

Market Update

20th September 2013

Exterra Resources Limited

ACN 138 222 705

ASX Code: EXC

www.exterrarresources.com.au

Issued Capital:

Ordinary Shares:	181.2m
Options:	23.6m
Cash (30 June 2013):	\$1.14m

Directors and Management:

John Davis
Managing Director

Justin Brown
Non-Executive Director

Gary Morgan
Non-Executive Director

Peter Cole
Non-Executive Director

Dennis Wilkins
Company Secretary

Exterra Resources Ltd (ASX:EXC) wishes to provide shareholders with an update to address the combined impact of a reduced gold price and the recent decline in the junior resources equity market. As shareholders in Exterra Resources Limited (“Exterra”) your Board shares the disappointment in Exterra’s declining share price, however we are determined to optimise the Company’s strategy in order to minimise the risk related to the volatility in the gold price and to position the Company for re-rating, once equity markets stabilise and improve for junior resource companies. It is pleasing to note that over the last few weeks the gold price has shown some upward movement to be currently sitting in the range A\$1400 to A\$1500 per oz.

Advanced Projects

In August 2012 the Company announced a 151% upgrade to the Second Fortune JORC Resource to over 131,000 ounces (131,200 ounces at 8.8 g/t Au).

In October 2012 the Company then confirmed the potential economic viability of developing an underground mine on the Second Fortune Main lode at the Linden Gold Project in Western Australia, following completion of an initial Scoping Study, assuming processing under an off-site ore purchase agreement.

The Company also announced in October 2012 the successful raising of A\$2.34 million through a fully underwritten Entitlements Issue to shareholders. The proceeds of the capital raised to be used to move the Second Fortune gold project towards production by securing all Regulatory Approvals to allow underground mine development and to secure an Off-Site Ore Processing Agreement with a nearby operating plant

In April 2013, following completion of all environmental baseline studies, initial mine design and water management studies a Mining Proposal and associated Works Approval, Water Abstraction and Native Vegetation Clearing documents were lodged with the appropriate Government Departments .

In late July 2013, the Company announced that the following approvals had been received:

- **Mining Approval;**
- **Water Abstraction Licence;**
- **Native Vegetation Clearing Licence;**

and that a binding **Off-site Ore Processing Agreement** had been signed with Saracen Mineral Holdings at their Carosue processing plant.

The Company also noted that in light of the recent reduction in the gold price to A\$1,400 per oz, from A\$1,750 per oz in October 2012 (initial Scoping Study), Exterra had elected to review the mine plan for Second Fortune, looking at a self-funding trial mining development, which immediately accessed the upper levels of the original mine, which operated in 1988.

The trial mining accesses areas where historic underground development, geological mapping and detailed face sampling have provided definitive information on which to focus a trial mine development and for which there is high confidence in the outcome.

The trial mining development can be completed at a lower capital cost, relatively low risk, will be self-funding and will confirm the ore body characteristics, which will support the full mine development decision and with better understanding of mine production and cost parameters.

Exterra also announced in May 2013 the sale of the Egerton Project to Gascoyne Resources for \$1 million in cash and shares under an Option to Purchase. It was believed the Egerton project was not a core focus for Exterra due to its location and with Exterra focusing on the Second Fortune mine development.

Current Market

In mid-April 2013 the gold price fell from A\$1500/oz to A\$1350/oz. The Scoping Studies, published in October 2012, had been modelled on a gold price of A\$1750/oz. Since the gold price decline in April 2013, the Australian gold price is trading at between approximately A\$1400 to A\$1500 /oz.

When the Company initially obtained costs (both operating and capital) for the Scoping Study we were in a labour and contractor market where demand exceeded supply. The Company is of the view the mining labour and contractor market is quickly moving to a position of excess supply and we are now starting to see evidence that capital and operating costs in WA are declining. Small changes in mining costs have a significant impact on the Project's NPV.

Exterra continues to review the Trial Mine option, reviewing Capital and Operating costs under current market conditions and improving gold price and continue discussions with a number of potential funding sources. We expect a positive outcome to these studies in the near future.

Conclusion

The Board recognises that the Company's share price has suffered along with a broader mining investment market downturn. Despite this, Exterra has continued to make significant headway over the past 12 months, in line with our clearly outlined strategy to move the Second Fortune underground mine project towards a position of being "MINE READY", and with now all Regulatory Approvals and an Off-Site Processing Agreement in place, to allow for gold production.

Exterra has recently moved towards cost reduction measures and cash preservation with Non-Executive Directors deferring Director fees, reduction in staff numbers to one full time Perth based employee and one camp caretaker. We do note some positive signs in what is a difficult market and we thank you for your ongoing patience and support.

For further information:

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About Exterra Resources Limited

Exterra Resources Limited (ASX:EXC) is a gold exploration and development company based in Perth, Western Australia, with a focus on high grade, high margin gold projects with near term production potential to fund the future growth of the company.

The Company's projects are all located in the Archaean Yilgarn Craton in WA, a world class gold province which has been a prolific producer of gold since the late 1880's and includes the Kalgoorlie "Golden Mile" deposit which has produced over 50 million ounces of gold since discovery in 1893.

Exterra's focus is on the Linden gold project in the North Eastern Goldfields region, within the Laverton Tectonic Zone, which hosts multi million ounce deposits including Sunrise Dam (Anglo Gold) and Granny Smith/Wallaby (Barrick Gold).

The Second Fortune gold mine, at Linden, 220km by road, NNE of Kalgoorlie, which has JORC Resources of 131,200 ounces at 8.80 g/t Au, is currently the subject of a development study, with all approvals lodged to enable project development of an underground mining operation during 2013/14.

Competent Persons Statement

Information in this report relates to exploration results or mineral resources that are based on information compiled by John Davis (Member of the Australasian Institute of Mining and Metallurgy). Mr Davis has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activities undertaken to qualify as Competent Persons as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Davis consent to the inclusion in the release of the statements based on their information in the form and context in which they appear.

Please note with regard to exploration targets, the potential quantity and grade is conceptual in nature, that there has been insufficient exploration to define a Mineral Resource and that it is uncertain if further exploration will result in the determination of a Mineral Resource.

Forward Looking Statements

Certain statements made during or in connection with this communication, including, without limitation, those concerning the economic outlook for the mining industry, expectations regarding gold prices, exploration costs and other operating results, growth prospects and the outlook of Exterra Resources' operations contain or comprise certain forward looking statements regarding Exterra Resources' exploration operations, economic performance and financial condition. Although Exterra Resources believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct.

Accordingly, results could differ materially from those set out in the forward looking statements as a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes that could result from future acquisitions of new exploration properties, the risks and hazards inherent in the mining business (including industrial accidents, environmental hazards or geologically related conditions), changes in the regulatory environment and other government actions, risks inherent in the ownership, exploration and operation of or investment in mining properties in foreign countries, fluctuations in gold prices and exchange rates and business and operations risks management, as well as generally those additional factors set forth in our periodic filings with ASX. Exterra Resources undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after today's date or to reflect the occurrence of unanticipated events.