Quarterly Report – December 2014

ASX Code: VAR
ACN: 003 254 395
Issued Shares: 175.7M
Unlisted Options: 28.9M
VAR Cash Balance: $0.79M
VAR Investments: $2.4M

Directors

Pat Elliott
Greg Jones
Jack Testard
Kwan Chee Seng
Dr Kah Foo
Alan Breen

Top Shareholders

Kwan Chee Seng
UOB Kay Hian Private Limited
Chris and Betsy Carr

Top 20 Shareholders - 73.8%

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Highlights

- Variscan was granted its third exploration licence in France. **Merléac** covers 411 square kilometres of a well-endowed region containing a number of volcanogenic massive sulphide (VMS) deposits including Porte-aux-Moines, an advanced, high grade, zinc-lead-copper-silver deposit extensively drilled and developed underground by the BRGM in the 1980's.
- At **Porte-aux-Moines** mineralisation is up to 20 metres wide and has been defined to a depth of about 300 metres from surface. Work has commenced to calculate an updated resource to meet 2012 JORC guidelines and to generate additional targets adjacent to the old BRGM mine development.
- **Porte-aux-Moines** may be part of a cluster of base metal deposits that typify VMS systems. Variscan considers the exploration potential immediately around the deposit to be very good.
- **Merléac** covers an estimated 70 strike kilometres of fertile host lithologies. Within these rocks a number of outcropping gossans have been identified. XRF values up to 1.6% lead, 1171 ppm zinc and 719 ppm copper were recorded in rock chips and grab sampling confirming the strong prospectivity of the region for additional deposits. Gold analyses by ALS are in progress.
- A large **VTEM** survey over the more prospective parts of the belt to confirm the location and geometry of potential VMS deposits is planned to commence in the second quarter of 2015.
- Auger soil sampling to help define targets is progressing at the **St Pierre Gold Project.** Assay results are expected shortly.
- **Eastern Iron** continued the Mine Feasibility Study on its Nowa Nowa iron project in Victoria. Recent studies have confirmed the option of pumping iron slurry to ships moored offshore from Nowa Nowa, reducing projected operating costs to around A$41/tonne FOB.
- **Thomson Resources** completed modelling of results from a large VTEM survey over a number of its target areas in NSW. Two significant EM anomalies were generated at the Wilga Downs and Achaye prospects.
- **Silver City Minerals** completed detailed geological assessment over its Broken Hill tenements, generating three high quality prospects requiring follow up.
- On 8 January 2015 Variscan sold its remaining shares in **WPG Resources** Limited for a net consideration of $380,000.
- As at the end of the quarter the Company held $0.79 million in cash prior to receipt of the $380,000 proceeds from the WPG share sale. Liquid investments held in listed resource companies totalled $2.0 million post the sale of the WPG shares.

Exploration

FRANCE

MERLEAC PROJECT

As announced on 10 November 2014 Variscan Mines SAS was granted its third exploration licence within Brittany, France. The Merléac PER covers an area of 411 square kilometres over the eastern end of the Châteaulin Basin, a sequence of felsic volcanics and clastic sedimentary rocks containing a number of volcanogenic massive sulphide (VMS) deposits including the advanced Porte-aux-Moines zinc-lead-copper-silver deposit which lies near the centre of the licence about 125 kilometres west of Rennes, Brittany (Figure 1).

