# THE INDEPENDENT EXPERT CONSIDERS THE TRANSACTION THE SUBJECT OF RESOLUTIONS 1 AND 2 TO BE FAIR AND REASONABLE AND RESOLUTION 3 TO BE NOT FAIR BUT REASONABLE TO THE NON-ASSOCIATED SHAREHOLDERS IN THE COMPANY.

# KALIA LIMITED ACN 118 758 946

# NOTICE OF EXTRAORDINARY MEETING

Notice is given that the Meeting will be held at:

**TIME**: 10:00am (WST)

DATE: Monday 6 May 2019

**PLACE**: Celtic Club, 48 Ord Street, West Perth, Western Australia, Australia

The business of the Meeting affects your shareholding and your vote is important.

This Notice of Meeting, the Explanatory Statement and accompanying Independent Expert's Report (which considers the transactions the subject of Resolutions 1 and 2 to <u>be fair and reasonable</u> and Resolution 3 to <u>be not fair but reasonable</u>) should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 10:00am (WST) on Saturday, 4 May 2019.

#### **BUSINESS OF THE MEETING**

#### **AGENDA**

#### RESOLUTION 1 – APPROVAL TO EXTEND TERM OF SECURITY INTEREST

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of Listing Rule 10.1 and for all other purposes, approval is given for the Company to extend the term of the Security Interest over its assets and undertaking in favour of Tygola Pty Ltd and Peter Yunghanns on the terms set out in the Explanatory Memorandum."

**Voting Exclusion Statement**: The Company will disregard any votes cast in favour of the Resolution by or on behalf of Tygola Pty Ltd and Peter Yunghanns or any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

#### **EXPERT'S REPORT**

Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of the Shareholder approval required under ASX Listing Rule 10.1. The Independent Expert's Report comments on the fairness and reasonableness of the transaction the subject of this Resolution to the non-associated Shareholders in the Company. The Independent Expert considers the transaction the subject of this Resolution to be <u>fair and reasonable</u> to the non-associated Shareholders in the Company.

# 2. RESOLUTION 2 – GRANT OF ADDITIONAL SECURITY INTEREST TO TYGOLA PTY LTD AND PETER YUNGHANNS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of Listing Rule 10.1 and for all other purposes, approval is given for the Company to grant the Additional Security Interest over its assets and undertaking in favour of Tygola Pty Ltd and Peter Yunghanns on the terms set out in the Explanatory Memorandum."

**Voting Exclusion Statement**: The Company will disregard any votes cast in favour of the Resolution by or on behalf of Tygola Pty Ltd and Peter Yunghanns or any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

#### **EXPERT'S REPORT**

Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of the Shareholder approval required under ASX Listing Rule 10.1. The Independent Expert's Report comments on the fairness and reasonableness of the transaction the subject of this resolution to the non-associated Shareholders in the Company. The Independent Expert considers the transaction the subject of this Resolution to be <u>fair and reasonable</u> to the non-associated Shareholders in the Company.

#### 3. RESOLUTION 3 – APPROVAL OF ISSUE OF SHARES TO TYGOLA PTY LTD

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, for the purposes of Section 611 (Item 7) of the Corporations Act and for all other purposes, approval is given for Peter Yunghanns, through his deemed relevant interest in Shares, to acquire a relevant interest in up to 795,150,000 Shares, comprising 250,000,000 Shares (**New Shares**) to be issued to Tygola Pty Ltd (or its nominee) (**Tygola**) by the Company, 55,150,000 Shares currently held by Tygola, 480,000,000 Shares currently held by Global Resources Investment Trust PLC (**GRIT**) and 10,000,000 Shares currently held by Mardasa Nominees Pty Ltd (**Mardasa**), which will result in Peter Yunghanns' relevant interest and voting power in the Company increasing from 21.68% to 28.76% on the terms and conditions set out in the Explanatory Statement."

**Voting Exclusion**: No votes may be cast in favour of this Resolution by:

- (a) the person proposing to make the acquisition and their associates; or
- (b) the persons (if any) from whom the acquisition is to be made and their associates. Accordingly, the Company will disregard any votes cast on this Resolution by 3 and any of its associates.

**Expert's Report**: Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of the Shareholder approval required under Section 611 Item 7 of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transactions the subject of this resolution to the non-associated Shareholders in the Company.

Dated: 20 March 2019

By order of the Board

# Philip Hartog Company Secretary

#### Voting in person

To vote in person, attend the Meeting at the time, date and place set out above.

#### Voting by proxy

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- each Shareholder has a right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

Shareholders and their proxies should be aware that changes to the Corporations Act made in 2011 mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 8 6555 0322.

#### **EXPLANATORY STATEMENT**

This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions.

# 1. BACKGROUND

# 1.1 Share Sale Agreement

On 20 March 2018 the Company entered into a share sale agreement (**Share Sale Agreement** or **SSA**) with Global Resources Investment Trust PLC and Kalia Holdings Pty Ltd (**Kalia Holdings**) pursuant to which the Company agreed to acquire, subject to Shareholder approval, all of the shares it did not already hold in Kalia Holdings, being a 27.71% shareholding in Kalia Holdings held by GRIT (**GRIT Transaction**).

The consideration payable for GRIT's shareholding in Kalia Holdings was satisfied through the Company issuing 480,000,000 Shares to GRIT. Consequently, upon completion:

- (a) GRIT acquired a relevant interest in up to 21.28% of the total Shares on issue;
- (b) Mardasa Nominees Pty Ltd (**Mardasa**), a current Shareholder and also a major shareholder of GRIT (holding 29.93% of GRIT's issued capital), acquired a deemed relevant interest of up to 21.68% of the total Shares on issue; and
- (c) Peter Yunghanns, as the sole controller of Mardasa, acquired a deemed relevant interest of up to 21.68% of the total Shares on issue.

Shareholder approval for the GRIT Transaction was obtained at an extraordinary general meeting of the Company held on 11 May 2018 (2018 EGM). Kalia Holdings is now wholly owned by the Company and GRIT, Mardasa and Peter Yunghanns continue to be substantial Shareholders of the Company.

#### 1.2 Proposed extension to term of \$3m loan facility with Tygola

In conjunction with the GRIT Transaction, the Company gained access to a \$3,000,000 loan facility (**Loan Facility**) provided by Tygola Pty Ltd (**Tygola**). Tygola is an entity controlled solely by Peter Yunghanns. As at the date of this Notice, the full amount of the Loan Facility has been drawn down by the Company and remains outstanding (together with interest and fees payable under the Loan Agreement).

The Loan Facility is secured by a first ranking security over the assets and an undertaking of the Company in favour of Tygola (**Security Interest**). At the 2018 EGM, Shareholder approval was also sought and obtained to allow the Company to grant the Security Interest in favour of Tygola, being an associate of substantial holders of the Company for the purposes of ASX Listing Rule 10.1.

Each of Peter Yunghanns and Mardasa are deemed to be substantial holders of the Company by virtue of Mardasa's 29.93% shareholding in GRIT and associated deemed relevant interest in GRIT's Shares, and Tygola is an associate of Peter Yunghanns and Mardasa, as both Tygola and Mardasa are solely controlled by Peter Yunghanns.

ASX deems the granting of a security interest over the assets and undertaking of an entity to be a "disposal" of a substantial asset for the purposes of ASX Listing Rule 10.1, and as outlined in Section 2.3, Shareholder approval is required for an entity to dispose of a substantial asset to certain persons in a position to influence the entity.

Repayment of the Loan Facility fell due on 31 December 2018 and the Company has been in discussion with Tygola in relation to a proposed extension of the Repayment Date under the Loan Facility. As announced by the Company on 2 January 2019, the Company was unable to secure an ASX waiver, appropriate for the Company's specific requirements, to extend the date for repayment and increase the amount of the Loan Facility. As a result, the extension of the repayment date could not be made by the Company without first seeking Shareholder approval (as the ASX took the view that the extension would mean the term of the Security Interest would be increased outside of the scope of the Security Interest initially approved by Shareholders at the 2018 EGM). Accordingly, Resolution 1 seeks Shareholder approval pursuant to ASX Listing Rule 10.1 to extend repayment of the Loan Facility (and therefore the term of the Security Interest) by an additional 12 months, up to 31 December 2019.

The parties have agreed (subject to Shareholder approval) that the Company will repay, and as at the date of this Notice the Company intends to repay, the Loan Facility by 28 June 2019. However, the Company is seeking approval to extend the repayment date by 12 months (to 31 December 2019), as opposed to the 6 months agreed by the parties, in anticipation of any potential additional extensions to the term which may be agreed by the parties. The reason for this is to allow the parties the flexibility to agree to an additional extension (within the time limit approved by Shareholders), should it be required, without the need to incur the costs associated with convening a further general meeting on the matter.

As at the date of this Notice, Tygola has not agreed to any extension of the Loan Facility past 28 June 2019, nor has it indicated any inclination to do so. There is no guarantee that an additional extension of time past 28 June 2019 will be agreed to by Tygola and the fact that the Company is seeking upfront approval for this should not be taken to be an indication that this will occur.

Tygola has provided a letter of comfort to the Company that it will not take action to enforce the Security Interest until such time as a general meeting has been convened and held in order to seek this Shareholder approval. The Company and Tygola continue to maintain a strong and positive working relationship together.

Refer to Section 2 for further information.

#### 1.3 Entry into additional facility with Tygola

As also announced on 2 January 2019, Tygola has agreed to provide an additional \$1 million loan facility to the Company for working capital and exploration purposes during the interim 6-month period (**Additional Loan Facility**). This Additional Loan Facility is also secured by a further first ranking security over the assets and undertaking of the Company in favour of Tygola (**Additional Security Interest**), which is intended, subject to Shareholder approval under Resolution 2, to rank equally with the Security Interest already held by Tygola.

As noted above, the Company was unable to secure an ASX waiver to increase the amount of the existing Loan Facility, appropriate to the Company's specific requirements, without first seeking Shareholder approval (as this would have meant restricting Tygola's existing Security Interest, which the parties were unable to do). Therefore, given the Company required additional funds, Tygola agreed to provide the Additional Loan Facility, and the Company sought and obtained an ASX waiver of ASX Listing Rule 10.1 in order to grant the Additional Security Interest without first seeking Shareholder approval. The waiver granted by ASX is subject to terms and conditions which are set out in the Company's announcement of 2 January 2019, including a condition that the rights of enforcement under the Additional Security Interest be subject to the seeking and obtaining of Shareholder approval under applicable ASX Listing Rules, including Listing Rule 10.1.

By Resolution 2, the Company seeks Shareholder approval for the granting of the Additional Security Interest on the terms set out in this Notice. If Shareholder approval is granted, Tygola's enforcement rights under the Additional Security Interest will no longer remain subject to Shareholder approval and will rank equally to its existing Security Interest.

Similar to Resolution 1, whilst the agreed value of the Additional Loan Facility is currently \$1 million, and is repayable by 28 June 2019, the Company is seeking Shareholder approval for the Additional Security Interest to be granted in respect of a maximum value of up to \$1.5 million and for the term of the Additional Loan Facility to be up to 31 December 2019. Again, this is to allow the parties the flexibility to agree to an extension of the Additional Loan Facility (and associated Additional Security Interest) within the time limit approved by Shareholders, should it be required, without the need to incur the costs associated with convening another general meeting. Despite seeking approval which exceeds the agreed Additional Loan Amount and time frame for repayment, the Company currently intends, as agreed with Tygola, that the Additional Loan will be \$1 million and will be repaid by 28 June 2019 and the fact that the Company is seeking upfront approval for periods or amounts in excess of this should not be taken to be an indication that this will occur or that Tygola will agree to any variations to the Additional Loan Facility.

