

14 February 2019

Mr James Rowe
State Manager, Listings Compliance (Perth)
ASX Limited
Level 40, Central Park
152-158 St Georges Terrace
PERTH WA 6000

Dear Mr Rowe

HARDEY RESOURCES LIMITED (HDY) – PROPOSED REMOVAL FROM OFFICIAL LIST

We refer to your letter dated 22 January 2019 and respond to your questions as follows:

1. ***Please explain when and why the directors of HDY decided to engage Agricola to provide the Valuation Report.***

The board decided to engage Agricola on 14 December 2018.

The board sought the valuation as a result of the ASX letter of 29 November 2018 in which ASX indicated that ASX would have applied ASX Listing Rule 10.1.5 to the acquisitions of Nelly Vanadium and Vanadium Mining, which would have required that an independent expert's report be prepared for provision to shareholders. This in turn necessitated the preparation of a valuation of the assets acquired by the Company.

In this regard, the board was being proactive, as it believed ASX would eventually require an independent expert's report and valuation report in respect of the transactions.

2. ***Please explain the factors that HDY directors took into account in choosing Agricola to provide the Valuation Report and specifically any previous experiences that any of the HDY directors may have had working with Agricola.***

The board took into account the experience of Agricola in previous roles for companies with asset valuations completed and reported in accordance with the Valmin Code 2015.

Agricola's lead consultant, Malcolm Castle, has 50 years experience in the sector and specialises in mineral asset valuations and independent geological reports. His previous experience was fitting for the task at hand.

Specifically, the board considered the Victory Bore mineral valuation report prepared for Quest Minerals Limited (previously ASX: QNL, now High Grade Metals Limited, ASX:HGM), which was prepared by Malcolm Castle of Agricola to be sufficient experience in the mineral valuation of vanadium assets. Malcolm Castle holds extensive experience in mineral valuation and can demonstrate prior experience in the mineral valuation of Victory Bore, a vanadiferous titano-magnetite mineral asset

valued and reported under the Valmin Code 2015.

Furthermore, Malcolm Castle is a Director of BMG Resources Limited (ASX:BMG) an ASX listed entity that holds South American mineral assets. Malcolm Castle has held a Director's position of BMG since 24 November 2010.

3. Please provide a copy of the engagement letter between HDY and Agricola relating to the Valuation Report (this is not for release to the market).

Refer to the enclosed engagement letter.

4. Please list the materials that HDY provided to Agricola to enable it to prepare the Valuation Report.

The materials that were provided to Agricola to assist with preparation of the valuation report, were:

- (a) Copies of the reactivation application for the Nelly Vanadium Mine and letter from the Company to the San Luis Mines Department dated 6 August 2018.
- (b) Summaries of comparable vanadium transactions. the summaries included comparable vanadium mineral transactions (plus an Excel spreadsheet that contained a summary of the financial transaction information).
- (c) The publicly available source documents for comparable vanadium mineral transactions, that included:
 - (i) AssembleBay Limited (ASX: SVD) ASX Release 19 September 2018 'Prospectus';
 - (ii) AssembleBay Limited (ASX: SVD) ASX Release 14 November 2018 'Completion of ScandiVanadium Acquisition and Skane Vanadium project Presentation';
 - (iii) Bushveld Minerals Limited (AIM: BMN) RNS Number: 8601B 06 April 2017 'Completion of Vatmeco Acquisition;
 - (iv) Bushveld Minerals Limited (AIM: BMN) RNS Number: 9188X 30 November 2017 'Proposed Acquisition of 55 per cent of the Issued Capital of Bushveld Vatmeco, Admission of the Enlarged Share Capital to Trading on AIM and Notice of General Meeting';
 - (v) Tando Resources Limited (ASX: TNO) 22 March 2018 'Tando to Acquire High Grade Vanadium project';
 - (vi) Hardey Resources Limited (ASX: HDY) ASX Release 3 July 2018 'Investor Presentation: Nelly Vanadium Mine, San Luis, Argentina, 'Hardey to Acquire High-Quality Vanadium Mine in Argentina';
 - (vii) Hardey Resources Limited (ASX: HDY) ASX Release 4 July 2018 'Investor Presentation: Nelly Vanadium Mine, San Luis, Argentina, "Opportune time to re-open a vanadiummine";
 - (viii) Hardey Resources Limited (ASX: HDY) ASX Release 13 July 2018 'Global Mining Consultancy Appointed to Review Nelly Vanadium