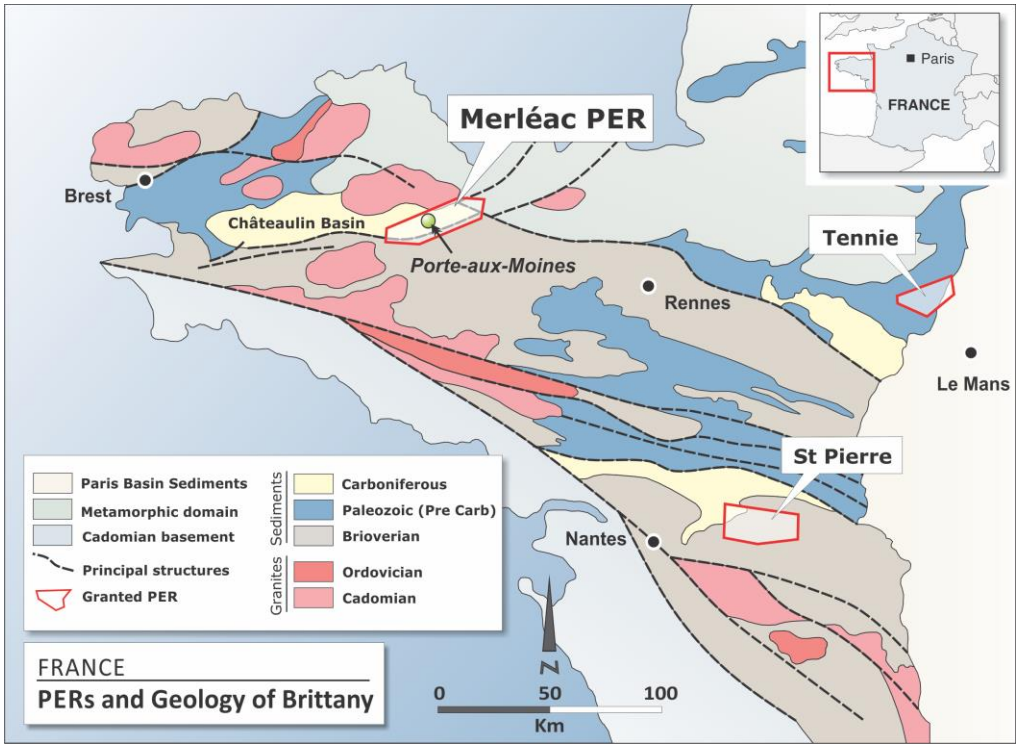

Figure 1 - Location of the Merléac PER and other Variscan PERs

The Porte-aux-Moines Deposit

Porte-aux-Moines was discovered by the BRGM in 1975. Over the ensuing decade the group completed 9,673 metres of core drilling and just under two kilometres of underground development defining significant high grade zinc-lead-copper-silver mineralisation up to 20 metres thick from near surface to a depth of about 300 metres (Figures 2 and 3). The BRGM completed substantive metallurgical work and calculated a resource for the deposit. Aside from the underground development and sampling, Porte-aux-Moines is essentially unmined.

Porte-aux-Moines shares geological similarities to other VMS deposits in Australia such as

Woodlawn, Rosebery and Que River which have been important sources of high grade base and precious metal production (for an indication of sizes and grades of these refer to the following table extracted from the US Geological Survey (USGS)). As with many VMS systems, Porte-aux-Moines may be part of a cluster of individual sulphide deposits that are frequently formed in proximity to one another and which can generate sizable tonnages of high grade mineralisation.

Tonnes and grades of selected VMS deposits in Australia

Deposit	Tonnes(M)	Cu %	Zn %	Pb %	Au g/t	Ag g/t
Woodlawn	17.7	1.7	9.9	3.8	1.4	80
Rosebery	28.3	0.6	14.3	4.3	2.4	145
Hellyer	16.9	0.4	13.8	7.2	2.5	167
Que River	6.0	0.4	12.5	7.0	3.4	171
Golden Grove	17.3	3.2	2.0	0.2	0.5	29
Teutonic Bore	2.5	3.5	9.6	0.8	0.2	146

USGS site address - http://mrdata.usgs.gov/vms/ download vms-csv.zip

Published information by the BRGM for Porte-aux-Moines can be found on the Variscan website by following the tabs Projects/Europe/Merléac and downloading the pdf report.

