ASX MEDIA RELEASE

Havilah Resources
A New Mining Force in South Australia

28 August 2019

Questions and Answers
Potential Investment by GFG in Havilah

Havilah Resources Limited (**Havilah**) has been asked a number of questions by shareholders in relation to the proposed investment in Havilah of up to $100 million (**Proposed Transaction**) by OneSteel Manufacturing Pty Ltd (**SIMEC**), a member of the GFG Alliance (together **GFG**). These questions, and Havilah's answers to the questions, are detailed in the table below.

Question	Answer
Why is the Independent Expert opinion "…not fair, but reasonable…"?	• The 'not fair' opinion expressed by the Independent Expert (**IE**) relates to price, with the IE being required to value Havilah on a control basis (i.e. GFG obtaining 100% of Havilah), where the investment occurs as a single upfront transaction and has a minority discount applied to the value. • The valuation methodology that the IE was required to adopt by the Australian Securities and Investments Commission (**ASIC**) does not make provision for the expected increase in value of Havilah due to the $50 million investment. • The valuation methodology that the IE was required to adopt did not permit it to take into account the fact that GFG is paying a premium to the pre-announcement share price for the majority of the shares issued to GFG. • The IE also did not allow for the fact that GFG is paying a premium to the current market value of Havilah shares, even though GFG's right to obtain the expected 51% interest is subject to a number of conditions being met. • The reality of the Proposed Transaction is that Havilah expects GFG to obtain a 51% interest in the company over a five year period, with Havilah already having a minority discount built into the current share price due to existing large shareholding positions. • The IE also expressed an opinion that the Proposed Transaction is 'reasonable', which means that in the absence of a superior proposal, the Havilah shareholders will be in a better position should the GFG transaction take place. • The IE also stated that "the position of Shareholders if the Transaction is approved is more advantageous than the position if the Transaction is not approved" (section 2.5 of the IER). • Therefore, despite being deemed 'not fair', the IE has concluded that in the absence of a better offer, the Proposed Transaction is reasonable and advantageous to shareholders.

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Question	Answer
Why do the independent directors support the deal?	• The independent directors believe this to be a transformational opportunity for Havilah as the proposed transaction has the ability to finally unlock the value of Havilah's multi-commodity portfolio of assets which are currently inhibited due to a lack of funding to advance the projects. • No other offers are currently available for consideration despite multiple discussions with various parties over the years. • The funding of up to $100 million will fully fund the Copper Aura and Iron Genesis projects (**Projects**) for the next 3 years to completion of definitive feasibility study (**DFS**) phase. • GFG, as the majority shareholder (once it has a 51% interest in Havilah), has the capability to 'underwrite' half the potential future capital requirements, assuming it does not want to be diluted, to get the Projects and Kalkaroo developed. • GFG will be a strategic long-term partner allowing Havilah to leverage GFG's iron ore mining experience, sell its raw material offtake to GFG, access the Whyalla port for exports and access international capital markets. • Havilah will retain control of its destiny through the retention of an independent board and control of the day-to-day decision making over the Projects. • GFG will be acquiring the majority of its shares at a premium to the pre-announcement 45 day VWAP (volume weighted average price) share price. • GFG's $50 million in committed funding exceeds the IE's valuation on a control basis for a 51% stake. • The capital injections by GFG will provide Havilah shareholders exposure to a business that despite shareholder dilution, is expected to have a much greater value than Havilah's value today.
Does Dr Chris Giles support the transaction?	• As detailed in the notice of meeting (**NOM**), Dr Giles has stated that he makes no recommendation (i.e. he is not making a recommendation in his capacity as a director as to how shareholders should vote on the resolution at the extraordinary general meeting (**EGM**)). • His reasoning for this is that the IE report states that the transaction with GFG is not "fair". • Dr Giles has not stated how he will vote on the resolution at the EGM.