- Mine';
- (ix) Hardey Resources Limited (ASX: HDY) ASX Release 24 July 2018 'Due Diligence on Nelly Vanadium Mine to be Expedited';
 - (x) Hardey Resources Limited (ASX: HDY) ASX Release 7 August 2018 'SRK Team Identify Numerous Stockpiles and Untapped Mineralisation';
 - (xi) Hardey Resources Limited (ASX: HDY) ASX Release 13 August 2018 'Queensland Projects Within Enriched Vanadium Mineralised Zone';
 - (xii) Hardey Resources Limited (ASX: HDY) ASX Release 15 August 2018 'Extended Mineralised Vein at Least 1.5Km Long Identified at Nelly Vanadium Mine Confirms Significant Exploration Upside';
 - (xiii) Hardey Resources Limited (ASX: HDY) ASX Release 22 August 2018 'Increasing Confidence in Four Queensland Vanadium Projects';
 - (xiv) Hardey Resources Limited (ASX: HDY) ASX Release 24 August 2018 'Northern Territory Projects in the Right Vanadium Neighbourhood';
 - (xv) Hardey Resources Limited (ASX: HDY) ASX Release 28 August 2018 'SRK Concludes High-Grade Vanadium Mineralisation at Nelly Vanadium Mine';
 - (xvi) Hardey Resources Limited (ASX: HDY) ASX Release 31 August 2018 'Strategic Advantages from Re-Opening Nelly Vanadium Mine';
 - (xvii) Hardey Resources Limited (ASX: HDY) ASX Release 1 October 2018 'Annual Report for the Year Ended 30 June 2018';
 - (xviii) Hardey Resources Limited (ASX: HDY) ASX Release 31 October 2018 'Quarterly Activities Report Quarter Ended 30 September 2018';
 - (xix) Investor Presentation Nelly Vanadium Mine, 'Building New Vanadium Supply Chains, April 2018' 2017;
 - (xx) Geological Presentation of the Vanadium Mining Pty Ltd assets, version 06 April 2018;
 - (xxi) Geological Presentation of the Nelly Vanadium Mine, version 30 August 2018;
 - (xxii) Hardey Resources Limited (ASX: HDY) AGM Presentation;
 - (xxiii) SRK Consulting (Argentina), 2018. Independent Review on the Geological Potential of the La Nelly Vanadium Project, San Luis, Argentina (Final Version), SRK project number: M-A360. Unpublished report supplied to Hardey Resources Limited;
 - (xxiv) Bohlsen, Matt, 2018. Vanadium Miners News for the Month of November 2018, published 29 Nov 2018, Seeking Alpha: Quick Picks & Lists;
 - (xxv) Bohlsen, Matt, 2018. A Brief Update on the Vanadium Boom,

published 3 Dec 2018, Seeking Alpha: Quick Picks & Lists; and

(xxvi) East, Angela, 2018. ASX Vanadium Stocks: here's everything you need to know, published 29 October 2018.

5. Please advise whether Agricola undertook any work to enable it to independently verify the status of the tenement for the Nelly Vanadium Mine, as it is required to do under section 7.2 of the VALMIN Code 2015.

Agricola was not able to independently verify the status of the tenure underlying the Nelly Vanadium Mine as limited information is available from the San Luis Mining Department in electronic format, particularly to a third party that is not the registered holder or applicant.

Agricola undertook extensive internet searches for information on the Nelly Vanadium Mine in Argentina but was unable to identify any formal notification in the mineral tenement, its current owner and the grant date. Agricola did not rely solely on the information published by the Company to the ASX and undertook a detailed review of the presentation by Condor Prospecting S.A., which is independent of the commissioning entity (the Company). Agricola has confirmed that the Nelly Vanadium Mine is listed in the Mineral Resources Data System maintained by the USGS (Record ID D000140) and is included in GONZALES, R. R. L., 1957; FESTER, G. A., AND FEIRA, A., 1949-SEE USGS BULL. 1316.

