



Naracoota Resources Limited (NRR:AU) Rating Review

This review of Naracoota Resources Limited has been prepared in accordance with the **PortfolioDirect** stock rating framework described on pages 2-4.

PortfolioDirect/resources offers strategy and portfolio recommendations for independent investors. The rating framework has been developed to assist investors and their advisers to grade individual stock risk so as to better match stocks in their own portfolios with their personal risk profiles and to take account of the differing risk characteristics of potential investments when structuring their portfolios.

A **PortfolioDirect** stock rating is not intended as a forecast of future share price movements. Share prices will be influenced by a range of factors including, significantly, macroeconomic conditions and the current cyclical positioning of the sector which are not taken into account in determining a stock rating. The **PortfolioDirect** analytical framework separates the view about market direction from the stock risk analysis contained in this review.

The most important driver of a stock rating for a company being reviewed is an assessment whether the company is likely to meet its exploration and development targets within the timeframes sought by investment markets and, when development has occurred, its ability to maintain positive value momentum over future years.

The Investment Decision Snapshot

Commodity Exposure	<i>What is the mineral to which the company is principally exposed?</i>	Gold in Western Australia
Prospect Quality	<i>How does the resource rank on the "FLAG" rating scale?</i>	The company has been given a low 1.7 grade on the 5 point prospect quality rating scale
Investment proposition	<i>Do investment returns depend on (i) a reduction in risk over the medium term, (ii) specific near term events or (iii) a future change in cyclical conditions?</i>	Investment returns will most likely hinge on an announcement from the company of an acquisition of a new mineral property or a change in the industry in which the company is engaged
Risk profile	<i>How does the project rank on the PortfolioDirect risk rating scale?</i>	The company has been given a low 1.9 grade on the 5 point risk rating scale indicating a relatively low risk profile and failure to produce a viable development project already having been priced into the company's market value
Portfolio positioning	<i>What roles could the company play in a portfolio? Are other companies able to fulfill these roles more effectively?</i>	The company offers a purely speculative trading opportunity for an investor wanting to back the possibility of a positive announcement effect if directors are able to use their available funding to acquire a new asset
Liquidity	<i>How easily can buyers or sellers of the stock be accommodated?</i>	Generally low liquidity limits investor access

Important Information Regarding the Preparation of this Report

This report is not intended as an offer or solicitation with respect to the purchase or sale of a security. Nothing in this report should be taken as a recommendation. Naracoota Resources has been rated without taking into account the particular objectives, financial circumstances or needs of any particular investor. Before taking any decision based on this communication, an investor should assess his or her own circumstances and seek professional advice.

This report is based on information disclosed publicly by Naracoota Resources at the date of the report, information otherwise available in the public domain at that time and analysis and technical inferences drawn by the staff of E.I.M. Capital Managers Pty Ltd, the publisher of **PortfolioDirect**.

Although the statements of fact in this report have been added from and are based upon sources E.I.M. Capital Managers believes to be reliable, their accuracy is not guaranteed and any such information may be incomplete or condensed. To the extent permitted by law, E.I.M. Capital Managers, its employees, consultants, advisers, officers and authorised representatives are not liable for any loss or damage arising as a result of reliance placed on the contents of this report.

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Naracoota Resources has not had an opportunity to comment on the report or request any amendments prior to its publication.

Trading in PortfolioDirect Rated Stocks by E.I.M. Capital Managers

Stocks rated in accordance with the criteria outlined in this communication may be bought or sold by E.I.M. Capital Managers on behalf of clients or funds whose investments are managed by the firm. Specific investment objectives and individual portfolio considerations may result in transactions by E.I.M. Capital Managers that are not consistent with **PortfolioDirect** ratings for individual stocks.