Question	Answer
How does the structure of the Proposed Transaction benefit Havilah?	• The Proposed Transaction has been structured to preserve the position of Havilah and to protect the interests of Havilah's current shareholders. • Havilah will not issue shares to GFG in respect of milestones for which GFG does not provide funding. • Funding for each milestone will only take place once technical and financial success criteria have been met, noting that Havilah has control over the assessment process. • If success criteria are not met for a particular milestone, then funding ceases and Havilah will not issue any further shares to GFG as part of the milestone funding, meaning that no further dilution for Havilah shareholders takes place but funding from GFG will also cease. • The failure to meet success criteria does not allow GFG to exercise its security (explained in more detail to follow).
Why does Havilah need GFG as an investor?	• GFG is proposing to invest up to $100 million of capital into Havilah. • Funding of this size has not been made available from other sources despite efforts from Havilah over time to secure it. • GFG also provides Havilah with many benefits as a strategic partner. These include technical expertise, potential access to the Whyalla steelworks and export facility and access to GFG's global network.
Why doesn't Havilah simply raise debt or equity from the market to fund the developments?	• The amount of capital relative to the current market capitalisation of Havilah is too large to successfully undertake an equity raise at an appropriate price that would allow Havilah to materially advance the Iron Genesis Project or the Copper Aura Project and that would not have a dilutive affect similar to, or greater than, the Proposed Transaction. • Debt funding at a large scale is also not feasible at this stage, as Havilah is not generating significant cash flow nor does it have assets of sufficient value.
Why doesn't Havilah do an asset farm-in arrangement instead of the GFG Proposed Transaction?	• Depending on the deal, a farm-in in the iron ore assets of Havilah would likely result in loss of control over the assets prior to the value of the assets being confirmed. • There are many examples where minority joint venture parties (as Havilah would ultimately become) do not get appropriate value for their joint venture position or become subservient to the majority partner plans. • A farm-in also would not provide upfront funding for corporate costs, discretionary exploration, the management of Kalkaroo Station or advancement of the Copper Aura Project, whereas the Proposed Transaction does. • A farm-in also does not align the interests of both parties to support Havilah's share price where the Proposed Transaction does. • There is also the risk with a farm-in of being out funded with Havilah potentially not having the capital available to contribute to maintain its interest thereby being diluted to a tonnage royalty.

Question	Answer
Will GFG control Havilah?	• The Proposed Transaction will not provide GFG with control over management decision making or strategic direction. • GFG will only have control with respect to an ordinary resolution that is put to shareholders at a general meeting. • The share subscription agreement for the Proposed Transaction requires that Havilah's board, as well as its board committees, comprise a majority of independent directors, meaning that GFG would be in breach of the agreement by seeking to appoint a majority of nominee directors to Havilah's board or otherwise seeking to control the board. • The Corporate Governance Principles and Recommendations for entities listed on the Australian Stock Exchange (**ASX**) also recommends that the chair and majority of directors are independent. • The Proposed Transaction does not provide GFG with access to underlying cash flows, control over dividend policies or access to tax losses. • Havilah management will maintain control over day-to-day decision making.
How does the structure of the Proposed Transaction protect minority shareholders?	• Technical and financial success criteria must be met in order for a new milestone and associated funding to be initiated. Therefore, if the success criteria are not met then shares will no longer be issued to GFG and funding will cease. • GFG will be restricted with respect to its dealing with major decisions on certain assets, such as Kalkaroo, as it will be a related party of Havilah and thus excluded from voting if the proposed dealing involves GFG or a related party of GFG. • Creep restrictions will prevent GFG from acquiring more than 3% of shares on-market in each six month period. • Current shareholders will retain a blocking stake of over 10% after dilution, hence making the 90% compulsory acquisition threshold difficult to achieve.