Agricola also sighted the tenure reactivation application and letter from the Company to the San Luis Mines Department, as well as the report prepared by SRK Consulting in respect of the Nelly Vanadium Mine. Given the status of the tenure (i.e. an application for reactivation), the Company understands that Agricola was comfortable with these enquiries given that the valuation report disclosed the fact that the tenure remains under application for reactivation.

6. Please identify the "in-country shareholder" who holds "5% of the rights" to the Nelly Vanadium Mine".

The Company acquired 100% of the shares in Nelly Vanadium Pty Ltd. The application for the tenure underlying the Nelly Vanadium Mine is in the name of Condor Prospecting S.A. Once the Nelly Vanadium Mine application is granted to Condor Prospecting S.A., 100% of the interest in the granted mining lease will then be transferred to a newly incorporated company, which the Company understands will be Metal Energy S.A. While the use of Metal Energy S.A. for this process has not been formally agreed with Condor Prospecting S.A. to date, the agreement entered into with Condor Prospecting S.A. clearly contemplates that a special purpose vehicle will be incorporated to facilitate the transfer of the Nelly Vanadium Mine to the Company.

The Company understands that Condor Prospecting S.A. holds a number of other assets, which is the reason that the transaction was structured to incorporate the use of a special purpose vehicle rather than as an acquisition of Condor Prospecting S.A. directly.

Nelly Vanadium has acquired 1,900 shares in Metal Energy S.A. (refer to the Company's response to question 7 below). 100 shares in Metal Energy S.A. are held by an Argentinian resident, Maria Eugenia Bustelo. The Company understands that it is the preferred commercial model in Argentina to have an in-country resident as a shareholder of the company to facilitate the grant of the tenement. To this end, Ms Bustelo will have no interest in the Nelly Vanadium Mine itself, only an interest in the company that will hold the tenement underlying the Nelly Vanadium Mine.

A deed of arrangement will be entered into with Ms Bustelo, which will state that she is holding the shares in Metal Energy S.A. on trust for Nelly Vanadium.

7. ***Please provide a summary of the due diligence enquiries that HDY undertook in relation to the “in country shareholder” who holds “5% of the rights” to the Nelly Vanadium Mine and in relation to what those rights are before agreeing to acquire the balance of the interest in the Nelly Vanadium Mine, and the results of those enquiries.***

The Company has sighted share certificates confirming that:

- (a) Nelly Vanadium is the holder of 1,900 shares in Metal Energy S.A.; and
- (b) Maria Eugenia Bustelo is the holder of 100 shares in Metal Energy S.A.

The Company has not received confirmation with respect to the total issued capital of Metal Energy S.A. However, the Company will complete the investigations necessary to confirm this prior to the mining lease being transferred to Metal Energy S.A.

8. ***Please explain how an “in-country shareholder” can hold “5% of the rights” to the Nelly Vanadium Mine when the tenement for that mine appears to have lapsed and requires reactivation.***

Refer to the Company's response to question 6 above.

9. ***Please explain precisely what “rights” the “in-country shareholder” has in relation to the Nelly Vanadium Mine.***

Refer to the Company's response to Question 6 above.

10. ***Please provide a copy of the letter sent by Nelly Vanadium Pty Ltd to the Director of San Luis' Mining Department regarding the change of ownership and, if that letter is not in English, an English translation.***

Refer to enclosed letter to the San Luis Mines Department.

11. ***Was a copy of that letter and, if the letter is not in English, an English translation, provided to Agricola for the purposes of the Valuation Report?***

The letter was provided to Agricola.

12. ***Has Nelly Vanadium Pty Ltd received a response from the Director of San Luis' Mining Department to that letter?***

No.

13. ***If the answer to question (13 ASX TYPO) 12 is “yes”, please provide a copy of the response and, if that letter is not in English, an English translation.***

Not applicable.

14. ***If the answer to question (13 ASX TYPO) 12 is “no”, please explain the basis on which the directors of HDY decided that it was in the interests of HDY's shareholders to complete the acquisition of Nelly Vanadium and to issue the Consideration Shares and the Consideration Options to the shareholders of Nelly Vanadium Pty Ltd when there was a risk that the application for reinstatement of the tenement for the Nelly Vanadium Mine could be delayed or rejected.***

The transaction was based on post-application settlement. There is always a risk when acquiring an application for a tenement. The Board considers that the transaction was priced accordingly.