Refer to Section 3 for further information.

# 1.4 Decision to obtain additional funds from Tygola

The Company has elected to obtain further funds from Tygola, rather than a party who is not a Listing Rule 10.1 party, because Tygola has an understanding and appreciation of Kalia's operating environment and strategy, following a year long relationship. The Company held exploratory discussions with brokers in Perth, Sydney and London. The result of those discussions was that, given current market conditions and Kalia's stage of exploration, funding through Tygola would be a better option from a certainty perspective and offer upside for Shareholders at this time.

The Company has considered alternative sources of funds, including the issue of equity through possible rights issues and/or through the placement of equity with investors. The Company plans to increase exploration activities in the coming months which is expected to impact the share price positively. The Company believes that the Shareholders will benefit with the issue of equity at a higher valuation which is expected to result from exploration results.

#### 1.5 Plans for repayment of Tygola facilities

The Company expects repayment of the amounts advanced and discharge of the associated security interests to be achieved by 28 June 2019 through the raising of funds by way of the issue of new equity to both new and existing investors, repayment through alternative or further debt funding or a combination of the aforementioned. Discussions have commenced with various parties on all avenues.

In the event the Company is unable to source alternative funding prior to 28 June 2019, being the date on which both Tygola loan facilities will fall due for repayment, the Company wished to retain an option to extend the repayment term of these facilities and potentially the value of the Additional Loan Facility. Tygola has not agreed to, or indicated any inclination towards, an extension of either the term or the value of any of its facilities with the Company as at the date of this Notice.

#### 1.6 Independent Expert's Report – Resolutions 1, 2 and 3

The Independent Expert's Report prepared by BDO Corporate Finance Pty Ltd (a copy of which is attached as Schedule 1 to this Explanatory Statement) assesses whether the extension to the term of the Security and the grant of the Additional Security Interest under Resolutions 1 and 2 are fair and reasonable to the non-associated Shareholders of the Company.

In addition it considered whether the proposed conversion of the Additional Loan Amount in accordance with the Additional Loan Agreement (as detailed at section 3.2(d)), the subject of Resolution 3 is fair and reasonable to the non-associated Shareholders of the Company.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

#### 2. RESOLUTION 1 – APPROVAL TO EXTEND TERM OF SECURITY INTEREST

As outlined above, Resolution 1 seeks Shareholder approval for the term of Tygola's existing Security Interest to be extended by a maximum period of up to 12 months, up to 31 December 2019 (**Proposed Extension**).

The Company intends to repay the Loan Facility by 28 June 2019, which reflects (subject to Shareholder approval) the current agreement as between the parties, however, the Company is seeking approval to extend the repayment date (and therefore the duration of the Security Interest) by an additional 6 months to 31 December 2019 to allow the parties to extend repayment of the Loan Facility should they wish to do, without the need to incur the costs associated with calling another general meeting.

It should be noted that Tygola has not agreed to any extension of the Loan Facility beyond 28 June 2019 as at the date of this Notice and has not indicated any willingness to do so at this stage.

The terms of the Loan Agreement and GSD are summarised in Sections 2.1 and 2.2, respectively.

The Independent Expert's Report prepared by the Independent Expert for the purpose of ASX Listing Rule 10.10.2 concludes that the proposal outlined in Resolution 1, whereby the Company's Shareholders may grant approval for the term of the Security Interest in favour of Tygola to be extended, is FAIR AND REASONABLE to Shareholders not associated with Tygola, taking into account the factors noted below and in the Independent Expert's Report, attached as Schedule 1 to this Notice of Meeting.

#### 2.1 Key terms of Loan Agreement

In April 2018, the Company entered into the Loan Agreement with Tygola. The key terms of the Loan Agreement are as follows:

- (a) **Loan amount:** The Loan Facility is for a maximum amount of \$3,000,000, unless otherwise agreed by the parties (**Loan Amount**).
- (b) **Draw Down**: The Loan Amount has been drawn down by the Company on an ongoing, and as and when required basis, by giving notice in writing to Tygola.

As at 31 January 2019, a total amount of \$3,000,000 is owing to Tygola under the facility.

(c) **Term**: The Loan Amount is repayable on or before 31 December 2018, unless otherwise agreed by the parties (**Term**).

As noted above, this Resolution seeks approval for the Term to be extended to 31 December 2019 (**Extended Term**), however the intention of both the Company and Tygola is that the Loan Amount will only be formally extended to 28 June 2019 as at the date of this Notice.

- (d) **Repayment**: The amount outstanding under the Loan Facility:
  - (i) may be repaid at the election of the Company in cash (in whole or part) at any time during the Term; and
  - (ii) must be repaid by the Company on or before 31 December 2018 (unless otherwise agreed by Tygola who, as indicated above, is willing to extend this period to 28 June 2019).
- (e) **Interest**: The Loan Amount accrues interest which will be paid monthly in arrears at an interest rate of 10% per annum on the amount outstanding.

If any interest is not paid when due (**Due Date**), interest will be payable at a higher rate of 14% per annum for the period of time commencing on the Due Date and ending on the date on which the interest has been paid in full.

As at 31 January 2019, the total interest which was accrued and paid was \$128,508.54 (no amount has been accruing at the higher rate since 31 December 2018, when repayment fell due).

(f) **Security:** The Loan Amount will be secured by the Security Interest (the terms of which are summarised in Section 2.2 below).

#### 2.2 Key terms of the General Security Deed

In May 2018, the Company entered into a general security deed (**GSD**) with Tygola pursuant to which the Company granted the Security Interest in favour of Tygola over the Collateral to secure repayment of the Loan Amount. Shareholder approval for the grant of the Security Interest was sought and obtained pursuant to ASX Listing Rule 10.1 at the 2018 EGM.

As a result of the granting of the Security Interest, in the event of default by the Company under the Loan Agreement, Tygola has the right to:

- (a) do anything that the Company (or the Company's directors) could do in relation to the Collateral, including selling or otherwise dealing with the Collateral;
- (b) collect Company's trade debts or other accounts receivable; and
- (c) appoint a receiver in relation to the Collateral.

As noted above, repayment of the Loan Facility fell due on 31 December 2018 and, as previously announced by the Company, Tygola has provided a letter of comfort to the Company that it will not take action to enforce the Security Interest in relation to this non-payment until such time as a general meeting has been convened and held in order to seek Shareholder approval for the Proposed Extension.

The intention is currently for the Loan Facility to repaid and the Security Interest to be discharged by 28 June 2019 in accordance with the proposed extension of the Loan Facility to be formally agreed by the parties, subject to Shareholder approval. However the Company seeks approval under this Resolution for the Security Interest to continue for a period of 12 months up to 31 December 2019 in case of the need for any further extensions of time.

The key terms of the GSD are as follows:

- (a) **Grant of Security Interest**: The Company grants a security interest to Tygola in all its present and after-acquired property, including:
  - (i) its assets and undertakings and its unpaid capital;
  - (ii) anything in respect of which the Company has a sufficient right or interest to grant a security interest under the *Personal Properties Securities Act* 2009 (Cth) or any other law; and
  - (iii) anything else in which the Company has a sufficient right to be able to grant a security interest.
- (b) **Priority:** Each security interest granted by the Company under the deed ranks in priority before any other security interest other than those mandatorily preferred by law and any permitted security that ranks in priority to it.
- (c) **Enforcement:** While an event of default subsists, Tygola or a controller has the power to do anything in respect of the property subject to a security interest that an absolute beneficial legal owner of the property could do. To the extent permitted by law, at any time while an event of default subsists, Tygola may also (among other things) appoint any person or any two or more persons jointly or severally or both to be a receiver or receiver and manager of all or any of the Collateral.
- (d) **Application of money received:** At any time while an event of default is continuing, all money received by Tygola or its controller or attorney or any other person acting on their behalf may be appropriated and applied towards any amount and in any order that Tygola or its controller or attorney or that other person determines in its absolute discretion, to the extent not prohibited by law.
- (e) **Discharge**: At the Company's written request, Tygola must discharge the Security Interest created under the GSD if the secured money has been paid in full under the Loan Agreement.

#### 2.3 Listing Rule 10.1

Listing Rule 10 deals with transactions between an entity (or any of its subsidiaries) and persons in a position to influence the entity.

#### Persons of influence

Listing Rule 10.1 provides that an entity (or any of its subsidiaries) must not acquire a "substantial asset" from, or dispose of a substantial asset to, any of the following persons without the approval of the entity's security holders:

- (a) a related party;
- (b) a subsidiary;
- (c) a "substantial holder", if the person and the person's associates have a relevant interest, or had a relevant interest at any time in the 6 months before the transaction, in at least 10% of the total votes attached to the voting securities;
- (d) an associate of a person referred to in (a) to (c) above; or
- (e) a person whose relationship to the entity is such that, in ASX's opinion, the transaction should be approved by security holders.

As noted in Section 1.1, following the GRIT Transaction, Mardasa and Peter Yunghanns (through their deemed relevant interests in GRIT's Shares) are substantial holders of the Company, having a relevant interest in 21.68% of the Shares on issue.

Peter Yunghanns is the sole director and controller of both Mardasa and Tygola. As such, in addition to both Mardasa and Tygola being associates by virtue of having a common controller, Peter Yunghanns is also deemed to have the same relevant interests in securities as Mardasa, being Mardasa's sole controller, as a result of the operation of section 608(3)(b) of the Corporations Act and falls within the list of persons specified in ASX Listing Rule 10.1 (and in particular, under paragraphs (c) and (d) above).

#### What is a substantial asset?

Under Listing Rule 10.2, an asset is "substantial" if its value, or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the company as set out in the latest accounts given to ASX under the Listing Rules.

The equity interests of the Company as defined by the ASX Listing Rules and as set out in the latest accounts given to ASX under the ASX Listing Rules (being for the financial year ended 30 June 2018) were -\$714,318. Therefore, any amount will be considered greater than 5% of the equity interest in the Company.

Although the Company has not entered into any agreement to dispose of any of its assets under the Loan Agreement, the ASX considers, for the purpose of the Listing Rules, that the grant of a security over the Company's assets amounts to a 'disposal' of its assets, and with the Security Interest securing an amount in excess of \$3 million (including interest of payment of the 5% facility fee under the Loan Facility), approval under ASX Listing Rule 10.1 was required for the granting of the Security Interest.

#### Reason for seeking Shareholder approval

The parties propose to vary the Loan Agreement to extend the Term (and, consequentially, the term of the Security Interest) by an additional 6 months initially (though approval is sought for a maximum extension of up to 12 months to 31 December 2019) to enable additional time for the Company to repay the Loan Amount.

ASX has taken the view that the effect of the Proposed Extension will be to render the existing Shareholder approval of the Security Interest sought at the 2018 EGM redundant. This is because the extension of the Loan Facility will extend the term of the Security Interest previously approved by Shareholders, which ASX considers to be a change to the terms of the security interest previously approved which is significant enough to warrant seeking fresh Shareholder approval.

Shareholder approval is now being sought under Listing Rule 10.1 for the Proposed Extension.

# 2.4 Independent Expert's Report

The Independent Expert has been asked to prepare a report, for the purpose of ASX Listing Rule 10.10.2, on whether the Proposed Extension to the term of the Security Interest is fair and reasonable.

The Independent Expert has concluded that the Proposed Extension is fair and reasonable to non-associated Shareholders.

