the end of this announcement) (“Tenements”). Due to various changes in control since the initial sale of the Project by WMC, Focus is now the holder of the Tenements and the payer of the royalty, and South32 is the beneficiary of the royalty.

The original royalty was payable on an ore tonnage basis and increased with the gold price. Specifically the royalty payable was:

“\$1.00/tonne mined and treated from open cut and \$1.50/tonne mined and treated from underground (assuming spot gold price is fixed by the Perth Mint (SGP) is A\$525 (Base Price)). Each quarter the royalty is to be varied by:

- (i) calculating the average daily A\$ SGP during the quarter;
- (ii) subject to (iii), for each A\$10 that the average SGP for the quarter varies from the Base Price, there will be an increase or a reduction in the royalty of A\$0.10/tonne of mined and treated;
- (iii) the minimum royalty payable for open cut and underground will be A\$0.75 and A\$1.25 respectively”

With a c. A\$1,600 per ounce gold price, the original royalty had become so onerous as to seriously impact the economics of the project and as a result Focus has conducted minimal exploration on the project. The lack of activity was not in the best interests of either company. To encourage exploration activity and increase the possibility of payment under the royalty, a revised royalty has been renegotiated.

The Revised Royalty

The revised royalty reduces the royalty payable as Focus invests in exploration on the tenements which could lead to future production from the Project. Specifically, the renegotiated royalty payable will be:

- 3% of the Gross Revenue for the relevant Quarter, provided that Focus has incurred, after the date hereof and prior to the first production date, at least \$2,000,000 but not more than \$4,000,000 in Exploration Expenditure;
- 2.5% of the Gross Revenue for the relevant Quarter, provided that Focus has incurred, after the date hereof and prior to the first production date, at least \$4,000,000 but not more than \$6,000,000 in Exploration Expenditure; or
- 2% of the Gross Revenue for the relevant Quarter, provided that Focus has incurred, after the date hereof and prior to the first production date, \$6,000,000 or more in Exploration Expenditure.

In this context, Exploration Expenditure means all costs, expenses and liabilities incurred by Focus in respect of searching for, discovery and delineation of commercial ore deposits of minerals within the agreed tenements (labelled 'Royalty Tenements' and 'Exploration Tenements' in Figure 1 below) and the evaluation of such deposits, including prospecting, surface mapping, sampling, aerial mapping and reconnaissance, drilling, trenching and related field work, geophysical and geochemical testing, core sampling, assaying, exploration declines, test mining, analysis and evaluation of activities undertaken and results obtained, and planning, supervising and administering all such activities undertaken, but does not include the development of mining or processing infrastructure, mining or processing of ore or the conduct of studies except to the extent that such studies are directly related to ascertaining the existence, location, quality and extent of deposits of ores, minerals and mineral resources on the agreed tenements.

To summarise, under the revised royalty agreement, Focus can reduce its royalty obligation to 2 percent of the revenue of ore mined from the Tenements by spending \$6 million on exploration prior to first production.

Lancefield

Mining at Lancefield began in 1899 and ceased in 1994 with an extended closure from 1959 to 1980. The more recent operator was WMC which commenced production with open pit operations and remnant underground mining and continued underground mining beneath the historical workings.

The gold price during the WMC operations was from \$300 to \$650 per ounce, averaging about \$500 per ounce over the last two years of production. WMC ceased mining at a depth at which mining had become unprofitable and at which significant capital expenditure was required to continue mining at greater depths.

The mine had reached a situation where capital expenditure was required to upgrade mine ventilation and to develop the decline to lower levels. The gold price at the time did not warrant such expenditure.

The current JORC compliance Mineral Resource for the Project comprises a total of 596,000 ounces of gold (the Mineral Resource was last announced to the ASX in Focus' 2015 Annual Report released 18 April 2016).