- 15. Please provide a copy of any legal advice HDY received regarding the process for re-instating a tenement in Argentina.**

The Company was not provided legal advice regarding the process for re-instating a tenement in Argentina.

- 16. Please confirm whether ASX's assumption above that HDY did not undertake a tenement search for the Nelly Vanadium Mine before completing the Nelly Vanadium Acquisition is correct or not?**

A tenement search for the Nelly Vanadium Mine was not undertaken. However, the Company has a copy of the application made by Condor Prospecting S.A., which includes the Mine Identifier.

The "Mine Identifier" for the tenure underlying the Nelly Vanadium Mine is 953-L-2003. Although that tenement has officially lapsed, the Company understands that it is available for reactivation. If reactivated, it is to be reactivated under the same tenure number. The reactivation processes occurs under form "Solicitud De Mina Vacante" or a "Vacant Mine Application".

- 17. If ASX's assumption is correct, please explain how the directors of HDY satisfied themselves as to the ownership of the tenement for the Nelly Vanadium Mine before committing HDY to purchase Nelly Vanadium.**

Refer to the Company's response to question 16 above.

- 18. If ASX's assumption is not correct, please explain why a copy of that search was not provided to ASX in response to the 2nd Query Letter.**

Not applicable.

- 19. In light of the concerns that ASX has identified above with the valuation assumptions for the Nelly Vanadium Mine stated in the Valuation Report, how confident are the directors that the valuation of the Nelly Vanadium Mine is a fair and reasonable one?**

Agricola used methodology that took into account the early stage of the project reactivation and discounted the value accordingly. The Valuation Report expressly contemplates that the historic mining tenure has been applied for reactivation.

Given Agricola's experience in valuing mineral exploration projects, the Board is confident that the valuation of the Nelly Vanadium Mine is a fair and reasonable one.

- 20. Please disclose the identity of the person or persons who received the 30,000,000 shares from Pacific Continental and what (if anything) HDY knows about their connection (if any) with Pacific Continental or the other Everblu Associates and the reasons for the transfer.**

The Company has been advised by Adam Blumenthal that the sale from Pacific Continental was an arm's length sale (agreed after the initial suspension of the Company from trading) to be conducted at the last sale price prior to the Company's suspension (\$0.003) to Jamber Investments Pty Ltd, a client of EverBlu. The sale was agreed after the initial suspension.

Adam Blumenthal advised that, while an off-market transfer form was signed, the sale consideration was not paid due to the Company's suspension being extended. As such, the parties agreed to unwind the transaction when it became clear that suspension was going to continue for a prolonged period.

For and on behalf of the Board,

Sarah Smith
Company Secretary

22 January 2019

Ms Sarah Smith
Company Secretary
Hardey Resources Limited
Level 1, 1 Altona Street
WEST PERTH WA 6005

By email: ss@miradorcorporate.com.au

Dear Ms Smith

HARDEY RESOURCES LIMITED (“HDY”): Proposed removal from the Official List

ASX Limited (“ASX”) refers to:

- the letter from HDY to ASX dated 17 January 2019; and
- the valuation report (“Valuation Report”) enclosed with that letter from Agricola Mining Consultants Pty Ltd (“Agricola”) dated 21 December 2018 proving a valuation of mineral assets held by Vanadium Mining Pty Ltd and Nelly Vanadium Pty Ltd in Argentina and Australia.

Unless otherwise defined in this letter, capitalised terms in this letter have the same meaning as in earlier ASX correspondence.

The stated purpose of HDY providing the Valuation Report to ASX

The purpose of HDY providing the Valuation Report to ASX was said in HDY’s 17 January letter to be:

“... the Board commissioned and has received an independent valuation on the value of the acquisitions in question to prove that the Board at all times acted appropriately and has delivered high quality transactions that provide a significant upside to shareholder value. The Company in conjunction with this response has provided ASX a copy of this independent valuation report.”

The Valuation Report has, however, raised further issues for ASX, identified by the numbered questions and requests for information in bold below.