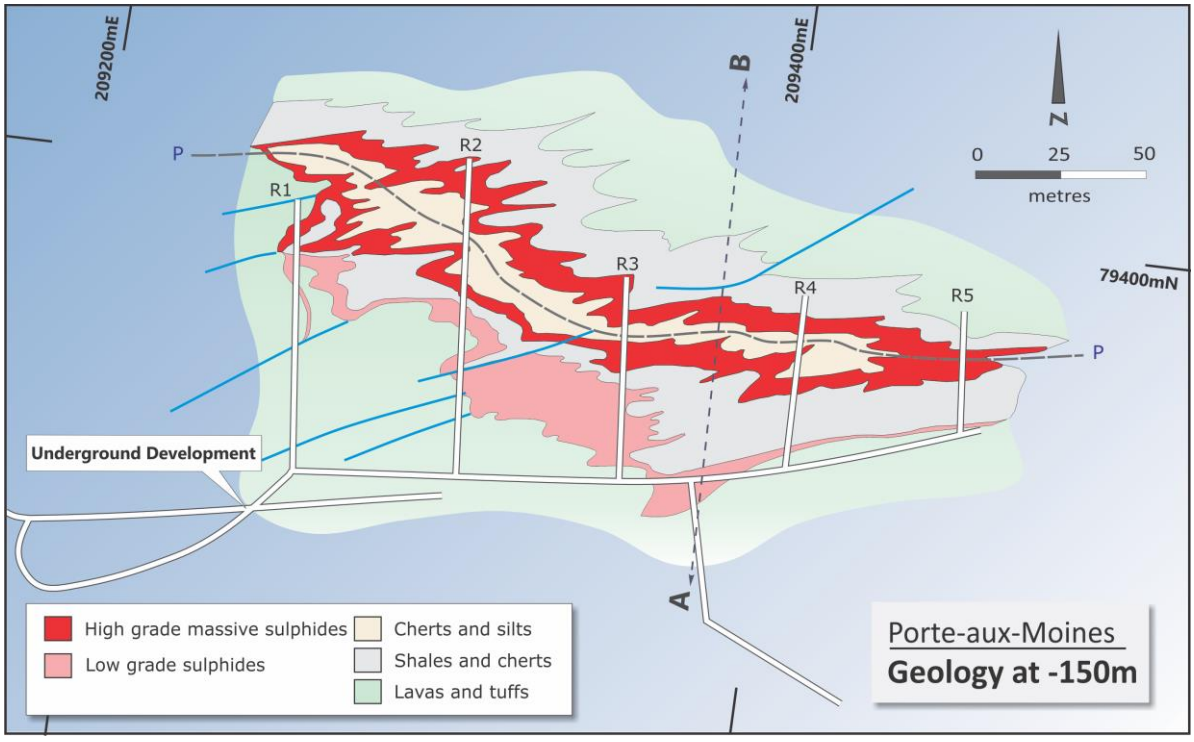

Figure 2 – Plan view of Porte-aux-Moines deposit from BRGM reports

Variscan has commenced collecting all available data for Porte-aux-Moines (most held at the BRGM) to convert to digital formats and create a cohesive 3D model of the deposit. Resampling of some of the remaining old core from the BRGM exploration will be undertaken if possible and a small amount of additional confirmatory drilling completed to allow the generation of a resource estimate prepared under the guidelines of the JORC 2012 Code.

Variscan will also commence extensional exploration around Porte-aux-Moines as it considers that there is substantial potential to discover new lenses of mineralisation. The BRGM is believed to have conducted relatively little drilling outside the main ore envelope and Variscan intends commencing this work once approvals from the authorities are granted.