Stock Rating Criteria

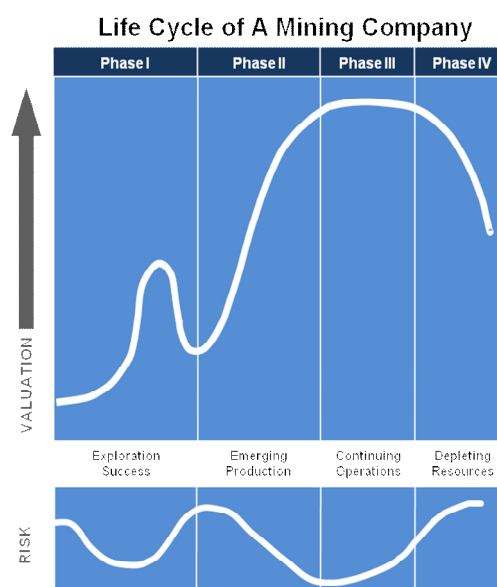
E.I.M. Capital Managers categorises sector investments based on the four phases in the life cycle of mining and oil and gas companies.

Phase I: the exploration phase during which relatively small amounts of capital may be deployed with the prospect of a high return but when investors also risk losing all the funds subscribed prior to the company having an agreed development plan.

Phase II: the emerging production phase in which companies are able to demonstrate access to a commercial resource and add value by meeting key development milestones along an agreed development path.

Phase III: the phase of continuing operations in which organic volume growth is limited and commodity price movements become the dominant driver of earnings and value.

Phase IV: a period typically characterised by falling ore grades and rising costs requiring additional capital to prevent output contracting.



Phase I companies will be scored (on a five point scale) on their potential to confirm a commercially viable development within an acceptable investment market timeframe. The duration of the investment horizon might vary from time to time depending on market conditions but will usually extend to a period of up to 24 months. Judgements will be based on publicly available information, including clarifying conversations with company management, and the resulting geological inferences drawn by E.I.M. Capital Managers analysts.

Phase II companies will be scored on a five point scale on their capacity to deliver positive value momentum (i.e. the ability to generate increasing fundamental value over future years without any reliance on higher commodity prices).

Since Phase III companies, by definition, no longer have any material organic growth prospects, they will generally fail the 'positive value momentum' test. A Phase III company may still play an important portfolio role depending on its relative financial strength, its capacity to withstand periods of cyclical weakness due to the competitiveness of its cost structure and its potential, arising from a large resource base, to operate through multiple economic cycles. Phase III companies will be scored on a five point scale on their absolute value proposition and how they meet these additional criteria.

No inferences about share price performance should be drawn from the rating of an individual stock. Investment returns will be influenced by a range of factors, some of which are included among the **PortfolioDirect** rating criteria, as well as investment market expectations about a range of macroeconomic variables. The **PortfolioDirect** rating does not take account of macroeconomic or investment market conditions that play a role in setting the price levels of securities.

There may be points in the cycle when stocks assessed by **PortfolioDirect** as being relatively risky and given a relatively low score on the **PortfolioDirect** rating scale are capable of producing relatively strong investment returns. This may arise, for example, because of strong leverage to changes or expected changes in market conditions among stocks with unusually depressed share prices or very small current market values.

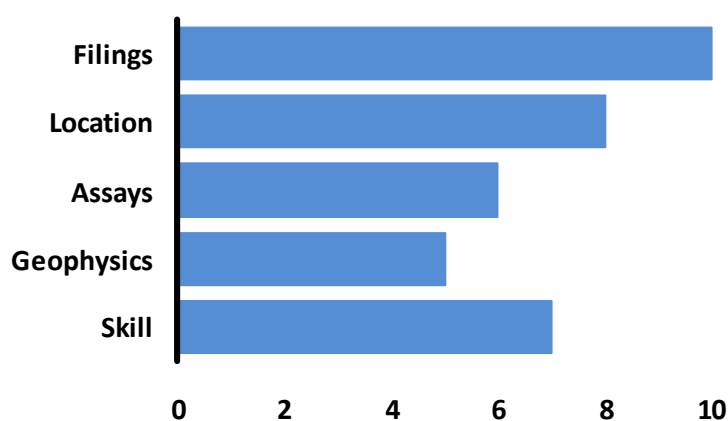
How does PortfolioDirect Rate an Exploration company?

The **PortfolioDirect** rating system scores a Phase I company on its potential to confirm a commercially viable development within an acceptable investment timeframe. The rating will be a product of the underlying asset quality and the investment risk profile.

QUALITY + RISK = PORTFOLIODIRECT RATING

A company still seeking to define a resource will be assessed on the extent to which its exploration properties meet the **PortfolioDirect** FLAGS rating criteria after having taken account of the risk characteristics relevant to the company's stage of development.