ASX notes from Agricola’s website (<http://agricolaconsult.com/>) it claims “[d]etailed exposure to a wide variety of mineral deposits including Archean and epithermal gold, porphyry copper, volcanogenic massive sulphide, sedimentary hosted massive sulphide, nickel and rutile deposits throughout the Southwest Pacific, Australia, Southern and West Africa”.

ASX notes there is no reference on the website to Agricola having any experience in evaluating vanadium projects or South American mining projects. ASX further that Agricola did not conduct a site visit to the Nelly Vanadium Mine for the purposes of preparing the Valuation Report. Page 47-48 of the Valuation Report states:

“Based on its professional knowledge, experience, and availability of extensive databases and technical reports made available by various Government Agencies and the early stage of exploration, Agricola considers that sufficient current information was available to allow an informed appraisal to be made without such a site visit.”

On page 6 of the Valuation Report it is stated:

“Agricola has independently verified the status of the tenements in Australia pursuant to section 7.2 of the VALMIN Code 2015.”

Notably, the Valuation Report is silent on whether that same verification has been undertaken in relation to the Nelly Vanadium mine located on mine identifier 953-L-2003 in the San Luis Province, Argentina (“Nelly Vanadium Mine”).

- 1. Please explain when and why the directors of HDY decided to engage Agricola to provide the Valuation Report.**
- 2. Please explain the factors that HDY directors took into account in choosing Agricola to provide the Valuation Report and specifically any previous experiences that any of the HDY directors may have had working with Agricola.**
- 3. Please provide a copy of the engagement letter between HDY and Agricola relating to the Valuation Report (this is not for release to the market).**
- 4. Please list the materials that HDY provided to Agricola to enable it to prepare the Valuation Report.**
- 5. Please advise whether Agricola undertook any work to enable it to independently verify the status of the tenement for the Nelly Vanadium Mine, as it is required to do under section 7.2 of the VALMIN Code 2015.**

Status of tenure to the Nelly Vanadium Mine

On 23 September 2018, HDY provided ASX with a copy of the Binding Heads of Agreement (“Original Acquisition Agreement”) for the acquisition of Nelly Vanadium Pty Ltd (“Nelly Vanadium”). The Original Acquisition Agreement was varied by way of a Variation of Binding Heads of Agreement (“Variation”) dated 21 September 2018.

On page 13 of the Original Acquisition Agreement it states:

“(t) Tenement:

(i) Nelly Vanadium is the legal and beneficial owner of the Tenement, the details of which are set out in Annexure “D”

(ii) no person except Nelly Vanadium has any rights of any nature in respect of the Tenement.”

Annexure D of the Original Acquisition Agreement on page 17 specifies the Tenement as:

<i>“Mine Identifier</i>	<i>Location</i>	<i>Size</i>
<i>953-L-2003</i>	<i>San Luis Province, Argentina</i>	<i>53.08 HA”</i>

However, on page 6 of the Valuation Report it is stated:

“The Nelly Vanadium Mine holds historical workings, stockpiles and ruins related to the mine workings. The historic (now dormant) mining tenure has been applied for reactivation as 953-L-2003 with the Government of San Luis, Argentina. A material agreement exists, that once all conditions are met, will result in the transfer 100% of the holding company for the mining tenure to Hardy Resources Limited (ASX: HDY). The holding company has rights to 95% of the Nelly Vanadium Mine, with an in-country shareholder holding 5% of the rights, in line with how many foreign entities operate in Argentina”.

ASX notes that there does not appear to be disclosure in any announcement by HDY as to the identity of the in-country shareholder.

6. Please identify the “in-country shareholder” who holds “5% of the rights” to the Nelly Vanadium Mine”.
7. Please provide a summary of the due diligence enquiries that HDY undertook in relation to the “in-country shareholder” who holds “5% of the rights” to the Nelly Vanadium Mine and in relation to what those rights are before agreeing to acquire the balance of the interest in the Nelly Vanadium Mine, and the results of those enquiries.
8. Please explain how an “in-country shareholder” can hold “5% of the rights” to the Nelly Vanadium Mine when the tenement for that mine appears to have lapsed and requires reactivation.
9. Please explain precisely what “rights” the “in-country shareholder” has in relation to the Nelly Vanadium Mine.