Question	Answer
What will this funding allow the Company to do?	• The funding of up to $100 million can be separated into two funding components. • The first $50 million is committed funding: ➢ $15 million for Copper Aura over the next 3 years to completion of a successful DFS phase ➢ $33 million for Iron Genesis over the next 3 years to completion of a successful DFS phase ➢ $2 million for corporate costs, tenement administration and the management of Kalkaroo Station • The second $50 million of contingent/conditional funding: ➢ $17 million (35% contingency on project funding) – at Havilah's election and GFG's discretion, for additional project funding at the request of Havilah ➢ $8 million – at Havilah's election and GFG's discretion, for general corporate and administration costs, discretionary exploration and permitting. ➢ $25 million – at Havilah's election and GFG's discretion, for a portion of the Copper aura Project development.
Is GFG taking over Havilah without paying a premium?	• The majority of the shares issued to GFG as part of the Proposed Transaction will be issued at a premium to the pre-announcement share price. • For such time as GFG holds up to 30% of Havilah, milestone shares will be issued at a premium of 22% to the pre-announcement 45 day VWAP share price. • For such time as GFG holds more than 30% and up to 51% of Havilah, milestone shares will be issued at a premium of 35% to the pre-announcement 45 day VWAP share price. • GFG is paying this premium without being certain of the expected 51% interest in Havilah. • GFG's $50 million in committed funding exceeds the IE's valuation on a control basis for a 51% stake.
Is GFG buying Havilah for a bargain price?	• $50 million of committed funding by GFG for early stage higher risk projects exceeds the IE's valuation on a control basis for 51%. • The total funding available from GFG also includes a potential second $50 million, which provides Havilah with certainty, optionality and flexibility with respect to access to additional potential capital.
Will GFG immediately receive a 51% interest?	• It will take GFG up to 5 years to achieve the expected 51% interest, during which time GFG will have invested up to $50 million in Havilah. • GFG will not obtain this 51% interest if it ceases to provide milestone funding over that period or the milestones do not meet the technical or financial success criteria.

Question	Answer
Can GFG acquire 51% in Havilah whenever it wants?	• No, GFG cannot acquire 51% of Havilah whenever it wants as Havilah will only issue shares to GFG at the end of each milestone, noting that there are 22 milestones for the Proposed Transaction over a period of approximately five years.
Will GFG take security over all of Havilah's assets?	• Security is limited to the Copper Aura and Iron Genesis Project assets.
Will GFG take control of Havilah through exercising its security?	• The security only relates to the value of funds provided on a milestone by milestone basis. • The security can only be exercised if Havilah becomes insolvent and cannot issue shares to GFG at the end of the relevant milestone, at which time a receiver would be appointed to sell the relevant assets on the market. The proceeds of that sale would be used to repay GFG for the funding provided for that milestone and the balance of the proceeds would be retained by Havilah. If GFG wished to acquire the assets it would have to enter a bidding process to acquire the assets as it does not have a right to take the assets. • It would not be possible for GFG to exercise the security due to technical or financial success criteria for a milestone not having been met. If these criteria are not met, Havilah would still issue the relevant milestone shares to GFG (but the funding of future milestones would then cease).
Will dilution of Havilah shareholders continue if milestones are not met?	• If the work product of a milestone does not meet the technical and financial success criteria for that milestone, then GFG will cease to provide milestone funding and the Company will cease to issue shares in relation to that funding, meaning that no further dilution will occur in respect of that funding.
What actions have been taken to secure a superior offer to the Proposed Transaction?	• Discussions with GFG to negotiate the Proposed Transaction took almost 12 months to complete. • There have been a number of discussions with various parties over the years with respect to most of Havilah's assets. • There have not been any other offers put forward that have been deemed by the board to be in the best interests of shareholders.
What is Havilah's short-term strategy if the Proposed Transaction is not approved?	• The independent directors are committed to the Proposed Transaction and no decision has been made by the board at this stage as to what it would do in the event that the resolution is not passed. • It follows that unless Havilah could find a strategic partner like GFG willing to commit significant funds at a premium, the funds would likely be raised through placements and rights issues priced at a discount to the prevailing market price (which would be dilutive to current shareholders). • It is worth noting that the funds required to fund the work program for the Copper Aura and Iron Genesis Projects, as outlined in the NOM, far exceed the current market capitalisation of Havilah.