The Independent Expert considers the advantages and disadvantages of the Proposed Extension to be as follows:

#### Advantages to Proposed Extension

- The Loan Facility and Proposed Extension is fair.
- It supports debt funding. The provision of the Security Interest enables the Company to obtain the debt funding that it requires. If the Company seeks alternate funding through bank debt, it is more likely that there will be a requirement to furnish adequate collateral to secure the bank debt. Therefore, the provision of security for debt funding purposes is not unusual.

# <u>Disadvantages to Proposed Extension</u>

- In the event of default by the Company, Tygola may enforce the security and require that the Company sell the secured assets in order to repay the monies outstanding under the Loan Agreement.
- The security agreement that the Company and Tygola will enter into subject to Shareholder approval will place restrictions on the Company's ability to deal with its assets.

Shareholders are urged to consider the Independent Expert's Report in detail and if in doubt seek advice from their professional advisers prior to voting.

# 3. RESOLUTION 2 – APPROVAL FOR GRANT OF ADDITIONAL SECURITY INTEREST

Resolution 2 seeks Shareholder approval for the grant by the Company of the Additional Security Interest in favour of Tygola, to secure repayment of up to a maximum amount of \$1.5 million which has or may be advanced under the Additional Loan Facility for a maximum period up to 31 December 2019.

At present a total of \$1,000,000 has been advanced under the Additional Loan Facility, which will be used by the Company for working capital and exploration purposes over the interim 6-month period up to the agreed repayment date of 28 June 2019. However, as noted above, approval is being sought under this Resolution to allow the Company and Tygola to:

- (a) increase the amount of the Additional Loan Facility by an additional \$500,000 to bring the maximum value of the Additional Loan Facility up to \$1.5 million; and
- (b) extend the term of the Additional Loan Facility beyond 28 June 2019 (if agreed by Tygola) up to 31 December 2019, should the parties wish to do so.

As previously noted, the Company and Tygola have not agreed to any extension of the current repayment date or any increase to the value of the Additional Loan Amount, and there is no guarantee either this will occur or that Tygola will agree to any such variations.

The reason for seeking upfront Shareholder approval for the Additional Security Interest to be granted in respect of a lengthier period of time and higher value is to allow the parties the flexibility to agree to an extension of the repayment date or an increase to the Additional Loan Amount, should they wish to do so, without the need to incur the costs associated with calling another general meeting.

Currently, and in order to obtain the required waiver from ASX Listing Rule 10.1 to facilitate the advancement of \$1 million in funds under the Additional Loan Facility (and associated grant of the Additional Security Interest) without seeking prior Shareholder approval, the enforcement rights under the Additional GSD remain subject to applicable ASX Listing Rules, including ASX Listing Rule 10.1. This was to ensure the Company had access to required funds in a timely manner but means Tygola is currently unable to enforce the Additional Security Interest without first seeking Shareholder approval under ASX Listing Rule 10.1.

The purpose of this Resolution 2 is to seek Shareholder approval upfront to enable Tygola's Additional Security Interest to be unrestricted and rank equally with its existing Security Interest, and for the term or value of the facility (and associated Security Interest) to be extended without the need to seek additional Shareholder approval, if required and agreed to by Tygola.

The terms of the Additional Loan Agreement and Additional GSD are summarised in Sections 3.2 and 3.3, respectively.

The Independent Expert's Report prepared by the Independent Expert for the purpose of ASX Listing Rule 10.10.2 concludes that the proposal outlined in Resolution 2, whereby the Company's Shareholders may grant approval of the Additional Security Interest over the company's assets in favour of Tygola, is FAIR AND REASONABLE to Shareholders not associated with Tygola, taking into account the factors noted below and in the Independent Expert's Report, attached as Schedule 1 to this Notice of Meeting.

# 3.2 Key terms of Additional Loan Agreement

In January 2019, the Company has entered into the Loan Agreement with Tygola. The key terms of the Additional Loan Agreement are as follows:

(a) **Loan amount:** The loan facility is for a maximum amount of \$1,000,000, unless otherwise agreed by the parties (**Additional Loan Amount**).

However, as previously noted, the Company is seeking Shareholder approval to enable the Additional Loan Facility to be increased by an additional \$500,000, bringing the maximum amount of the facility up to \$1.5 million, should Tygola agree to increase the value of the Additional Loan Amount at a later date.

(b) **Draw Down**: The Additional Loan Amount may be drawn by the Company on an ongoing, and as and when required basis, by giving notice in writing to Tygola, provided that funds drawn which are then repaid cannot be re-drawn.

As at 28 February 2019, a total amount of \$750,000 is owing to Tygola under the facility.

- (c) **Term**: The Additional Loan Amount is repayable on or before 28 June 2019, however, as noted above, and in accordance with the approval sought under this Resolution, the Company is seeking approval for the Additional Loan Facility to be repaid prior to 31 December 2019, in the event Tygola permits an extension to the term of this facility at a later date.
- (d) **Conversion**: Tygola may elect, at any time during the term of the Additional Loan and on more than one occasion, to convert all or part of the Additional Loan Amount (together with any outstanding interest on the Additional Loan Amount) into Shares at a conversion price of \$0.004 per Share (**Conversion**).

Full conversion of the Additional Loan Facility (not including interest) would result in the issue of 250,000,000 new Ordinary Shares representing 9.94% of the issued capital of the Company (calculated based on the total Shares on issue at the date of this Notice, being 2,514,347,391 Shares.

Any Conversion is subject to and conditional upon the Company obtaining all Shareholder and regulatory approval it considers to be necessary or required in connection with a Conversion.

The Additional Loan Amount may not be converted into Shares if such Conversion would cause the Lender to breach the Corporations Act (including, without limitation, Chapter 6 of the Corporations Act) or the ASX Listing Rules.

- (e) **Repayment**: The Additional Loan Amount:
  - (i) may be repaid at the election of the Company in cash or by Conversion (in whole or part) at any time during the term; and
  - (ii) shall be repaid by the Company on or before 28 June 2019 (unless otherwise agreed by Tygola).
- (f) Interest: The Additional Loan Amount will accrue interest which will be paid monthly in arrears at an interest rate of 10% per annum on the amount outstanding. If any interest is not paid by the Due Date, interest will be payable at a higher rate of 14% per annum for the period of time commencing on the Due Date and ending on the date on which the interest has been paid in full.
- (g) **Security:** The Additional Loan Amount will be secured by an additional first ranking general security deed over the Collateral (the terms of which are summarised in Section 3.3 below). Subject to Shareholder approval under this Resolution, the Additional Security Interest will rank equally to the Security Interest.

# 3.3 Key terms of the Additional GSD

The Company has entered into the Additional GSD with Tygola pursuant to which the Company has granted the Additional Security Interest in favour of Tygola over the Collateral in respect of the Additional Loan Amount.

The key terms of the Additional GSD are as follows:

- (a) **Grant of Additional Security Interest**: The Company grants a security interest to Tygola in all its present and after-acquired property, including:
  - (i) its assets and undertakings and its unpaid capital;
  - (ii) anything in respect of which the Company has a sufficient right or interest to grant a security interest under the *Personal Properties Securities Act* 2009 (Cth) or any other law; and
  - (iii) anything else in which the Company has a sufficient right to be able to grant a security interest.
- (b) **Priority:** The security interest granted by the Company under the deed will, subject to Shareholder approval, rank equally with Tygola's existing Security Interest, which together will rank in priority before any other security interest other than those mandatorily preferred by law and any permitted security that ranks in priority to it.
- (c) **Enforcement**: If Shareholders approve Resolution 2, while an event of default subsists, Tygola or a controller will have the power to do anything in respect of the property subject to a security interest that an absolute beneficial legal owner of the property could do. To the extent permitted by law, at any time while an event of default subsists, Tygola may also (among other things) appoint any person or any two or more persons jointly or severally or both to be a receiver or receiver and manager of all or any of the Collateral.
- (d) **Application of money received:** If Shareholders approve Resolution 2, at any time while an event of default is continuing, all money received by Tygola or its controller or attorney or any other person acting on their behalf may be appropriated and applied towards any amount and in any order that Tygola or its controller or attorney or that other person determines in its absolute discretion, to the extent not prohibited by law.

(e) **Discharge**: At the Company's written request, Tygola must discharge the Security Interest created under the GSD if the secured money has been paid in full under the Additional Loan Agreement.

# 3.4 Listing Rule 10.1

Refer to Section 2.3 for a summary of ASX Listing Rule 10.1 and its application to Tygola (being an associate of substantial Shareholders, Mardasa and Peter Yunghanns).

Given the Additional Security Interest secures an amount exceeding \$1 million, the grant of the Additional Security Interest constitutes the disposal of a substantial asset for the purposes of ASX Listing Rule 10.1, as the Company's equity interests as set out in the latest accounts given to ASX under the ASX Listing Rules (being for the financial year ended 30 June 2018) were -\$714,318.

Therefore, Shareholder approval is being sought under Listing Rule 10.1 for the grant of the Additional Security Interest in favour of Tygola (and, indirectly as its sole controller, Peter Yunghanns) on the terms set out in this Notice, that is, for a maximum term ending on 31 December 2019 and maximum value of up to \$1.5 million.

# 3.5 Independent Expert's Report

The Independent Expert has been asked to prepare a report, for the purpose of ASX Listing Rule 10.10.2, on whether the granting of the Additional Security Interest to Tygola on the terms outlined above is fair and reasonable. The Independent Expert has concluded that the granting of the Additional Security Interest on these terms is fair and reasonable to non-associated Shareholders.

The Independent Expert considers the advantages and disadvantages of the grant of the Additional Security Interest to be as follows:

#### Advantages to grant of Additional Security Interest

- The Additional Loan Facility Transaction is fair and reasonable.
- The provision of the Security Interest enables the Company to obtain the debt funding that it requires. If the Company seeks alternate funding through bank debt, it is more likely that there will be a requirement to furnish adequate collateral to secure the bank debt. Therefore, the provision of security for debt funding purposes is not unusual.

# <u>Disadvantages to grant of Additional Security Interest</u>

- In the event of default by the Company, Tygola may enforce the security and require that the Company sell the secured assets in order to repay the monies outstanding under the Additional Loan Agreement.
- The security agreement that the Company and Tygola will enter into subject to Shareholder approval will place restrictions on the Company's ability to deal with its assets.

Shareholders are urged to consider the Independent Expert's Report in detail and if in doubt seek advice from their professional advisers prior to voting.

#### 4. RESOLUTION 3 - APPROVAL OF ISSUE OF SHARES TO TYGOLA PTY LTD

#### 4.1 Background

As discussed above, Tygola may elect, at any time during the term of the Additional Loan, and on more than one occasion, to convert all or part of the Additional Loan Amount (together with any outstanding interest on the Additional Loan Amount) into Shares at a conversion price of \$0.004 per Share.

Full conversion of the Additional Loan Facility (not including interest) would result in the issue of 250,000,000 new Shares (**New Shares**) representing 9.94% of the issued capital of the Company (calculated based on the total Shares on issue at the date of this Notice, being 2,514,347,391 Shares).

If undertaken, the Conversion will, upon completion, result in Peter Yunghanns, as the sole controller of Tygola and Mardasa, acquiring a deemed relevant interest of up to 795,150,000 of the total Shares on issue.

As at the date of this Notice, Tygola has not yet elected to convert any part of the Additional Loan Facility in accordance with the Additional Loan Agreement. However, in preparation, and so as to avoid the costs involved in calling another general meeting in 3 months' time, the Company is seeking the required Shareholder approval, should Tygola later elect to convert all or part of the Additional Loan Facility.