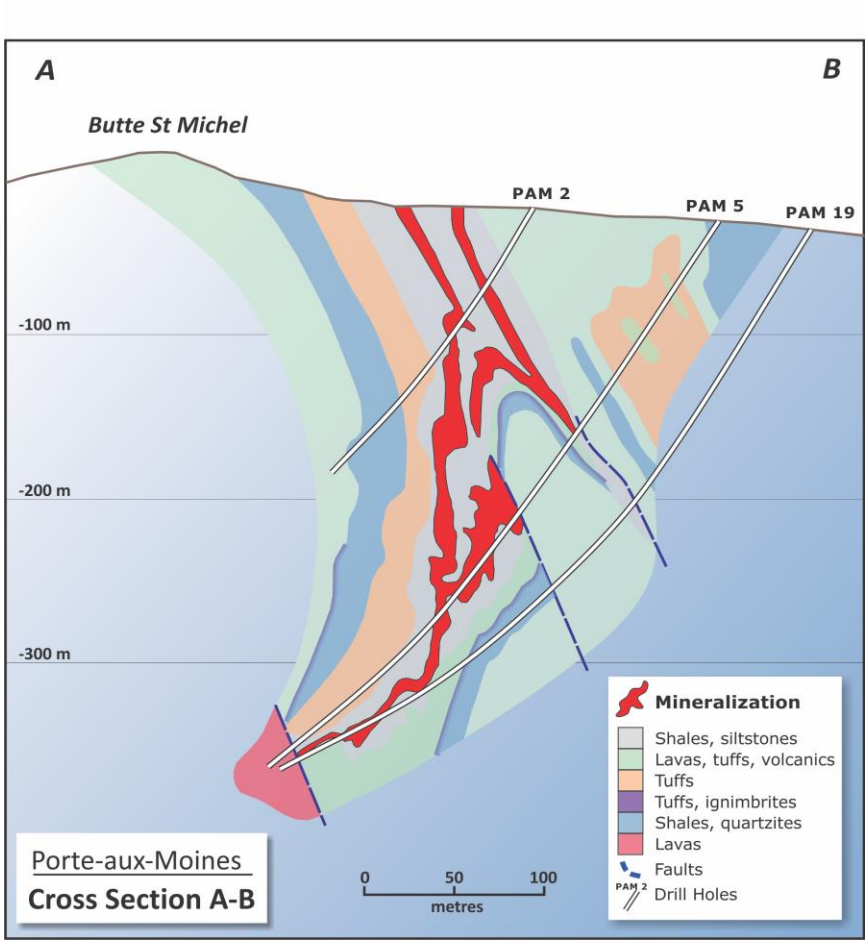

Figure 3 – Cross Section at Porte-aux-Moines from BRGM reports

Other Gossans

Elsewhere within the licence, recent field work by Variscan has focussed on assessing the exploration potential within prospective rock sequences along strike from the Porte-aux-Moines deposit. This work has confirmed the presence of a number of outcropping gossans and gossanous horizons (Figures 4 and 5), interpreted at some prospects to represent the oxidised expressions of underlying massive sulphides and associated footwall stockwork feeder zones. These gossans were previously mined by shallow open pits for iron up until the 19th century and generally have not been

explored below the iron oxide cap aside from shallow BRGM drilling in some locations.

Rock chips and grab samples of the sparse material remaining from the former iron mining activities were collected and assayed at the e-Mines XRF facility in southern France. Initial results returned from the sampling were encouraging, with anomalous geochemistry recorded in three of the gossans (up to 1986ppm zinc, 387ppm copper and 135ppm lead), possibly representing oxidised and leached material developed over the top of primary VMS mineralisation.

As reported on 8 December, 2014 further XRF assays received from this work continue to provide strong encouragement with some of the highest values recorded to date - up to 1.6% lead, 1171 ppm zinc and 719 ppm copper at Porte-aux-Moines and other gossans, notably those east of the deposit (Figure 4) within the same volcanic/sedimentary host rock units.