	Indicated			Inferred			Total Resources		
	Tonnes '000t	Grade Au g/t	Ounces	Tonnes '000t	Grade Au g/t	Ounces	Tonnes '000t	Grade Au g/t	Ounces
Underground	2,037	6.5	427,000	619	7.1	141,000	2,656	6.7	568,000
Surface	72	3.9	9,000	94	6.3	19,000	166	5.2	28,000
Total Project	2,109	6.4	436,000	713	7.0	160,000	2,822	6.6	596,000

Focus believes that a combination of the substantial existing high grade resources, exploration potential, renegotiated royalty and much improved gold price makes Lancefield one of its most promising assets. It looks forward to updating the market on exploration progress in the near future.

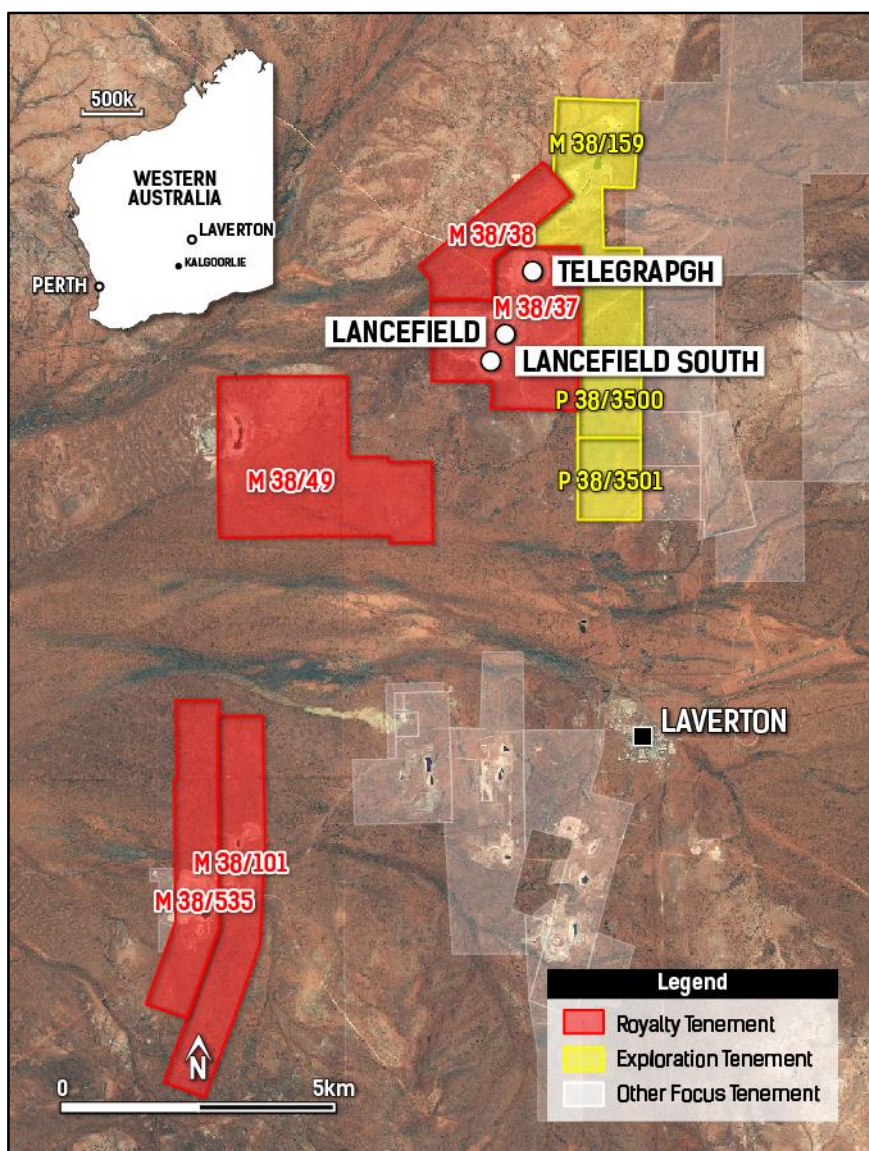


Figure 1: Lancefield Royalty Tenement Locations

Tenements Revised

Lancefield tenements on which the royalty is payable:

- M38/37
- M38/38
- M38/49
- M38/101
- M38/535

Exploration tenements upon which Exploration Expenditure is counted (in addition to the tenements listed above):

- M38/159
- P38/3500
- P38/3501