Exploration "FLAGS" Rating



PortfolioDirect assesses the quality of an exploration prospect using its 5-point "FLAGS" rating.

- FILINGS** whether all necessary approvals and authorisations have been received for legitimate land access
- LOCATION** whether a mineral deposit is situated near an existing discovery with similar geological characteristics or replicates a similar style elsewhere
- ASSAYS** the availability of assays to demonstrate the potential for above average grade characteristics
- GEOPHYSICS** the extent to which analytical work or historical analysis has highlighted the prospectivity of a particular location
- SKILL** whether the managing geologists can demonstrate a relevant track record of earlier discoveries



A Guide to the PortfolioDirect Rating Report

Each **PortfolioDirect** company rating report addresses questions affecting business outcomes and potential investment standing under five separate headings.

Primary Development Assets

- What are the most important geological or operational attributes of the company?
- Where are the assets located and what is the availability of local infrastructure?
- What potential impact does location have on business outcomes?
- How was ownership achieved - corporate exploration, acquisition or farm-in - and what obligations remain to the vendors or partners?
- Do historical outcomes on or near these exploration properties say anything about likely mineral characteristics on the company's own assets?
- Are there identifiable technical issues that need addressing before further work can be completed?

Regulatory Standing

- What approvals have been received?
- What additional approvals will be necessary to meet business goals?
- Has the company been in breach of any regulatory requirements at this site or elsewhere on any previous occasion?
- Can the company show a commitment to environmental and social needs?

Project Potential

- What scale of development is anticipated or, if judgements about this cannot be made presently, what must happen before such a judgement can be made?
- What operational or market constraints might affect the project potential?
- What is the likely range of project capital needs in the event of development?

Capacity to Meet Targets

- What skills does the company currently have available?
- What additional or alternative skills will be needed for the next stage of activities?
- How does the track record of the existing management impact current judgements about the capacity of the company to meet its targets?
- What financial resources are currently available? Are they adequate for the targets being set?
- Are there unresolved technical, financial or regulatory matters that could impact the achievement of business targets?

Rating Discussion

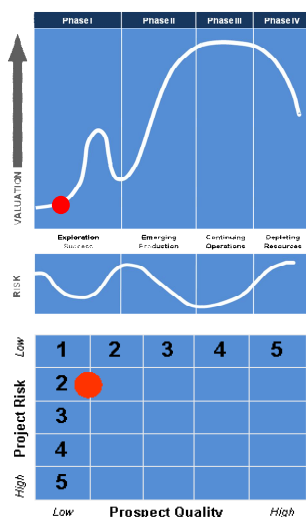
- Into which development phase has the company been classified?
- What are the key criteria against which the company is being benchmarked?
- How does the company stand against the rating criteria for a company at this stage of development?
- Are there criteria which have been more or less important in coming to a rating decision?
- Are there matters which might affect the rating in the future?
- Are there any special attributes displayed by the company that might impact on its role in a portfolio?
- How have historic investment returns affected judgements about current and future market risk?

Company Rating Review

Naracoota Resources Limited (NRR:AU)

NR 1 **1+** 2 2+ 3 3+ 4 4+ 5

Selection Criteria: E.I.M. Momentum Model



Statistical Risk Measures

Deviation from	
• 15 week moving average	+19%
• 25 week moving average	+37%
• 50 week moving average	+49%
Historical return ranking (1-100)	
• 2011-December 2014	60
• Since 1 January 2015	7
Return volatility ¹	0.8X
Liquidity ²	13%
1. Relative to sector median	
2. Turnover for 12 months as % of current shares	

Recent Company Events

- Two non-executive directors were replaced (ASX 19 March 2015).
- The company completed a soil sampling program at a prospecting licence located north-northwest of Meekatharra in Western Australia (ASX 29 January 2015).

Primary Development Assets

Naracoota Resources was listed on the ASX in June 2011. At listing, the company was focused on a portfolio of exploration assets (the Naracoota prospects) located northwest of Meekatharra and three tenements at the Fraser prospect, both in Western Australia. The Naracoota prospects covered 12 separate tenements located southwest of the Horseshoe Lights mine. The Fraser tenements covered 574.8 hectares southwest of the Naracoota prospects. The Fraser tenements were not a part of the Fraser Range exploration area which occurs to the south southeast. Only one licence from among those held at the time of listing has been retained.