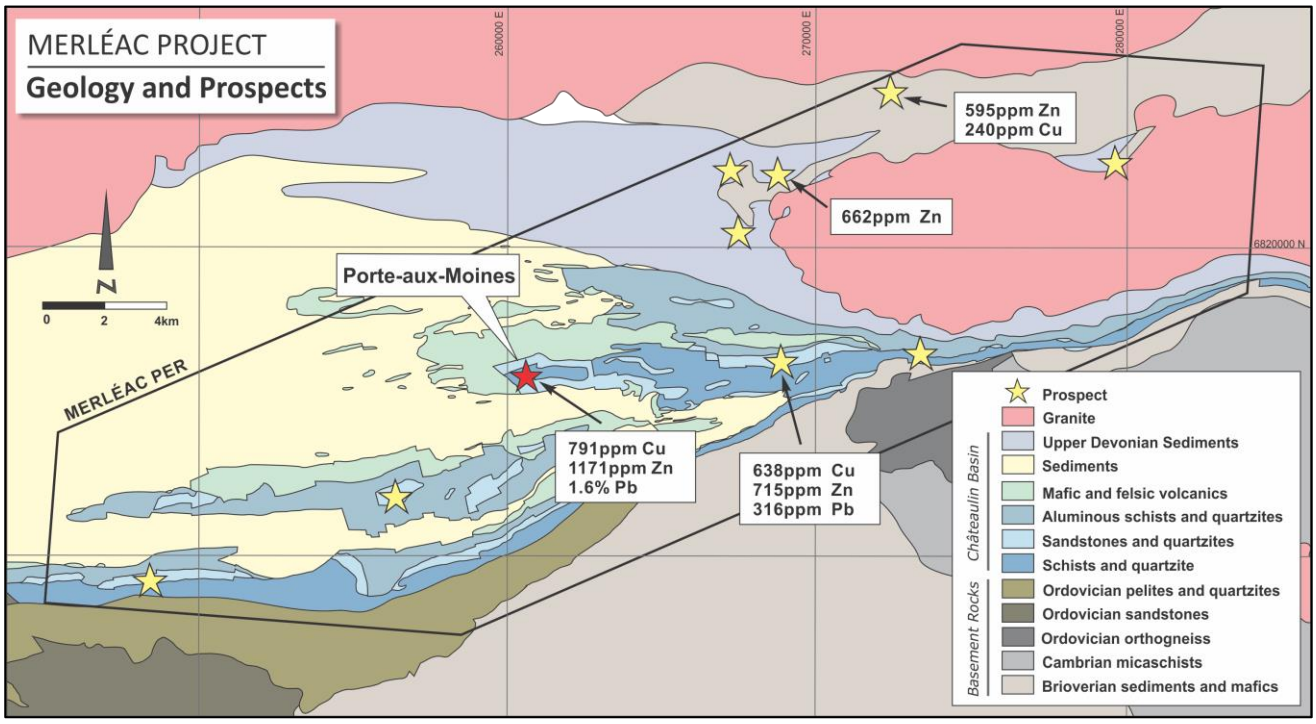

Figure 4 – Geology, prospects and peak gossan assays recorded to date within the Merléac PER

The assays continue to confirm the excellent prospectivity of the region for additional VMS deposits within the 70 strike kilometres of fertile host lithologies contained within the licence.

Anomalous samples have been sent to the ALS laboratory in Ireland for confirmatory chemical assaying including gold analysis. Assays are expected shortly.

The Company intends flying a large heli-borne VTEM survey over the more prospective parts of the belt to help confirm the location and geometry of potential VMS deposits below and along strike from the gossans. This is planned to commence during the second quarter of 2015.