#### 4.2 General

Resolution 3 seeks Shareholder approval for the purpose of Item 7 of Section 611 of the Corporations Act to allow the Company to issue 250,000,000 Shares to Tygola in accordance with the Conversion under the Additional Loan Agreement (refer to Section 3.2(d) of the Explanatory Memorandum) and to enable Peter Yunghanns to acquire a relevant interest in upto 795,150,000 Shares, resulting from the Conversion.

Peter Yunghanns is the sole controller of Mardasa and Tygola.

Mardasa currently holds 10,000,000 Shares (equating to a 0.362% shareholding interest in the Company). Mardasa is also a major shareholder of GRIT, having a 29.93% interest in the total shares on issue in the capital of GRIT.

In accordance with section 608(3) of the Corporations Act, a person also has a relevant interest in any securities held by a body corporate in which the person's voting power is above 20%.

By virtue of Mardasa's shareholding in GRIT, Mardasa has a deemed relevant interest in the Shares held by GRIT as at the date of this Notice (being 480,000,000 Shares equating to 19.09% of the total Shares on issue).

Owing to Peter Yunghanns' control of Tygola and Mardasa (and Mardasa's interest in GRIT) Peter Yunghanns is deemed to have a relevant interest in the Shares held by Tygola, Mardasa and GRIT.

Accordingly, the approval of Shareholders is being sought at the forthcoming Meeting to enable Peter Yunghanns to acquire a relevant interest in Shares which exceeds 20% of the total Shares on issue pursuant to section 611 (item 7) of the Corporations Act.

Pursuant to ASX Listing Rule 7.2 (Exception 16), Listing Rule 7.1 does not apply to an issue of securities approved for the purpose of Item 7 of Section 611 of the Corporations Act. Accordingly, if Shareholders approve the issue of securities pursuant to Resolution 3, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual

placement capacity set out in ASX Listing Rule 7.1 and the additional 10% annual capacity set out in ASX Listing Rule 7.1A without the requirement to obtain prior Shareholder approval.

# 4.3 Item 7 of Section 611 of the Corporations Act

# (a) Section 606 of the Corporations Act – Statutory Prohibition

Pursuant to Section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (i) from 20% or below to more than 20%; or
- (ii) from a starting point that is above 20% and below 90%,

(Prohibition).

#### (b) Voting Power

The voting power of a person in a body corporate is determined in accordance with Section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

# (c) Tygola's entitlements in the Company

Tygola currently holds 55,150,000 Shares in the Company, being an interest of 2.19%

Following the Conversion, Tygola's entitlements to the New Shares the subject of Resolution 3 and resulting voting power in the Company, will be as follows:

Shares	Options	Voting Power
305,150,000	Nil	11.04%

# (d) Associates

For the purposes of determining voting power under the Corporations Act, a person (second person) is an "associate" of the other person (first person) if:

- (i) (pursuant to Section 12(2) of the Corporations Act) the first person is a body corporate and the second person is:
  - (A) a body corporate the first person controls;
  - (B) a body corporate that controls the first person; or
  - (C) a body corporate that is controlled by an entity that controls the person;
- (ii) the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or
- (iii) the second person is a person with whom the first person is acting or proposes to act, in concert in relation to the company's affairs.

Associates are, therefore, determined as a matter of fact. For example where a person controls or influences the board or the conduct of a company's business affairs, or acts in concert with a person in relation to the entity's business affairs.

#### (e) Relevant Interests

Section 608(1) of the Corporations Act provides that a person has a relevant interest in securities if they:

- (i) are the holder of the securities;
- (ii) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (iii) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

In addition, Section 608(3) of the Corporations Act provides that a person has a relevant interest in securities that any of the following has:

- (i) a body corporate in which the person's voting power is above 20%;
- (ii) a body corporate that the person controls.

# (f) Associates of Tygola

Mardasa, a company deemed to have a relevant interest in the same Shares as GRIT by virtue of its 29.93% shareholding in GRIT, currently holds 10,000,000 Shares in the capital of the Company, being an interest of 0.398%. Mardasa also holds a deemed relevant interest in the 480,000,000 Shares currently held by GRIT (being a deemed relevant interest of 19.09%). As a result, Mardasa currently has an aggregate relevant interest of 19.488%.

Peter Yunghanns does not currently have a direct shareholding in the capital of the Company, but also has a deemed relevant interest of 21.68% by virtue of being the sole controller of Mardasa and Tygola.

Following the issue of New Shares, each party's relevant interest and resulting voting power in the Company, will be as follows:

Party	Shares	Performance Shares	Options	Voting Power
Peter Yunghanns	795,150,000	Nil	Nil	28.76%1
Tygola	305,150,000	Nil	Nil	11.04%
Mardasa	10,000,000	Nil	Nil	17.72%2
GRIT	480,000,000	Nil	Nil	17.36%

# Notes:

- 1. Peter Yunghanns will have a deemed relevant interest in the 490,000,000 Shares held by Mardasa (which includes the 480,000,000 Shares held by GRIT) and the 305,150,000 Shares held by Tygola as its sole controller pursuant to section 608(3)(b) of the Corporations Act.
- 2. Mardasa will have a direct shareholding interest in 10,000,000 Shares and a deemed relevant interest in the 480,000,000 Shares held by GRIT pursuant to section 608(3)(a) of the Corporations Act.

#### 4.4 Reason Section 611 Approval is Required

Item 7 of Section 611 of the Corporations Act provides an exception to the Prohibition, whereby a person may acquire a relevant interest in a company's voting shares with shareholder approval.

Following the issue of the New Shares to Tygola, Peter Yunghanns will have a relevant interest in 795,150,000 Shares in the Company, representing 28.76% voting power in the Company. This assumes that no other Shares are issued or Options are exercised.

Accordingly, Resolution 3 seeks Shareholder approval for the purpose of Section 611 Item 7 and all other purposes to enable the Company to issue the New Shares to Tygola and to enable Peter Yunghanns to increase his relevant interest from a starting point which is areater than 20% and below 90%.

# 4.5 Specific Information required by Section 611 Item 7 of the Corporations Act and ASIC Regulatory Guide 74

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for Item 7 of Section 611 of the Corporations Act. Shareholders are also referred to the Independent Expert's Report prepared by BDO Corporate Finance Pty Ltd annexed to this Explanatory Statement.

# (a) Identity of Peter Yunghanns and his Associates

It is proposed that Tygola may be issued the New Shares by way of the Conversion as set out in Section 3.2(d) of this Explanatory Memorandum.

As noted above, given Peter Yunghannas controls Tygola, he will be deemed, for the purposes of section 608(3) of the Corporations Act, to have acquired a relevant interest in the New Shares if the Conversion occurs.

Mr Peter Yunghanns is a lawyer, company director, entrepreneur and philanthropist based out of Melbourne, Victoria. Mr Yunghanns has investment interests in property, agriculture, aquaculture, mining and industrial businesses.

#### (b) Relevant Interest and Voting Power

#### (i) Relevant Interest

The relevant interests of Peter Yunghanns (and his associates) in voting shares in the capital of the Company (both current, and following the issue of the New Shares to Tygola as contemplated by this Notice) are set out in the table below:

Party	Capacity	Relevant Interest as at the date of this Notice of Meeting	Relevant Interest after the issue of the New Shares
Peter Yunghanns	Deemed relevant interest as sole controller of Mardasa and Tygola	545,150,000	795,150,000
Tygola	Shareholder	55,150,000	305,150,000
Mardasa	Shareholder and deemed relevant interest as 30% shareholder of GRIT	490,000,000	490,000,000
GRIT	Shareholder	480,000,000	480,000,000

Neither Tygola nor Peter Yunghanns (or his associates) have any contract, arrangement or understanding relating to the controlling or influencing of the composition of the Company's board or the conduct of the Company's affairs, nor are any of those persons proposing to act in concert in relation to the Company's affairs

# (ii) Voting Power

The voting power of Tygola, Peter Yunghanns and his associates (both current, and following the issue of the New Shares to Tygola as contemplated by this Notice) is set out in the table below:

Party	Voting Power as at the date of this Notice of Meeting	Voting Power after Shareholder approval of Resolution 3
Peter Yunghanns	21.68%	28.76%
Tygola	2.19%	11.04%
Mardasa	19.49%	17.72%
GRIT	19.09%	17.36%

Further details on the voting power of Peter Yunghanns are set out in the Independent Expert's Report prepared by BDO Corporate Finance Pty Ltd.

#### (iii) Summary of increases

From the above chart it can be seen that:

- (A) The maximum relevant interest that Peter Yunghanns will hold after completion of the Conversion is 795,150,000 Shares, and the maximum voting power that Peter Yunghanns will hold is 28.76%. This represents a maximum increase in voting power of 7.08% (being the difference between 21.68% and 28.76%).
- (B) The maximum relevant interest that Tygola will hold after completion of the Conversion is 305,150,000 Shares, and the maximum voting power that Tygola will hold is 11.04%. This represents a maximum increase in voting power of 8.85% (being the difference between 2.19% and 11.04%).

#### (iv) Assumptions

Note that the following assumptions have been made in calculating the above:

- (A) the Company has 2,514,347,391 Shares on issue as at the date of this Notice of Meeting;
- (B) the Company does not issue any additional Shares other than the New Shares
- (C) no other Options are exercised;
- (D) Peter Yunghanns, Tygola, Mardasa and GRIT do not acquire any additional Shares.

# (C) Reasons for the proposed issue of securities

As set out in Section 3.2(d) of this Explanatory Statement, the reason for the issue of the New Shares to Tygola is as a potential means of repaying the Additional Loan Facility (excluding any interest accrued), in accordance with the Additional Loan Agreement. As previously noted, Tygola may elect to undertake the Conversion, however, as at the date of the Notice, no such election has been made. The Company is seeking this approval in accordance with section 611 (Item 7) of the Corporations Act so as to avoid the additional costs of calling another general meeting in 3 months' time should Tygola elect to undertake the Conversion.

# (d) Date of proposed issue of securities

The New Shares the subject of Resolution 3 may be issued (subject to Tygola electing to undertake the Conversion) on a date after the Meeting to be determined by the Company and Tygola.

# (e) Material terms of proposed issue of securities

The Company is proposing to issue 250,000,000 New Shares at an issue price of \$0.004 per Share, to Tygola upon Conversion of the Additional Loan Facility (excluding any interest accrued) in accordance with the Additional Loan Agreement.

### (f) Tygola's and Peter Yunghanns' Intentions

Other than as disclosed elsewhere in this Explanatory Statement, the Company understands that Tygola and Peter Yunghanns:

- (i) have no present intention of making any significant changes to the business of the Company;
- (ii) have no present intention to inject further capital into the Company;
- (iii) have no present intention of making changes regarding the future employment of the present employees of the Company;
- (iv) do not intend to redeploy any fixed assets of the Company;
- (v) do not intend to transfer any property between the Company, Tygola or Peter Yunghanns; and
- (vi) have no intention to change the Company's existing policies in relation to financial matters or dividends.

These intentions are based on information concerning the Company, its business and the business environment which is known to Tygola and Peter Yunghanns at the date of this document.

These present intentions may change as new information becomes available, as circumstances change or in the light of all material information, facts and circumstances necessary to assess the operational, commercial, taxation and financial implications of those decisions at the relevant time.

# (g) Interests and Recommendations of Directors

(i) None of the current Board members have a material personal interest in the outcome of Resolution 3.