Prospecting Licence P52/1213, Meekatharra Region, Western Australia, Naracoota Resources 100%

This prospecting licence covers 160 hectares approximately 140km north-northwest of Meekatharra in Western Australia. The lease is close to historical gold workings at Peak Hill, Labouche and Horsehoe. At the time of listing, this licence was classified as a part of the "Fraser Prospect" and named Windy Day.

The lease covers Archaean age folded rocks of the Labouche Formation which occur on the western margin of a large basin structure centred at Millidie. The mapped Labouche Formation rocks on the licence are metasediments (mainly hematitic shale) and banded iron formation units.

In the December quarter of 2014, the company completed a soil sampling program testing for gold, copper and arsenic on a 200 metre by 100 metre grid. The program showed only a low to moderate gold anomalism (ASX 30 January 2015).

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Regulatory Standing

At listing, tenement P52/1213 was due to expire on 18 January 2013 and had an outstanding exploration commitment of \$6,400 (ASX 3 May 2011). The company did not report a subsequent renewal but confirmed on 30 April 2015 that it held a 100% interest in the tenement at the end of March 2015.

Project Potential

The P52/1213 prospecting licence appears to offer no material exploration potential based on the reporting to date and the willingness of the company to make a financial commitment to the project.

The company has said that the new board has begun reviewing the work done on the project which suggests that no materially additional field work was undertaken in the March quarter despite only a limited soil sampling program having been completed. Directors have also made clear that they have been assessing investments in other projects. This appears to have come at the expense of a commitment to more thorough analysis of the Windy Day prospect.

Capacity to Meet Targets

For all practical purposes, the company has placed exploration activity on hold. There are no current plans to initiate an ongoing program of work and no likelihood that knowledge about the nature of the prospect will change in the near term.

The company has used external consultants to prepare exploration targets and is yet to demonstrate an independent capability that could lead to a discovery on the existing tenement or identification of more prospective areas.

In looking for alternative investment opportunities, the company has said that it will not limit itself to mineral exploration projects. This leaves investors without any clear sense of direction or purpose under the current directors.

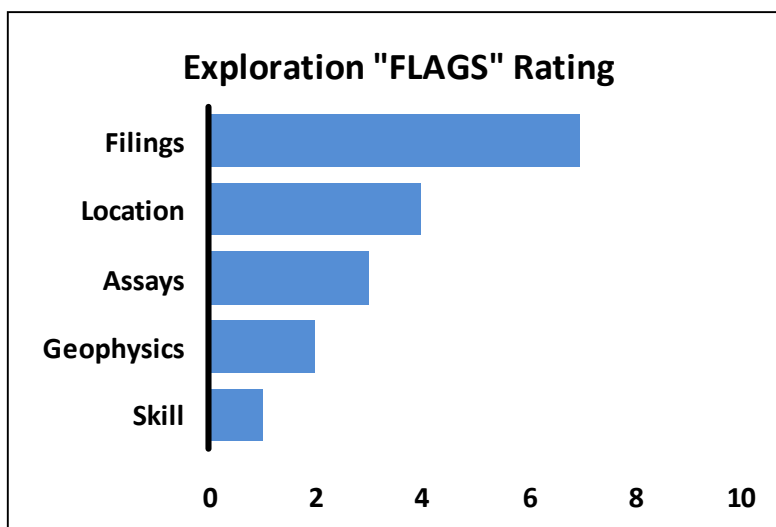
At the end of March 2014, the company had cash holdings of A\$3.80M (ASX 30 April 2015) leaving it relatively well positioned in a sector generally short of capital for early stage exploration. This would be sufficient to fund multiple positions in existing exploration programs if directors chose to remain active within the resources industry.

Rating Discussion

PortfolioDirect has classified Naracoota Resources as a Phase I company. **PortfolioDirect** rates a Phase I company on its potential to confirm a commercially viable development within a timeframe acceptable to investment markets. A **PortfolioDirect** rating will depend on underlying asset quality and the investment risk profile.

A company still seeking to define resource and whose investment potential relies primarily on exploration success will be assessed using the "FLAGS" quality criteria and risk factors described on page 4.