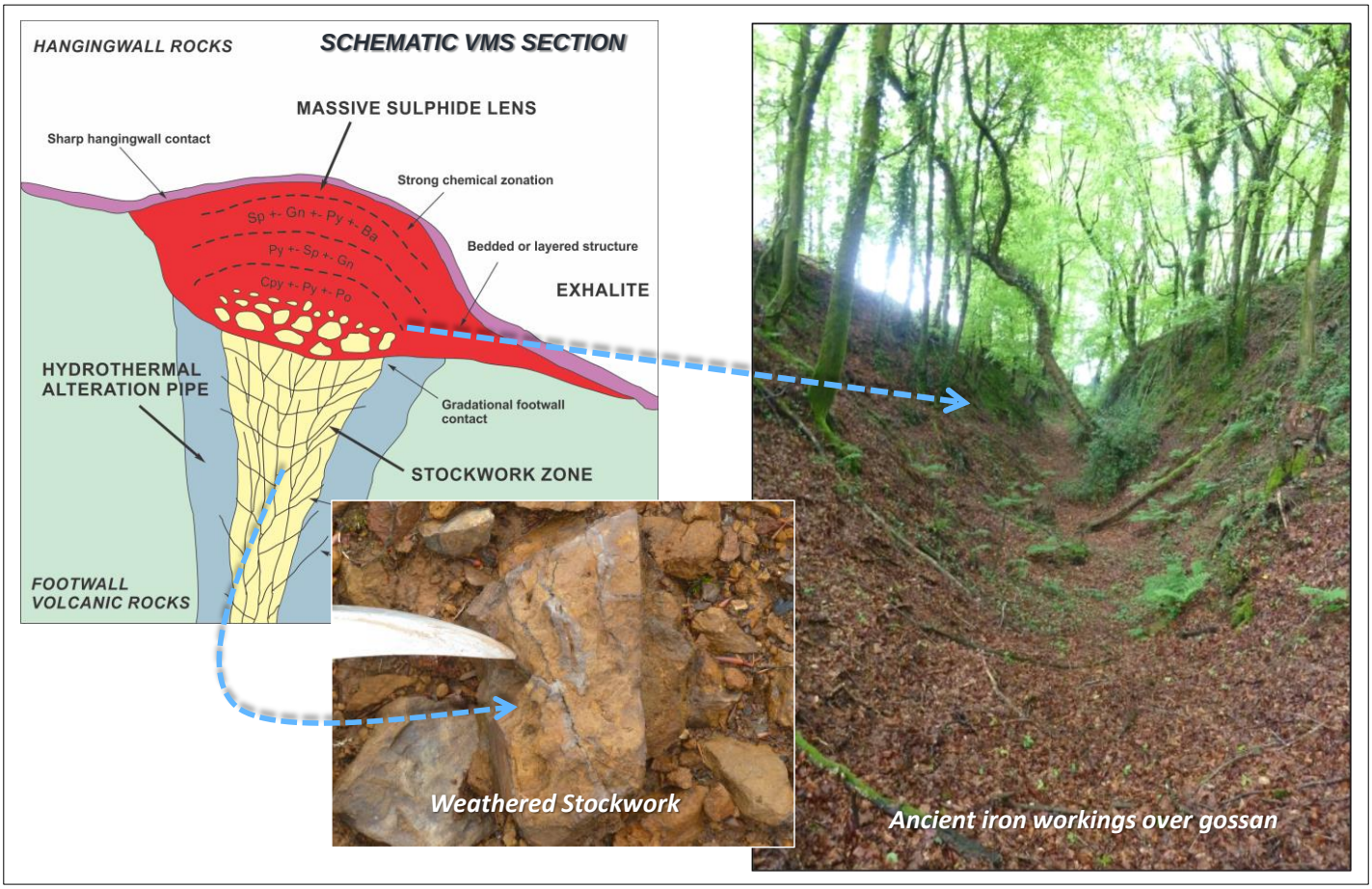

Figure 5 – Photos from the old iron workings within the Merléac PER showing the interpreted relationships of the weathered, iron-rich material to the VMS deposit model as outlined by the USGS

ST PIERRE

The St Pierre PER covers 386 square kilometres over an important gold district believed to have been the third largest gold producer in France (Figure 1). Within the PER, the La Bellière gold mine is recorded to have produced about 334,000 ounces of gold (plus silver) from 1906 to 1952, up to a maximum depth of 170 metres intermittently over a strike length of about 1.6 kilometres. The average production grade was 12 g/t gold, mined from a series of stacked, high grade veins hosted within an east-west oriented shear zone.

Variscan is compiling and electronically converting all available records from the old mining area as well as former exploration conducted by the BRGM during the 1980's. The Company is constructing a 3D model of the mine which will be used to help elucidate the structural controls on mineralisation and target surface core drilling. This work is now well advanced.

To the north and south of La Bellière old data indicates the presence of parallel shears, highlighting the potential for additional gold deposits within the immediate proximity of the mine and in the remainder of the St Pierre PER. To help define this potential the Company is conducting a detailed

auger soil geochemistry programme to generate additional drilling targets. Assay results are now being received from ALS and will be reported on once a sufficient number has been compiled and interpreted.

Other Applications

Variscan has six other applications for exploration licences in France within the approvals process, each of them over projects with good potential for short term resource generation and/or major new discoveries. Two of these applications have now reached the final stages of the application process.

AUSTRALIA

Exploration activity within Variscan's Australian joint ventures was subdued for the quarter. No significant work was completed.

Investments

Variscan maintains a diversified portfolio of investments within a number of ASX-listed resource companies. The companies within the portfolio are:

Eastern Iron – Advanced iron project and potential for VMS copper-gold mineralisation in Victoria

Silver City Minerals – Exploration interests at Broken Hill, NSW and in North Queensland

Thomson Resources – Dominant landholding within the Thomson Fold Belt, NSW

Aguia – Phosphate and potash projects in Brazil

As at 28 January 2015, the total value of the Variscan shareholdings in ASX listed resource companies stood at approximately $2.0 million.

EASTERN IRON LIMITED

Nowa Nowa Iron

Eastern Iron (ASX: EFE) completed its Mine Feasibility Study at the Nowa Nowa Iron Project in eastern Victoria.

During the quarter, the company released the results of a study carried out by independent consultants Innovative Shipping Group Pty Ltd (ISG), which investigated the potential to load iron concentrate directly to suitably configured bulk carrying vessels off the Victorian coast approximately 20 kilometres from the mine site.

The proposal is that iron concentrate would be delivered from the mine either by truck or slurry pipeline some 15 kilometres to a point close to the coast south of the mine site, loaded into a slurry line and pumped offshore directly onto +100,000 tonne vessels. The bulk carrier would be attached to a single-point bottom-anchored mooring with the slurry line secured to the sea floor and entering the vessel at the mooring point similar to that used at the Taharoa iron sands operation in New Zealand.

ISG has advised that "the study has clearly demonstrated that the technologies required to deliver slurry to ship are already available, proven mature technologies."

Estimate of costs from ISG's report suggests that operating costs for mine gate to ship are of the order of A$15.00 per tonne of product. The feasibility study estimated total mine site costs of A$26.10 per tonne for a total FOB cost of A$41.10 per tonne (US$34.00 per tonne), resulting in a very cost competitive operation. No allowance has been made at this stage for additional process (crushing) costs that may be required depending on the sizing selected as optimal for slurry operations.