- (ii) All of the Directors are of the opinion that the Conversion is in the best interests of Shareholders and, accordingly, the Directors unanimously recommend that Shareholders vote in favour of Resolution 3. The Director's recommendations are based on the reasons outlined in section 4.6 below.
- (iii) The Directors are not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 3.

#### (h) Capital Structure

Below is a table showing the Company's current capital structure and the possible capital structure on completion of the Conversion.

	Shares	Options	Performance Shares
Balance at the date of this Notice	2,514,347,391	394,500,000	750,000,000
Balance after issue of the New Shares	2,764,347,391	394,500,000	750,000,000

#### Assumptions:

- No additional Shares are issued by the Company.
- None of the existing Options or performance shares expire, convert or vest.

### 4.6 Advantages of the Issue – Resolution 3

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 3:

- (a) the issue of the New Shares to Tygola, would enable the Company to repay the Additional Loan Amount;
- (b) with the issue upon the Conversion, the Company will no longer owe the Additional Loan Facility (excluding any interest accrued);
- (c) Tygola is a strong institutional shareholder partner who will add value to the Company's strategic goals;
- (d) the issue of New Shares to Tygola will complete the Company's obligations under the Additional Loan Agreement and will not require renegotiation of its terms;
- (e) BDO Corporate Finance Pty Ltd has concluded that the issue of the New Shares is not fair but reasonable to the non-associated shareholders.

# 4.7 Disadvantages of the Issue – Resolution 3

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 3:

- (a) the issue of the New Shares to Tygola will increase;
  - (i) Tygola's voting power from 2.19% to 11.04%; and
  - (ii) the relevant interest in voting power of Peter Yunghanns from 21.68% to 28.76%.

reducing the voting power of non-associated Shareholders in aggregate from 78.32% to 71.24%; and

- (b) BDO Corporate Finance Pty Ltd, as independent expert, has concluded that the issue of the New Shares is not fair but reasonable to the non-associated Shareholders.
- (c) there is no guarantee that the Company's Shares will not fall in value as a result of the Issue.

### 4.8 Independent Expert's Report – Resolution 3

The Independent Expert's Report prepared by BDO Corporate Finance Pty Ltd (a copy of which is attached as Schedule 1 to this Explanatory Statement) assesses whether the transactions contemplated by Resolution 3 are fair and reasonable to the non-associated Shareholders of the Company.

The Independent Expert's Report concludes that the transactions contemplated by Resolution 3 are not fair but reasonable to the non-associated Shareholders of the Company.

The Independent Expert notes that the key advantages of the proposal raised in Resolution 3 to the Company and existing Shareholders are as follows:

- (a) The Additional Loan Facility provides the Company with short term working capital, enabling the Company to further advance exploration activities which may result in an increase in value if successful. In the event of Conversion the Company will not have to raise capital to repay the amount outstanding.
- (b) If the transaction the subject of Resolution 3 is approaved it will provide the Company with time to undertake exploration which, if positive, may enhance the value of the Company and as a consequence will reduce the possibility of Kalia having to pursue future capital raisings at a lower price per share which would further dilute the existing shareholders interest for the same amount of funds raised.

The key disadvantages noted by the Independent Expert are as follows:

- (a) The issue of New Shares to Tygola is not fair as the overall value of a Share prior to the issue of New Shares to Tygola on a controlling interest basis is more than the value following the issue of New Shares to Tygola on a minority basis for the majority of the range of values.
- (b) Upon Conversion existing Shareholders will be diluted with the issue of the New Shares representing approximately 9.94% of the Shares on issue.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

# 4.9 Technical information required by ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

The effect of Resolution 3 will be to allow the Directors to issue the New Shares during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the proposed issue of the New Shares:

- the number of Shares to be issued is 250,000,000. Assuming no other Shares are issued, Options exercised, or Performance Shares converted, the number of Shares on issue would increase from 2,514,347,391 Shares to 2,764,347,391 Shares and the shareholding of existing Shareholders would be diluted by 9.94%;
- (b) the New Shares may be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that the issue of the Shares may occur progressively;
- (c) the issue price of the New Shares will be \$0.04 per Share;
- (d) the New Shares will be issued to Tygola;
- (e) valuation of the New Shares is set out in the Independent Expert's Report accompanying this Notice;
- (f) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (g) No amount will be raised from this issue as the Conversion may occur as means of repaying the Additional Loan Facility (excluding any interest accrued) in accordance with the Additional Loan Agreement.

#### 4.10 Pro forma balance sheet

A pro forma balance sheet of the Company upon completion of the issue of New Shares (and other transactions the subject of this Notice) is set out in Schedule 2.

#### GLOSSARY

\$ means Australian dollars.

2018 EGM means the extraordinary general meeting of the Company held on 11 May 2018.

**Additional Loan Agreement** means the loan agreement between Tygola and Company dated in or around January 2019.

**Additional Loan Amount** means the amount of \$1 million, provided under the Additional Loan Facility.

**Additional Loan Facility** means the additional loan facility provide by Tygola under the Additional Loan Agreement.

**Additional GSD** means the general security deed entered into between the Company and Tygola dated in or around January 2019.

**Additional Security Interest** means the additional security interest granted to Tygola under the Additional GSD.

**ASIC** means the Australian Securities & Investments Commission.

**ASX** means ASX Limited (ACN 008 624 691) or the financial market operated by ASX Limited, as the context requires.

**ASX Listing Rules** means the Listing Rules of ASX.

**Board** means the current board of directors of the Company.

**Business Day** means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Chair means the chair of the Meeting.

**Collateral** means the assets and undertaking of the Company.

Company means Kalia Limited (ACN 118 758 946).

**Constitution** means the Company's constitution.

**Conversion** means the conversion of all or part of the Additional Loan Facility into Shares, as summarised in Section 3.2(d).

**Corporations Act** means the Corporations Act 2001 (Cth).

**Directors** means the current directors of the Company.

**Due Date** means the date on which payment of interest falls due under the Loan Agreement or the Additional Loan Agreement (as applicable).

**Explanatory Statement** means the explanatory statement accompanying the Notice.

**Extended Term** means the Term, as extended by the Proposed Extension (subject to Shareholder approval under Resolution 1).

**General Meeting** or **Meeting** means the meeting convened by the Notice.

**GRIT** means Global Resources Investment Trust PLC.

**GRIT Transaction** means the acquisition by the Company of GRIT's 27.71% shareholding interest in Kalia Holdings, as set out in Section 1.

**GSD** means the general security deed dated in or around May 2018 between the Company and Tygola, pursuant to which the Company granted a first ranking security interest in favour of Tygola to secure repayment of the Loan Facility.

**Independent Expert** means BDO Corporate Finance Pty Ltd.

**Independent Expert's Report** means the independent expert's report prepared by the Independent Expert which is attached to this Notice as Schedule 1.

Kalia Holdings means Kalia Holdings Pty Ltd (ACN 110 808 172).

**Loan Agreement** means the loan agreement between Tygola and Company dated in or around April 2018.

**Loan Amount** means the amount of \$3,000,000 provided under the Loan Facility.

**Loan Facility** means the loan facility provide by Tygola under the Loan Agreement.

Mardasa means Mardasa Nominees Pty Ltd.

**New Shares** means the 250,00,000 Shares which may be issued to Tygola as per the Conversion noted at Section 3.2(d) of the Explanatory Memorandum.

**Notice** or **Notice** of **Meeting** means this notice of meeting including the Explanatory Statement and the Proxy Form.

**Option** means an option to acquire a Share.

**Proposed Extension** means the proposed extension to the Term to 28 June 2019, and any additional extension(s) of the Term up to 31 December 2019.

**Proxy Form** means the proxy form accompanying the Notice.

**Resolution** means the resolution set out in the Notice, or any one of them, as the context requires.

**Section** means a section of the Explanatory Statement.

**Security Interest** means the first ranking security interest granted in favour of Tygola under the GSD.

**Share** means a fully paid ordinary share in the capital of the Company.

**Share Sale Agreement** or **SSA** means the deed dated 20 March 2018 between the Company, GRIT and Kalia Holdings.

**Shareholder** means a registered holder of a Share.

**Term** means the term of the Loan Agreement.

Tygola means Tygola Pty Ltd (ACN 006 443 018).

**WST** means Western Standard Time as observed in Perth, Western Australia.

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#### Financial Services Guide

#### 20 March 2019

**BDO Corporate Finance (WA) Pty Ltd** ABN 27 124 031 045 ('BDO', 'we' or 'us' or 'ours' as appropriate) has been engaged by Kalia Limited ('**Kalia**' or 'the Company') to provide an independent expert's report on the proposal to issue shares to Tygola Pty Ltd ('Tygola') and to extend the grant of security over the Company's assets to Tygola with respect of an existing loan and to grant security in respect of additional funding. You will be provided with a copy of our report as a retail client because you are a shareholder of Kalia.

#### Financial Services Guide

This FSG is designed to help retail clients make a decision as to their use of our general financial product advice and to ensure that we comply with our obligations as a financial services licensee.

This FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence No. 316158:
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- Any relevant associations or relationships we have; and
- Our internal and external complaints handling procedures and how you may access them.

#### Information about us

We are a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide professional services primarily in the areas of audit, tax, consulting, mergers and acquisition, and financial advisory services.

We and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business and the directors of BDO Corporate Finance (WA) Pty Ltd may receive a share in the profits of related entities that provide these services.

#### Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients, and deal in securities for wholesale clients. The authorisation relevant to this report is general financial product advice.

When we provide this financial service we are engaged to provide an expert report in connection with the financial product of another person. Our reports explain who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

#### General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. If you have any questions, or don't fully understand our report you should seek professional financial advice.



# Financial Services Guide

Page 2

#### Fees, commissions and other benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$25,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report and our directors do not hold any shares in Kalia.

Other Assignments -BDO previously completed an Independent Experts' report in April 2018 for which a fee of approximately \$22,000 was received.

#### Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Kalia for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

#### Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

#### Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45** days after receiving the written complaint, we will advise the complainant in writing of our determination.

#### Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Australian Financial Complaints Authority ('AFCA').

AFCA is an external dispute resolution scheme that deals with complaints from consumers in the financial system. It is a not-for-profit company limited by guarantee and authorised by the responsible federal minister. AFCA was established on 1 November 2018 to allow for the amalgamation of all Financial Ombudsman Service ('FOS') schemes into one. AFCA will deal with complaints from consumers in the financial system by providing free, fair and independent financial services complaint resolution. If an issue has not been resolved to your satisfaction you can lodge a complaint with AFCA at any time.

Our AFCA Membership Number is 12561. Further details about AFCA are available on its website www.afca.org.au or by contacting it directly via the details set out below.

Australian Financial Complaints Authority GPO Box 3 Melbourne VIC 3001 AFCA Free call: 1800 931 678

Website: www.afca.org.au



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Appendix 1 - Glossary and copyright notice

Appendix 2 - Valuation Methodologies

Appendix 3 - Independent Valuation Report prepared by Agricola Mining Consultants Pty Ltd

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20 March 2019

The Directors
Kalia Limited
17 Rheola Street
WEST PERTH, WA 6005

**Dear Directors** 

# INDEPENDENT EXPERT'S REPORT

#### 1. Introduction

On 18 September 2017, Kalia Limited ('Kalia') (then named GB Energy Limited ('GB Energy')) announced that it had acquired 72.29% of Kalia Holdings Pty Ltd ('Kalia Holdings'), the parent company of Papua New Guinea registered Kalia Investments Ltd ('Kalia Investments') whose principal asset is a series of exploration licences in the Autonomous Region of Bougainville (an autonomous region within Papua New Guinea).