Question	Answer
Isn't GFG getting Kalkaroo for nothing?	• Kalkaroo currently has limited value due to material expenditure required to complete a DFS and substantial development funding required to get the project to production. • The current market capitalisation of Havilah reflects what the market believes the company and all its assets are worth and GFG is investing at a substantial premium to the current market capitalisation. • It is only once the significant development funding (likely in excess of $500 million) has been secured that the true value of Kalkaroo can be realised. • Kalkaroo is not part of the GFG funding and the share subscription agreement provides Havilah with flexibility to consider all options regarding its development. • GFG will be a shareholder of Havilah and will have no special rights with respect to Kalkaroo. • GFG will be restricted with respect to its dealing with Kalkaroo, as it will be a related party of Havilah, which excludes GFG from voting on any shareholder resolutions relating to a transaction with GFG in relation to Kalkaroo. If the resolution is successful at the EGM, Havilah will be in a stronger strategic position with respect to Kalkaroo, as it will likely be able to negotiate better deal terms with other interested parties, as they relate to potential farm-in / transactional opportunities.
Is Kalkaroo not more valuable now that the gold price has increased significantly?	• Although the gold price has increased since the Proposed Transaction was unanimously approved by the Havilah board of directors, the copper price has decreased, offsetting the potential impact on the economics of Kalkaroo. • Although the gold price is higher than the long term consensus forecast for the gold price used by the IE, the current copper price is lower than the long term consensus forecast for copper, offsetting almost all of the potential impact on the economics of Kalkaroo.
The iron ore assets are valuable, isn't this why GFG desperately needs the raw material for its Whyalla plant?	• Havilah's iron ore assets are potentially large with an exploration target but not a JORC Resource (refer ASX announcement of 5 April 2019). • Value for these assets will only be realised once significant drilling, study costs and capital to develop these deposits have been incurred. • Havilah understands that GFG has a number of other options in relation to iron ore supply, including its own iron ore produced through SIMEC. • There are also a number of other iron ore deposits in South Australia and the Breamar iron ore province that have not been able to be advanced for many years.

Question	Answer
Will the independent directors issue all the shares to GFG soon after the EGM has completed?	• A binding share subscription agreement has been entered into between Havilah and GFG, which will govern the Proposed Transaction should the resolution be approved at the EGM. • This agreement has obligations and responsibilities in-built that prevent the issue of shares that are not in line with its terms. • As a result, it is not possible for the independent directors to issue all the shares to GFG at their election outside of the agreement unless the agreement was significantly amended and shareholder approval received (excluding votes cast by GFG).
What are the benefits of having additional independent directors on the board?	• Additional independent directors will ensure that the board remains independent in its decision making. • New independent directors will add to the capability of the board and enhance the rigour and debate around decision making.
How can we be sure future commercial contracts with GFG will be at an arm's length basis?	• Due to the shareholding that GFG would acquire as a result of the Proposed Transaction, Havilah would need to comply with applicable restrictions under the *Corporations Act 2001 (Cth)* and ASX Listing Rules in entering into any future transaction with GFG. • Please see the section in the NOM titled "Additional shareholder protections in transactions with SIMEC and the GFG Alliance" for further information on this issue.
As an alternative transaction, has the Havilah board considered selling or entering into a joint venture with respect to Kalkaroo?	• Havilah has approached over 25 Australian and international mining companies and potential investors over the last 12 months seeking interest in Kalkaroo. A number of the parties have investigated the project including access to a data room and attending site visits. • Havilah remains in communication with some interested parties and continues to investigate potential attractive outcomes. • The Havilah board believes that a stronger Havilah will achieve a better outcome from Kalkaroo for its shareholders.
What will the Proposed Transaction mean for other stakeholders (the State, the communities and native title holders)?	• The Proposed Transaction, if successful, could establish Havilah as a potential long-term iron ore and copper producer in South Australia, which supports South Australia's Copper Strategy to supply 1 million tonnes of copper per annum by 2030 and the Magnetite Strategy to secure $10 billion of committed investment in iron ore projects. • There will be significant job creation during construction and mine operations, much of which will be generated locally. • The Projects can potentially support future Whyalla steel production • There will be significant royalties paid to the South Australian State Government. • Native title claimants can benefit through employment, training and business opportunities. • There is expected to be a marked improvement in regional infrastructure, with upgraded roads, electricity and communication systems.

For further information visit www.havilah-resources.com.au

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