ISG estimates that capital costs are likely to be in the order of an additional A$16 million for a total project capital cost of A$49.6 million.

Nowa Nowa Copper

The Nowa Nowa exploration tenement covers a large area of Silurian volcanics which are believed to be the same host units to a number of VMS deposits such as Benambera to the north. A recent VTEM survey has identified four high priority EM anomalies (Figure 6) including one over the Three Mile prospect in the south eastern corner of the licence where previous drilling intersected significant copper, lead, zinc and gold mineralisation including 13.6 metres at 3.8% Cu which is open at depth and along strike.

Follow up ground EM and drilling is planned.

Variscan's shareholding in Eastern Iron is 52.9 million ordinary shares (36.7%). As at 28 January 2015 EFE shares were trading at $0.023. More details regarding Eastern Iron's activities can be obtained from its website.

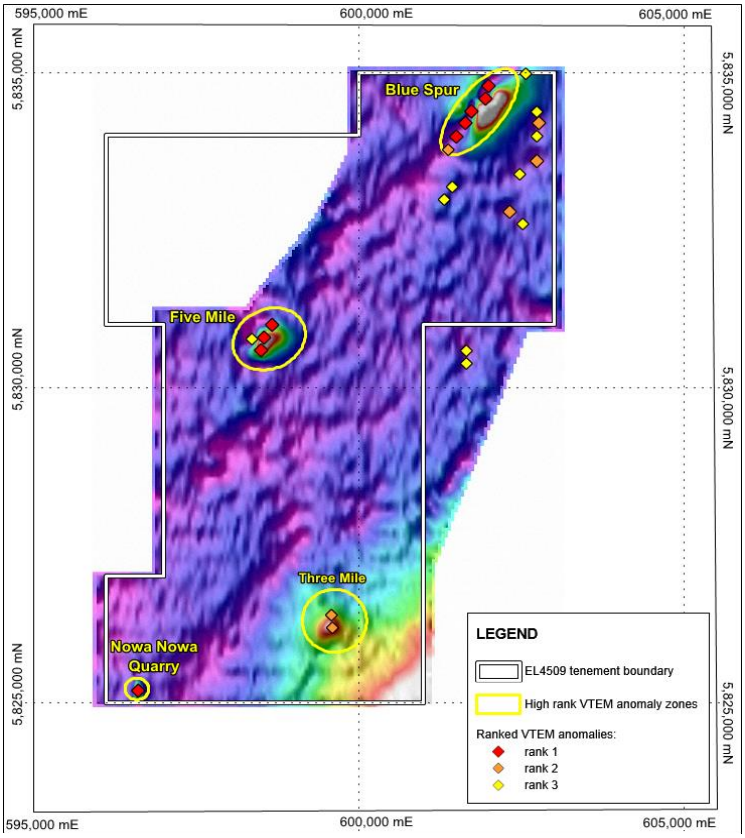

Figure 6 - VTEM image from Nowa Nowa showing the main anomalies (courtesy of Eastern Iron).

THOMSON RESOURCES LTD

Recent work by Thomson Resources (ASX: TMZ) has generated a number of strong drill targets in the Thomson Fold Belt, as well as the Lachlan and New England Fold Belts in NSW. Two targets have resulted from a recent airborne VTEM survey; the Wilga Downs copper project near Byrock and the Achaye zinc/lead/silver VMS target near Mudgee.

At Wilga Downs the VTEM survey outlined a strong conductor directly below old drilling that had detected anomalous copper and zinc values within similar host rocks to the Tritton copper mine 90 kilometres to the south. The company received environmental approvals and landowner access agreements were reached. Assessment for the need for further ground EM to pinpoint drilling is under way. Drilling is expected to commence in the first half of 2015.

The Achaye prospect the VTEM survey area covered zones of previously identified base metal sulphide mineralisation where historic drilling had tested a SIROTEM anomaly and intersected strongly anomalous copper (up to 1% over 1m) and zinc (up to 2.2% over 1m) associated with sporadic massive sulphide (pyrrhotite) mineralisation. The VTEM survey defined a stronger, deeper anomaly around 400 metres west of the Achaye drilling which has not been previously tested. It represents a priority VMS target and will be followed up with soil and rock chip geochemistry as well as a ground EM geophysics survey to confirm the geometry and dip of the conductor prior to drilling.