Kalia acquired the remaining 27.71% of Kalia Holdings, which was not acquired in September 2017, from Global Resources Investment Trust plc ('GRIT'). Contingent on the GRIT Transaction the Company gained access to a \$3 million loan facility with Tygola Pty Ltd, an entity controlled by Peter Yunghanns ('Tygola') (the 'Tygola Loan'). Under the terms of the loan facility, the Company granted a first ranking general security over all the assets and undertaking of the Company to secure the Tygola Loan and accumulated interest. The loan was due to be repaid on 31 December 2018 and the Company has agreed an extension to the repayment date to 28 June 2019, which would also extend the date to which security has been granted ('Security Transaction'). The Company is seeking approval from Shareholders to allow an extension to 31 December 2019. The Company and Tygola have not agreed to an extension to 31 December 2019, and there is no certainty that this will occur however by seeking the approval in such a manner it provides the Company with flexibility in the future.

In addition to the Security Transaction, as announced by the Company on 2 January 2019 Tygola has agreed to provide an additional \$1million loan which is also to be secured by a further first ranking security over the assets and undertaking of the Company in favour of Tygola. The Company is seeking approval for an increase to a maximum value of \$1.5 million ('Additional Loan Facility'). The Company and Tygola have not agreed to the increased amount and there is no guarantee that this will occur, however by seeking the higher level of approval it provides the Company with operational flexibility.

Our report is prepared pursuant to the requirements of the Australian Securities Exchange ('ASX') Listing Rule 10.1 and Section 611 of the Corporations Act 2001 (Cth) ('Corporations Act' or 'the Act'), for the following reasons:

An independent expert's report is required by ASX Listing Rule 10.1, because Tygola is considered to be an associate of Mardasa Nominees Pty Ltd ('Mardasa') which is considered to be a substantial holder of Kalia



and Tygola's sole owner, Peter Yunghanns, is deemed to be a substantial holder of Kalia due to his deemed relevant interest in Kalia shares through his ownership of Mardasa. ASX Listing Rule 10.1 applies when an entity acquires a substantial asset from, or disposes of a substantial asset to a substantial holder or an associate of a substantial holder. Although the Company has not entered into any agreement to dispose of any of its assets under the Tygola Additional Loan Facility or the Security Transaction, ASX considers, for the purpose of the Listing Rules, that the grant of a security over the Company's assets amounts to a 'disposal' of its assets.. Tygola may elect, at any time during the term of the Additional Loan and on more than one occasion, to convert all or part of the Additional Loan Amount (together with any outstanding interest on the Additional Loan Amount) into Shares at a conversion price of \$0.004 per Share (Conversion).

Peter Yunghanns, through his deemed relevant interest in Shares, will acquire a relevant interest in up to 795,150,000 Shares, comprising 250,000,000 Shares to be issued to Tygola Pty Ltd (or its nominee) by the Company, 55,150,000 Shares currently held by Tygola, 480,000,000 Shares currently held by GRIT and 10,000,000 Shares currently held by Mardasa Nominees Pty Ltd, which will result in Peter Yunghanns' relevant interest and voting power in the Company increasing from 21.68% to 28.76% which requires shareholder approval under Section 611 Item 7 of the Corporations Act. ('Issue of Shares to Tygola').

In this report we refer to the Issue of Shares to Tygola, the Security Transaction and the Additional Loan Facility Transaction, together as the Proposed Transactions.

# 2. Summary and Opinion

# 2.1 Purpose of the report

BDO has been appointed by the Directors of Kalia to prepare an Independent Expert's Report ('our Report') expressing our opinion as to whether or not the Proposed Transactions are fair and reasonable to the non-associated shareholders of Kalia ('Shareholders').

Our Report is prepared pursuant to ASX Listing Rule 10.1 and Item 7 section 611 of the Corporations Act, and is to accompany the Transaction Document required to be provided to the Shareholders of Kalia entitled to vote on the Proposed Transactions and has been prepared to assist the Shareholders in their considerations of whether to approve the Proposed Transactions.

# 2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('ASIC') Regulatory Guide 74 'Acquisitions Approved by Members' ('RG 74'), Regulatory Guide 111 'Content of Expert's Reports' ('RG 111') and Regulatory Guide 112 'Independence of Experts' ('RG 112').

In arriving at our opinion, we have assessed the terms of the Proposed Transactions as outlined in the body of this report. We have considered:

- How the value of a Kalia share prior to the Additional Loan Facility on a controlling interest basis compares to the value of a Kalia share following the Additional Loan Facility on a minority basis (Issue of Shares to Tygola);
- How the value of the proceeds of the sale of assets that would be provided to Tygola under a first ranking security deed, in the event of a default, compares to the value of the liabilities that would be settled (Security Transaction) and (Additional Loan Agreement Transaction);
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Proposed Transactions; and



• The position of Shareholders should the Proposed Transactions not proceed.

# 2.3 Opinion

# Issue of Shares to Tygola

We have considered the Issue of Shares to Tygola as outlined in the body of this report and have concluded that, in the absence of an alternate offer, the Issue of Shares to Tygola is not fair but reasonable to Shareholders.

In our opinion, the Issue of Shares to Tygola is not fair because the value of a Kalia share following the Issue of Shares to Tygola on a minority basis is less than the value of a Kalia share prior to the Issue of Shares to Tygola.

We consider the Issue of Shares to Tygola to be reasonable because the advantages are greater than the disadvantages. In particular:

- The Company will face significant uncertainty as to its ability to continue as a going concern if the Additional Loan Facility to which the issue of shares is related is not secured; and
- The funding provides the opportunity for the Company to continue exploration activities which may
  add value to the exploration assets. If the funding is not secured the Company may be forced to
  divest assets to settle the existing liabilities.

# **Security Transaction**

We have separately considered the terms of the Security Transaction as outlined in the body of this report and have concluded that, in the absence of any other relevant information, the Security Transaction is fair and reasonable to Shareholders.

# Additional Loan Facility Transaction

We have separately considered the terms of the Additional Loan Facility Transaction as outlined in the body of this report and have concluded that, in the absence of any other relevant information, the Additional Loan Facility Transaction is fair and reasonable to Shareholders.

#### 2.4 Fairness

# Issue of Shares to Tygola

In section 13 we determined that the value of a Kalia share prior to the Issue of Shares to Tygola on a controlling interest basis compares to the value of a Kalia share following the Issue of Shares to Tygola on a minority interest basis, as detailed below:

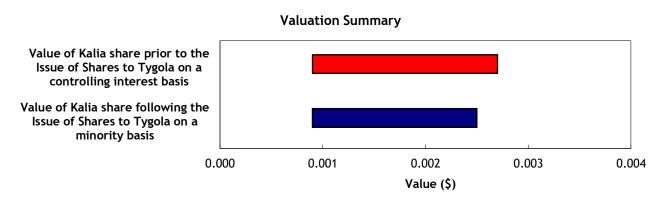
	Ref	Low \$	Preferred \$	High \$
Value of Kalia share prior to the Issue of Shares to Tygola on a controlling basis	10	0.0009	0.0018	0.0026



	Ref	Low \$	Preferred \$	High \$
Value of Kalia share following the Issue of Shares to Tygola Transaction on a minority basis	11	0.0009	0.0016	0.0023

We note from the table above that overall the value prior to the Issue of Shares to Tygola on a controlling interest basis is more than the value following the Issue of Shares to Tygola on a minority basis for the majority of the range of values. Therefore, we consider that the Issue of Shares to Tygola is not fair.

The above value ranges are graphically presented below:



We note that whilst it appears that the ranges overlap significantly that as the assets pre and post are the same the low preferred and high values pre should be considreed in comparision to the respective value outcome following the Issue of Shares to Tygola.

The above pricing indicates that, in the absence of any other relevant information, and an alternate offer, the Issue of Shares to Tygola is not fair for Shareholders.

# **Security Transaction**

We also concluded that the value of the proceeds of the sale of the Secured Assets that would be provided to Tygola under the terms of the loan agreement in the event of a default is equivalent or lower than the value of the liabilities that would be settled. This is discussed in section 13 of our Report. Therefore, in the absence of any other relevant information, this indicates that the Security Transaction is fair for Shareholders.

# Additional Loan Facility Transaction

We also concluded that the value of the proceeds of the sale of the Secured Assets that would be provided to Tygola under the terms of the loan agreement in the event of a default is equivalent or lower than the value of the liabilities that would be settled. This is discussed in section 13 of our Report. Therefore, in the absence of any other relevant information, this indicates that the Additional Loan Facility Transaction is fair for Shareholders.



#### 2.5 Reasonableness

We have considered the analysis in section 14 of this report, in terms of both

- advantages and disadvantages of the Proposed Transactions; and
- other considerations, including the position of Shareholders if the Proposed Transactions do not proceed and the consequences of not approving the Proposed Transactions.

In our opinion, the position of Shareholders if the Proposed Transactions are approved is more advantageous than the position if the Proposed Transactions are not approved. Accordingly, in the absence of any other relevant information and/or an alternate proposal we believe that:

- the Issue of Shares to Tygola is reasonable for Shareholders;
- the Additional Loan Facility Transaction is reasonable for Shareholders; and
- the Security Transaction is Reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

# Issue of Shares to Tygola

ADVANT	ADVANTAGES AND DISADVANTAGES					
Section	Advantages	Section	Disadvantages			
14.4	Removes the need for immediate funding	14.5	Dilution of existing Shareholders' interests			
14.4	Reduces the possibility of future capital raisings being at a lower price per share					

# Security Transaction and Additional Loan Facility Transaction

ADVANT	ADVANTAGES AND DISADVANTAGES					
Section	Advantages	Section	Disadvantages			
14.4	The Security Transaction is fair The Additional Loan Facility Transaction is fair	14.5	Kalia will grant Tygola a first ranking security over all the assets of the Company to secure the Loan and accrued interest			
14.4	Supports debt funding	14.5	Onerous restrictions on dealing with the Company's assets			

Other key matters we have considered include:



Section	Description
14.1	Alternative Proposal
14.2	Practical Level of Control
14.3	Consequences of not approving the Proposed Transactions

# 3. Scope of the Report

# 3.1 Purpose of the Report

ASX Listing Rule 10.1 requires that a listed entity must obtain shareholders' approval before it acquires or disposes of a substantial asset to a substantial holder, or an associate of a substantial holder, when the consideration to be paid for the asset or the value of the asset being disposed constitutes more than 5 per cent of the equity interest at the date of the last accounts.

Tygola is deemed to be an associate of a substantial holder by virtue of:

- Mardasa and Peter Yunghans are substantial holders of the Company, having a relevant interest in 21.68% of the Shares on Issue.
- Mardasa and Tygola having a common controller, being Mr Peter Yunghanns, which makes Mardasa an associate of Tygola.

By entering into the Security Transaction and the Additional Loan Facility, the Company is deemed to have disposed of a substantial asset, through the grant of a security interest to Tygola and (indirectly through his ownership of Tygola) Peter Yunghanns pursuant to a general security deed, under which the value of the security granted is more than 5% of the Company's equity interest at 30 June 2018.

ASX Listing Rule 10.10.2 requires the Notice of Meeting for shareholders' approval to be accompanied by a report by an independent expert expressing their opinion as to whether the transaction is fair and reasonable to the shareholders whose votes are not to be disregarded in respect of the transaction (non-associated shareholders).