On page 6 of the Valuation Report it is further stated:

“The owner (Nelly Vanadium Pty Ltd) has sent a formal letter to the Director of San Luis’ Mining Department (SLMD) detailing the change in ownership and forward plans for the Nell (sic) Vanadium Mine so that the Legacy Mining Right can be reactivated according to the Mining Law of Argentina.”

On page 37 of the Valuation Report it is disclosed:

“The historic tenement in Argentina is under application for re-instatement and there is a risk that granting may be delayed or rejected”.

10. Please provide a copy of the letter sent by Nelly Vanadium Pty Ltd to the Director of San Luis’ Mining Department regarding the change of ownership and, if that letter is not in English, an English translation.
11. Was a copy of that letter and, if the letter is not in English, an English translation, provided to Agricola for the purposes of the Valuation Report?
12. Has Nelly Vanadium Pty Ltd received a response from the Director of San Luis’ Mining Department to that letter?
13. If the answer to question 13 is “yes”, please provide a copy of the response and, if that letter is not in English, an English translation.
14. If the answer to question 13 is “no”, please explain the basis on which the directors of HDY decided that it was in the interests of HDY’s shareholders to complete the acquisition of Nelly Vanadium and to issue the Consideration Shares and the Consideration Options to the shareholders of Nelly Vanadium Pty Ltd when there was a risk that the application for reinstatement of the tenement for the Nelly Vanadium Mine could be delayed or rejected.
15. Please provide a copy of any legal advice HDY received regarding the process for re-instating a tenement in Argentina.

In its 2nd Query ASX asked:

“3. Please provide a copy of all tenement searches and geologist reports obtained by HDY or its advisers in the course of due diligence for the acquisition of Nelly Vanadium and Vanadium Mining (not for release to the market).”

HDY responded:

“The tenements searches and geologist reports are enclosed.

HDY notes that it conducted extensive due diligence on Nelly Vanadium and Vanadium Mining. In addition to Steinepreis Paganin, a senior partner of top tier law firm Freehills was appointed to

specifically conduct due diligence on Vanadium Mining. For Nelly Vanadium, considering the asset is located in Argentina, HDY appointed SRK Consulting to attend the site and prepare a comprehensive due diligence report for HDY. SRK Consulting is an independent, international consulting company employing more than 1,400 professionals internationally in over 45 offices on 6 continents.”

ASX notes that no tenement search was provided by HDY in respect of the Nelly Vanadium Mine and assumes therefore that HDY did not undertake a tenement search for the Nelly Vanadium Mine.

ASX further notes that the report from SRK Consulting referenced in the quoted passage from HDY’s response to the 2nd Query Letter above is titled *“Independent Review on the Geological Potential of the La Nelly Vanadium Project, San Luis, Argentina”* (“SRK Report”). The scope of the SRK Report (as set out on page 1 of the SRK Report) was:

“Review of geological information of the Nelly vanadium deposit, which includes public and private reports, geological maps, sections, assays, QAQC program, geological models, etc.

- *3-day site visit.*
- *Comments on the work carried out and recommendations to enhance the forthcoming exploration program.”*

The SRK Report does not comment on the ownership or status of tenure of the Nelly Vanadium Mine and does not list any document received relating to ownership or status of tenure.

- 16. Please confirm whether ASX’s assumption above that HDY did not undertake a tenement search for the Nelly Vanadium Mine before completing the Nelly Vanadium Acquisition is correct or not?**
- 17. If ASX’s assumption is correct, please explain how the directors of HDY satisfied themselves as to the ownership of the tenement for the Nelly Vanadium Mine before committing HDY to purchase Nelly Vanadium.**
- 18. If ASX’s assumption is not correct, please explain why a copy of that search was not provided to ASX in response to the 2nd Query Letter.**

Valuation Assumptions

On page 28 of the Valuation Report, Agricola has listed an ‘Average Base Acquisition Cost’ of a mining tenement for each State of Australia, which has been referenced to Australian State Government publications and websites, as well as Agricola estimates. These range from \$350 to \$490 per square kilometre.