The company has been successful in attracting Co-operative drilling grants from the NSW Government for several of its targets and is working its way through the approvals process ahead of drilling.

Variscan holds 18.0 million fully paid Thomson shares, or 25.7% of the company. As at 28 January 2015 TMZ shares were trading at $0.021. For further details please refer to the Thomson Resources website.

SILVER CITY MINERALS LIMITED

Broken Hill

Silver City (ASX: SCI) completed a comprehensive assessment of all geological aspects of Broken Hill region. Three high priority targets were identified:

- Razorback West Corridor is a poorly exposed and explored belt of rock which is likely to be the northern, fault off-set, extension of the Broken Hill “line-of-lode”, the geological corridor which hosts the giant Broken Hill orebody. SCI has already identified a combined geophysical and geochemical anomaly which extends for 5 kilometres and is 1 kilometre wide. A moving-loop electromagnetic survey designed to detect conductive sulphide bodies is due to commence at Razorback West early in February 2015.
- Stephens Trig Corridor is the better exposed geological equivalent of Razorback West and hosts a number of BHT prospects and numerous old mine workings. Preliminary work by SCI at the Stephens Trig Prospect in 2012 returned an encouraging intersection of 1 metre of 7.4% zinc, 5.4% lead and 72 g/t silver.
- Balaclava is a fault-bounded block which encloses the southern extension to the Broken Hill “line-of-lode”. Silver City research of historic data indicates that a diamond drill hole from 1989 returned 10.1 metres of 6.8% zinc and 0.7% lead. The company recently completed a rotary air blast drilling program in the area with one hole drilling gossan for 9 metres from 2 metres downhole and returning 0.48% % zinc, 0.61% lead and 0.27% copper. Untested

electromagnetic conductors combined with strong geochemical anomalies and folded lode rock sequences make this area an attractive target for massive sulphide mineralisation.

Detailed evaluations of historic work coupled with geological mapping and geochemical sampling at the Balaclava project and the new Stephens Trig Target Zone are ongoing.

New Zealand

Silver City has been granted two tenements in the North Island of New Zealand approximately 35 kilometres east of Rotorua in the Taupo volcanic zone. The tenure covers an area of 94 square kilometres and was applied for by Silver City on the basis of historic exploration data and records that indicated gold mining had taken place in the area in the 1920s. Intermittent modern exploration programs have been conducted since the early 1980s but have failed to locate the historic mining activities within the dense exotic pine forest. All programs have however located anomalous gold in stream sediments and recognised high level advanced argillic alteration features typical of fossil epithermal systems.

Access and approvals to explore have been granted. Reconnaissance geological mapping and rock chip sampling are scheduled to commence shortly.

Variscan holds 14.5 million fully paid shares in Silver City, or 12.5% of the company. As at 28 January 2015 Silver City shares were trading at $0.027. For further details refer to the Silver City website.

WPG RESOURCES LTD

WPG Resources (ASX: WPG) is an iron ore, coal and gold exploration and development company with exploration tenements in South Australia. On 8 January 2015 WPG announced that Variscan Mines had sold its shareholding in the company, realising just under $380,000.

AGUIA RESOURCES LIMITED

Aguia Resources (ASX: AGR) holds interests in substantial phosphate and potash projects in Brazil. Aguia has reported JORC compliant resources at its Lucena and the Tres Estradas phosphate projects, with potential for further resource expansion apparent at both projects.

Variscan holds 1.185 million fully paid shares. As at 28 January 2015 Aguia shares were trading at $0.031. For further details refer to the Aguia website.

Business development

Variscan is progressing project acquisition work in France. It is currently in the advanced stages to secure additional licences within regions with demonstrated potential to host significant mineral deposits. The Company has significantly reduced its landholding of projects in both NSW and SA and has scaled back expenditure within Australia to assist in preserving its cash position.

Financial

Cash expenditure by Variscan on exploration and project appraisal for the quarter was $0.374 million. Expenditure by joint venture parties on projects in which Variscan has an interest was $41,200 for the quarter. Cash available for Variscan at the end of the year was $1.17 million inclusive of provision for funds received from the sale of the WPG shares.

Variscan Mines Limited

Greg Jones

Managing Director

The information in this report that relates to Exploration Results is based on information compiled by Greg Jones, BSc (Hons), who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Jones is a Director of Variscan Mines Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Jones consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.