Accordingly, an independent experts' report is required for the Security Transaction. The report should provide an opinion by the expert stating whether or not the terms and conditions in relation thereto are fair and reasonable to non-associated shareholders of Kalia.

#### 3.2 Regulatory guidance

Neither the Listing Rules nor the Corporations Act defines the meaning of 'fair and reasonable'. In determining whether the Proposed Transactions are fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. RG 111 provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

# Issue of Shares to Tygola

Peter Yunghanns (with his associates) together own 21.68% of the shares in Kalia. Section 606 of the Corporations Act expressly prohibits the acquisition of further shares by a party who already holds (with



associates) more than 20% of the issued shares of a public company, unless a full takeover offer is made to all shareholders.

Section 611 of the Corporations Act ('Section 611') permits such an acquisition if the shareholders of that entity have agreed to the issue of such shares. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares. Section 611 states that shareholders of the company must be given all information that is material to the decision on how to vote at the meeting.

RG 74 states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of Kalia, by either:

- undertaking a detailed examination of the Transaction themselves, if they consider that they have sufficient expertise, experience and resources; or
- By commissioning an Independent Expert's Report.

The directors of Kalia have commissioned this Independent Expert's Report to satisfy this obligation.

## Security Transaction and Additional Loan Facility Transaction

RG 111 suggests that, where an expert assesses whether a related party transaction is 'fair and reasonable' for the purpose of ASX Listing Rule 10.1, this should not be applied as a composite test - that is, there should be a separate assessment of whether the transaction is 'fair' and 'reasonable', as in a control transaction. An expert should not assess whether the transaction is 'fair and reasonable' based simply on a consideration of the advantages and disadvantages of the proposal.

We do not consider the Security Transaction or the Additional Loan Facility Transaction to be control transactions. As such, we have used RG 111 as a guide for our analysis but have considered the Security Transaction and Additional Loan Facility Transaction as if they were not control transaction.

# 3.3 Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is equal to or greater than the value of the securities which are the subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities which are the subject of the offer in a control transaction it is inappropriate for the expert to apply a discount on the basis that the shares being acquired represent a minority or portfolio interest; as such the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

## Issue of Shares to Tygola

Having regard to the above, BDO has completed this comparison in two parts:

• A comparison between the value of a Kalia share prior to the Issue of Shares to Tygola on a controlling interest basis and the value of a Kalia share following the Issue of Shares to Tygola on a minority basis (fairness - see Section 13 'Are the Proposed Transaction Fair?'); and



• An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness - see Section 14 'are the Proposed Transaction Reasonable?').

# Security Transaction and Additional Loan Facility Transaction

As stated in section 3.2, we do not consider that the Security Transaction or the Additional Loan Facility Transaction is a control transaction. As such, we have not included a premium for control when considering the value of the assets deemed to have been disposed by Kalia.

For the Security Transaction and Additional Loan Facility Transaction, the financial benefit provided by Kalia is cash or assets up to the equivalent cash amount sufficient to repay the outstanding liability to Tygola in the case of default on the Tygola Loan. The consideration being provided to Tygola is the amount payable to Tygola that would be settled by the sale of the secured assets, including the principal amount drawn down and related interest accrued.

Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between the value of the assets being disposed and the value of the consideration (fairness-see section 13 'Are the Proposed Transactions fair?'); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness see section 14 'Are the Proposed Transactions reasonable?')

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ('APES 225').

A Valuation Engagement is defined by APES 225 as follows:

'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

# 4. Outline of the Proposed Transactions

# 4.1 The Additional Loan Facility Transaction

On 2 January 2019 the Company announced that Tygola agreed to provide an additional \$1 million loan facility to the Company for working capital and exploration purposes during the interim period. This Additional Loan Facility is also secured by a further first ranking security over the assets and undertaking of the Company in favour of Tygola. The Company is seeking approval for the potential for a loan of up to \$1.5 million to be entered into.



## 4.2 Issue of Shares to Tygola

The Additional Loan Facility Transaction includes the ability for Tygola to convert the principal of \$1 million into 250 million Kalia shares at an issue price of \$0.004.

# 4.3 The Security Transaction

As a result of the Company being unable to repay the \$3 million Tygola loan facility which was subject to security being granted over the assets of the Company, Tygola has agreed to extend the repayment date to 28 June 2019. Approval is being sought by the company to allow an extension up to 31 December 2019. Under the Security Transaction the Company maintains access to a \$3 million loan with Tygola and access an Additional Loan Facility of \$1 million, (with the approval being sought for the potential to increase to \$1.5 million). The Security Transaction is the subject of Resolution 2:

Further details of the Tygola Loan are disclosed in the Company's Transaction Document.

# 5. Profile of Kalia

# 5.1 Company Background

Kalia, formerly known as GB Energy Limited, is an Australian based mining exploration company. The primary asset held by Kalia, is its interest in Bougainville Exploration Licences EL03 and EL04, in the Autonomous Region of Bougainville which comprise the Tore Project ('Tore Project').

The two exploration licenses (EL03 and EL04) that comprise the Tore Project are held jointly with an incorporated landowner group, Toremana Resources Ltd ('Toremana'). Under the terms of the joint venture, Kalia holds a 75% interest in the Tore Project, and Toremana holds 25% interest, free carried through to production. Kalia also has an Australian mineral asset, the Indiana Project ('Indiana Project'). Kalia is listed on the ASX and has its registered office in West Perth, Western Australia.

The current board of directors and senior management are:

- Mr Terry Larkan Managing Director;
- Mr David Johnston Non-Executive Chairman;
- Mr Peter Batten Technical Director
- Mr Sean O'Brien; and
- Mr Phillip Hartog Chief Financial Officer and Company Secretary.

# **Tore Project**

In March 2017, the Company signed a binding term sheet for a 120-day put option ('the Option') to acquire 100% of Kalia Holdings, a private Australian company, which held the contractual rights to explore for minerals and develop mines in the Tinputz district of North Bougainville. Kalia Holdings held a 75% interest in the Tore Project, while Toremana, an approved landowner organisation, had a free carried interest of 25% to production. In September 2017, the Company elected to exercise the Option, shareholders representing 72.29% accepted the offer (GRIT the owner of 27.71% rejected the offer). In November 2017, following Chief Wardens Hearings and a meeting of the Bougainville Executive Council,



the Company and Toremana were notified that the exploration licenses had been awarded. A ceremonial presentation of the licenses was held on 17 November 2017. Initial exploration work has commenced on the Project. Further details are contained in the Independent Specialists report in Appendix 3.

# Indiana Project

As at the date of this Report, Kalia has one granted tenement in the Northern Territory, with three tenements surrendered and one exploration license application withdrawn in January 2019.

## 5.2 Historical Balance Sheet

Statement of Financial Position	Reviewed as at 31-Dec-18 \$	Audited as at 30-Jun-18 \$	Audited as at 30-Jun-17 \$
CURRENT ASSETS	₹ .	•	7
Cash and cash equivalents	99,998	291,655	57,259
Trade and other receivables	16,882	23,016	158,326
Other assets	29,014	445,158	2,872
Assets classified as available for sale	-	-	30,000
TOTAL CURRENT ASSETS	145,659	759,829	248,457
NON-CURRENT ASSETS			
Loan - Kalia Holdings Pty Ltd	-	-	600,000
Property Plant and Equipment	227,775	89,909	-
Exploration and evaluation expenditure	-	-	263,182
TOTAL NON-CURRENT ASSETS	227,775	89,909	863,182
TOTAL ASSETS	373,434	849,738	1,111,639
CURRENT LIABILITIES			
Trade payables	255,080	208,312	4,122
Borrowings	3,000,000	1,070,000	100,000
Other payables	374,746	285,744	315,902
TOTAL CURRENT LIABILITIES	3,629,826	1,564,056	420,024
TOTAL LIABILITES	3,629,826	1,564,056	420,024
NET ASSETS	(3,256,392)	(714,318)	691,615
EQUITY			
Issued capital	30,037,228	29,162,228	11,223,627
Reserves	(5,474,130)	(899,701)	463,635
Accumulated losses	(27,819,490)	(28,976,845)	(10,995,647)
TOTAL EQUITY	(3,256,392)	(714,318)	691,615

**Source:** Kalia Limited's audited financial statements for the year ended 30 June 2018 and reviewed accounts for the half year ended 31 December 2018.

We note that Kalia's auditor outlined the existence of material uncertainty relating to going concern in Kalia's Annual Report for year ended 30 June 2018 and the half year ended 31 December 2018.



Specifically, the material uncertainty related to Company's ability to raise additional capital to fund exploration expenditure and working capital.

# Commentary on Historical Statements of Financial Position

We note the following in relation to Kalia's statement of financial position.

Cash and Cash equivalents have decreased from 30 June 18 as the level of activity undertaken by Kalia in relation to the Tore project has increased, this is also reflected in the acquisition of further property plant and equipment and the increased level of drawdown on the Tygola loan facility to its limit of \$3 million.

The increase in reserves is primarily as a result of the reversal of the share based payment relating to the Class C Performance rights which are now considered not probable to vest.

## 5.3 Historical Statement of Comprehensive Income

Statement of Comprehensive Income	Reviewed half year ended 31-Dec-18 \$	Audited for the year ended 30-Jun-18 \$	Audited for the year ended 30-Jun-17 \$
Continuing Operations			
Interest Income	(158)	191	381
Other Income	3,750,000		
Accounting expenses	(23,780)	(51,886)	(34,880)
Administrative and employee expense	(1,082,302)	(1,844,980)	(334,432)
Depreciation and amortisation expense	(24,964)	(4,410)	(482)
Project generation	(1,257,415)-	(794,483)	(46,668)
Impairment of exploration asset	-	(370,765)	(545,650)
Acquisition cost of Kalia Holdings Pty Ltd	-	(15,560,074)	-
Foreign Exchange	(15,600)	-	-
Finance cost	(191,742)	(81,182)	
Loss on sale of tenements	-	(12,800)	
Loss before income tax expense	1,157,355	(18,666,389)	(961,731)
Income tax (benefit)/expense	-	-	-
Net profit/(loss) for the period	1,157,355	(18,666,389)	(961,731)
Other comprehensive income, net of income tax			
Items that may be reclassified to profit or loss Exchange difference on translation of foreign operations	(31,188)	(43,585)	-
Total comprehensive profit/(loss) for the period, net of income tax	1,126,167	(18,709,974)	(961,731)

Source: Kalia Limited's audited financial statements for the year ended 30 June 2018 and 30 June 2017 and reviewed accounts for the half year ended 31 December 2018.

# Commentary on Historical Statement of Comprehensive Income/(Loss)

We note the following in relation to Kalia's statement of comprehensive income/(loss):



- Other income at 31 December 2018 relates to the derecognition of the expense relating to the issue of Class C Performance rights in relation to the acquisition of Kalia Holdings Pty Ltd as they are now considered not probable to vest.
- In the year to 30 June 2018, the Company acquired Kalia Holdings Pty Ltd. The cost of acquisition was expensed through the profit and loss.
- Project generation expenses related to expenditure directly related to Tore Project development activities. Exploration expenditure has increased following the acquisition of the Tore Project, including aerial survey's undertaken.
- The impairment of exploration assets of \$545,650 for the year ended 30 June 2017 and \$370,765 for the year ended 30 June 2018 related to written off capitalised exploration expenditure for Australian tenements.