Naracoota Resources has a low FLAGS quality rating which particularly reflects the absence of an exploration track record among the managers of the exploration program and a lack of geological information or analysis pointing to the potential for a commercially viable resource.



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From a risk assessment perspective, the company is in a relatively strong funding position. Unfortunately, corporate focus is virtually non-existent since the company has flagged that it is looking to procure alternative investments including assets that might not have any connection with mineral exploration.

The company may be able to take advantage of its capital access to buy into other businesses but there is no way in which to judge the potential of a successful investment outcome from any guidance directors have offered so far.

With a market value of just \$5 million, expectations of success are low. In similar instances, investors could be attracted by the potential investment gains that will come from the resulting leverage to an unexpected exploration outcome. In this instance, the effective cessation of exploration activities has rendered this possibility unlikely.

One suspects that the board will arrive at an alternative business proposition in the near term or, perhaps, make a renewed commitment to the Windy Day project based on their reappraisal of the available information. The opportunity cost from investing will not be great but existing investors should expect some near-term dilution of their positions in the event the company acquires a new mineral asset or allows a non-resources asset to be vended into the company.

Given the current cyclical positioning of the resources sector, a mineral investment is more likely to contribute to an improvement in shareholder value although the absence of a strong technical orientation among the directors of the company would mitigate against this happening. ■

Significant Investment Risks

In addition to general equity market risks reflecting unexpected changes in global economic or political conditions, investors in the resources sector may incur further risks specific to investments in the sector.

Commodity market risk: Resources sector investment returns are generally more volatile than returns from other equity market sectors due to the earnings of resources companies being exposed to commodity price and foreign exchange movements. Commodity prices can be influenced by a range of factors including economic events, which might affect the volume of commodities used, monetary policies which might affect levels of speculation and changes in output reflecting levels of industry exploration, investment and production disruptions.

Operational risk: Companies may fail to meet their development goals as a result of unexpected external influences, including political conditions and natural phenomena, as well as the skill base and operational capabilities of company management. Companies engaged in exploration activities may fail to locate or define mineral deposits of a sufficient size to be commercially viable.

Funding risk: Since companies in the resources sector require ongoing funding for development, expansion and maintenance of output, changes in financial market conditions can affect the value of investments adversely through the cost or availability of capital.

Regulatory risk: The value of investments in the sector may be affected adversely by changes in government policies relating to the conditions under which mine developments are permitted, including the need for more stringent environmental controls, higher taxation or royalty rates or requirements for local equity participation.

Small companies risk: Small or early stage companies generally have less diversified income streams, less stable funding sources and weaker bargaining positions with their counterparties than larger companies. The securities of small companies may also be less liquid than those of larger companies making the purchase or sale of securities more difficult or costly to complete, possibly with an adverse impact on portfolio performance.

Abbreviations and Symbols

lb	pound	cif	cost, insurance and freight
oz	troy ounce	fob	free on board
Koz	1,000 troy ounces	fot	free on truck
Mlbs	million pounds	g/t	grams per tonne
kg	kilogram	ppm	parts per million
t	tonne	RC	reverse circulation
kt	1,000 tonnes	RAB	rotary air blast
Mt	1,000,000 tonnes	U ₃ O ₈	yellowcake (uranium)
Mtpa	million tonnes per annum	Fe/FeO	iron/iron ore
kL	kilolitre (1,000 litres)	SiO ₂	silica
ML	megalitre (one million litres)	Al ₂ O ₃	alumina
GL	gigalitre (one billion litres)	P	phosphorus
ha	hectare	TiO ₂	titanium dioxide
m	metre	ZrO ₂	zirconium dioxide
m ³	cubic metre	LOI	loss on ignition
km	kilometre	mg/l	milligrams per litre
A\$	Australian dollar	Mj/kg	mega joules per kilogram
\$M	million dollars	EBITDA	earnings before interest, tax, depreciation & amortisation
US\$	United States dollar	EBIT	earnings before interest & tax
MG/GW	megawatt/gigawatt	ROM	run of mine
ct	carat	LOM	life of mine
bbl	barrel	MOU	memorandum of understanding
mbd	million barrels a day	VTEM	Versatile Time Domain Electromagnetic
MBOE	million barrels of oil equivalent		