On page 33 of the Valuation Report it states:

“The Nelly Vanadium Mine is in the process of being reinstated by the Government of St Luis and a special Base Acquisition Cost of \$150,000 per square kilometres (sic) has been allocated to this advanced project. Historic mine openings and stockpiled (sic) have been reviewed and notional volumes considered by SRK Consultants. This is consistent with the expected exploration expenditure in the first year of re-instatement proposed by the Company”.

We note that the ‘Base Acquisition Cost’ for the Nelly Vanadium Mine is several hundred times that of the Australian mining tenements and does not appear to be based on any objective independent information.

On page 33 of the Valuation Report it lists the Nelly Vanadium Mine as being in “Group D” for Exploration Ground – Geo Rating & Comparable Transactions. On page 28 of the Valuation Report it states that characteristics for Group D are as follows:

*“D Brownfields areas adjacent to resources; may include Historic Resources
Prospectivity Factors: LOW 40.00 to 120.00*

Comparable Transactions, A\$ per square kilometre: A\$15,000 to A\$60,000”

There is nothing in the Valuation Report to suggest that the Nelly Vanadium Mine has either resources or historic resources, or is adjacent to established resources.

The Valuation Report states that the Nelly Vanadium Mine’s ‘Prospectively Factors’ are between 2 and 3.75. On page 29 of the Valuation Report ‘Prospectively Enhancement Multiplier Factors’ are listed. The ranges of 2.0 to 2.75 contemplate estimation of resources, completion of technical studies and reverse circulation and diamond drilling, none of which have been disclosed to have been completed at the Nelly Vanadium Mine.

On page 35 of the Valuation Report two comparable transactions for the Nelly Vanadium Mine are listed. We note that neither ‘comparable transaction’ is on the South American continent, neither is close to the value ascribed to the Nelly Vanadium Mine, and that the ‘Victory Bore Acquisition Transaction’ cited in the Valuation Report is the subject of an independent expert’s report which at the date of the Valuation Report had not been released.

Based on the above, ASX has serious concerns regarding the veracity of the Valuation Report, and in particular the purported valuation of the Nelly Vanadium Mine and whether the valuation has been conducted in accordance with the VALMIN Code 2015.

19. In light of the concerns that ASX has identified above with the valuation assumptions for the Nelly Vanadium Mine stated in the Valuation Report, how confident are the directors that the valuation of the Nelly Vanadium Mine is a fair and reasonable one?

Further off-market share transfer

Note 2 on page 4 of HDY’s 17 January letter sets out that 30,000,000 HDY shares were transferred off market by Pacific Continental which are currently in the process of being transferred back to Pacific Continental. We note that neither the identity of the party to whom these shares were transferred nor the reasons for the transfer have been disclosed.

20. Please disclose the identity of the person or persons who received the 30,000,000 shares from Pacific Continental and what (if anything) HDY knows about their connection (if any) with Pacific Continental or the other Everblu Associates and the reasons for the transfer.

Further queries

Once ASX has received and analysed the information above, it is likely to make further enquiries of HDY.

In providing the information above, ASX would remind you that an officer or employee of a listed entity who gives, or authorises or permits the giving of, materially false or misleading information to ASX:

- knowingly, breaches section 1309(1) of the Corporations Act, which is a criminal offence punishable by a fine of up to 200 penalty units and/or imprisonment for up to 5 years; or
- without taking reasonable steps to ensure that the information was not false or misleading, breaches section 1309(2) of the Corporations Act, which is a criminal offence punishable by a fine of up to 100 penalty units and/or imprisonment for up to 2 years.

When and where to send your response

This request is made under, and in accordance with, Listing Rule 18.7. Your response in relation to the above queries are required as soon as reasonably possible and, in any event, by not later than **9.00 a.m. WST on Tuesday 29 January 2019**.

ASX reserves the right to release a copy of this letter and your response on the ASX Market Announcements Platform under Listing Rule 18.7A. Accordingly, your response should be in a form suitable for release to the market.

Your response should be sent by e-mail to listingscomplianceperth@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This will allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Should you have any queries in relation to the above, please let me know.

Yours sincerely,

[sent electronically without signature]

James Rowe
State Manager, Listings Compliance