# 5.4 Capital Structure

The share structure of Kalia as at 18 January 2019 is outlined below:

	Number
Total ordinary shares on issue	2,514,347,391
Top 20 shareholders	1,888,684,313
Top 20 shareholders - % of shares on issue	75.12%

**Source:** Share registry information

The range of shares held in Kalia as at 18 January 2019 is as follows:

Range of Shares Held	Number of Ordinary Shareholders	Number of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	29	5,908	0.00%
1,001 - 5,000	14	41,649	0.00%
5,001 - 10,000	46	445,555	0.02%
10,001 - 100,000	210	11,665,671	0.46%
100,001 - and over	438	2,502,188,608	99.52%
TOTAL	737	2,514,347,391	100.00%

Source: Share registry information

The ordinary shares held by the most significant shareholders as at 18 January 2019 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
Mr Nikolajs Zuks and Related parties	544,0523,717	21.64%
Global Resources Investment Trust PLC	480,000,000	19.09
KSL Corp Pty Ltd and Related parties	169,265,034	6.73%
Gleneagle Securities Nominees Pty Ltd	122,905,985	4.89%



Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
JP Morgan Nominees Australia Limited	106,899,202	4.25%
Subtotal	1,423,122,938	56.60%
Others	1,091,224,453	43.40%
Total ordinary shares on Issue	2,514,347,391	100.00%

**Source:** Share registry information

Outlined below are the options and performance rights Kalia has on issue as at the date of our Report:

Name	Number of Options	Exercise Price (\$)	Expiry Date
Unlisted Options	44,500,000	\$0.006	13-May-19
Unlisted Options	35,000,000	\$0.02	16-May-21
Unlisted Options	35,000,000	\$0.025	16-May-22
Unlisted Options	30,000,000	\$0.03	16-May-23
Class A Performance Shares	250,000,000	Nil	1-Jun-20
Class B Performance Shares	250,000,000	Nil	1-Mar-22
Class C Performance Shares	250,000,000	Nil	1-Jun-19
Unlisted Adviser Options	250,000,000	\$0.003	30-Jun-19

**Source:** Share registry information

The Class A Performance shares listed above, will convert into a share (on a one for one basis) upon the Company announcing on or before 1 June 2020, from a project held by Kalia or a subsidiary of Kalia, a JORC 2012 compliant inferred resource of either:

- (i) at least 190Mt at a minimum grade of 0.3g/t of gold (Au); or
- (ii) at least 160Mt at a minimum grade of 0.3% copper (Cu).

The Class B Performance Shares listed above, will convert into a share (on a one for one basis) upon the Company announcing on or before March 2022, from a project held by Kalia or a subsidiary of Kalia, a JORC 2012 compliant inferred resource of either:

- (i) at least 285Mt at a minimum grade of 0.3g/t gold (Au); or
- (ii) at least 240Mt at a minimum grade of 0.3% copper (Cu).

The Class C Performance Shares listed above, will convert into a share (on a one for one basis) upon the following, occurring on or before 1 June 2019:

- (i) the grant of an exploration licence to Kalia or a subsidiary of Kalia in the Tinputz district of Bougainville and the period of 180 days thereafter; and
- (ii) Kalia, through the Company's funding, undertaking initial mapping and then drilling on a project held by Kalia or a subsidiary of Kalia of a minimum of 2,000 metres.



# 6. Profile of Tygola Pty Ltd and Peter Yunghanns

# 6.1 Background

Tygola Pty Ltd is an Australian private company that is an entity controlled solely by Mr Peter Yunghanns.

Mr Peter Yunghanns is a lawyer and company director based out of Melbourne, Victoria. Mr Yunghanns has investment interests in property, agriculture, aquaculture, mining and industrial businesses.

# 7. Economic analysis

We set out in the following paragraphs some of the general economic factors which may impact on Kalia and its Australian and Bougainville assets.

#### 7.1 Global

Conditions in the global economy remain positive, albeit a number of factors are underscoring downside risks to global growth. These risks relate to the possibilities of escalating and sustained trade actions and tightening global financial conditions.

Trade tensions between China and the United States of America ('US') have increased over recent months, with nearly 50% of US imports from China, and 75% of Chinese imports from the US, now subject to higher tariffs. Survey indicators suggest these growing tensions are having some impact on the global economy, with new export orders weakening significantly in a number of economies. Business surveys indicate US companies are concerned about the risks trade tensions pose to future earnings and competitiveness.

Growth in China has slowed marginally since 2017, partly reflecting efforts by the Chinese authorities to grow sustainably by addressing risks in the financial system, and pollution. Restrained public spending has impacted activity in parts of the Chinese manufacturing sector, in particular, the output of industrial products has been flat or falling. In response to the weaker growth in parts of the economy, authorities have implemented a targeted easing of policy. The Chinese authorities have also continued to introduce measures to contain the build-up of financial risks, which include reducing the debt-to-asset ratios of state owned enterprises. There is uncertainty surrounding the economic outlook for China, in part due to the trade conflict with the US, and its potential impact on the Chinese manufacturing export sector in the medium term.

Core inflation is nearing the inflation target in a number of advanced economies, including the US where it has increased over 2018, primarily as a result of an increase in oil prices. Despite this, core inflation is little changed and below the inflation target in other advanced economies such as Japan. As conditions have improved in the global economy, a number of central banks have withdrawn some monetary stimulus and further steps in this direction are to be expected. An unexpected increase in inflationary pressures in advanced economies, including the US, could prompt a significant tightening of global financial conditions.

#### 7.2 Australia

#### Domestic growth

The Australian economy has performed well, with GDP growth for the year running above 3%. The Reserve Bank of Australia ('RBA') is expecting growth to average 3.5% over 2019, before slowing in 2020, as mining production stabilises. Non-mining business investment grew by 9% over the year to the June quarter 2018,



led by non-residential construction. The pipeline of building and infrastructure work yet to be done, as well as reports on increasing underlying demand suggests that construction activity could pick up within the coming years.

Public infrastructure investment growth is high and is not expected to decline in the short term. Household consumption growth has remained stable at around 3%, and is expected to continue at this rate. This is supported by ongoing growth in employment rates and a modest pick-up in wage growth, however is shadowed by uncertainty surrounding long term wage growth and the uncertainty surrounding the decline of the housing market.

Australia's higher export prices look to have offset higher import prices in recent months, whilst the forecast for coal prices has increased due to a rise in global demand. Terms of trade are expected to remain near current high levels for the next few quarters until gradually declining, whilst Chinese demand for bulk commodities is expected to moderate over time as global supply from low-cost producers continues to increase.

#### Unemployment

The unemployment rate fell to 5% in September 2018, the lowest unemployment rate in several years. The unemployment rate increased marginally to 5.1% in November 2018 however the expectation is for it to decline in the medium term, as it is expected the economy will continue to grow at an above trend rate,

#### Inflation

Inflation remains in line with forecasts, with the Consumer Price Index increasing by 1.9% over the past year. Underlying inflation is expected to gradually increase over the next year, increase in the December quarter, then pick up to 2.25% in 2019.

## Currency movements

The Australian dollar remains within the range that it has been over the past two years on a trade-weighted basis, albeit in the lower part of that range. This is due to weakness in emerging markets and renewed trade tensions. An appreciating exchange rate would be expected to result in a slower pick-up in economic activity and inflation.

Source: www.rba.gov.au Statement by Philip Lowe, Governor: Monetary Policy Decision 4 December 2018, Statement on Monetary Policy - November 2018, RBA Statistical Tables: Labour Force.

# 7.3 The Autonomous Region of Bougainville

The Autonomous Region of Bougainville ('Bougainville') is made up of a series of islands, the largest being the Island of Bougainville. Mining exploration commenced on the Island of Bougainville in the 1960s and, following the discovery of large copper deposits by Bougainville Copper Limited (a Rio Tinto subsidiary), the Panguna Copper Gold Mine ('Panguna Mine') was established. Panguna Mine commenced production in 1972.

Panguna Mine officially closed in May 1989 due to civil war in Bougainville. The civil war between the Bougainville Revolutionary Army and the Papua New Guinea Defence Force ended in 2001, following the signing of a peace agreement, subsequent to which, Bougainville was granted autonomy of government as a region within Papua New Guinea.



The Autonomous Bougainville Government ('ABG') and the National Government of Papua New Guinea signed a Memorandum of Understanding in 2008, which established a plan for the transfer of the mining, oil and gas functions, from the National Government of Papua New Guinea to the ABG. In 2015, the ABG enacted its own Mining Act, allowing the ABG to regulate its own mining sector.

Under the Mining Act, the landowners of Bougainville are defined as the owners of all the minerals found in Bougainville, and so the indigenous people must be consulted and approve of, any mining development. The Bougainville Executive Council has the final authority to grant mining licenses, however prior to that, landowners have the right to refuse entry to exploration license areas and the grant of development licenses. In April 2017, the ABG announced that the mining and exploration Moratorium had been partially lifted, making way for the first mining activity in Bougainville since Panguna Mine closed.

Source: <a href="http://www.abg.gov.pg">http://www.abg.gov.pg</a>



# 8. Industry analysis

# 8.1 Copper Industry

Copper is the third most used metal worldwide in terms of volume. Copper has a wide range of applications, as it is malleable, conducts heat and electricity well, and is resistant to corrosion. It is used extensively in electrical products, vehicle components, construction and infrastructure developments. Industry revenue is primarily driven by demand for copper tubes and wire that are commonly used in the building and construction sector. Stronger economic growth in Organisation for Economic Co-operation and Development member countries, is expected to result in an increase in the global demand for copper. Demand for copper from Japan and China is also expected to grow, as construction and manufacturing activity increases.

# **Copper Prices**

Following a deterioration in global economic conditions in 2008, base metal prices, including copper, fell sharply. The copper price reached a low of approximately US\$2,810 per tonne in December 2008. The copper price recovered over 2010 and 2011, to reach a high of approximately US\$10,180 per tonne in February 2011. The recovery in the copper price reflected a steady increase in demand for base metals, following a pick-up in global industrial production after the Global Financial Crisis.

Between 2011 and 2017, the copper price steadily declined, before increasing in price in mid-February 2017 as a result of strike action at the world's largest copper mine Escondida, located in Chile. The average copper price from the start of January 2018 through to the start of February 2019 has been approximately US\$6,497 per tonne, ranging from a low of US\$5,736 per tonne on 3 January 2019 to a high of US\$7,332 per tonne on 7 June 2018. According to Consensus Economics the long term forecast copper price is expected to be between approximately US\$7,000 and US\$7,500 per tonne.



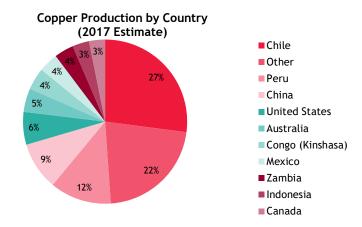
Source: Bloomberg and Consensus Economics

#### **Copper Production**

Most of the world's copper comes from South and Central America, particularly in Chile and Peru. In 2016, Chile, China and Peru have been estimated to account for approximately 50% of the world's

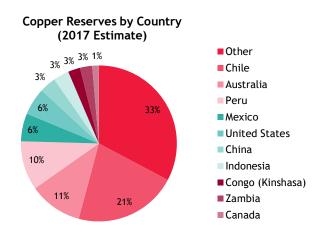


copper production. The graph below shows the percentage of different country's estimated copper production for the year 2017.



Source: U.S. Geological Survey

For the year 2017, Chile, Australia and Peru were collectively estimated to account for just over 50% of global reserves of copper. The graph below illustrates the estimated copper reserves for 2017 by country:



Source: U.S. Geological Survey

The dominant consumers include China, Japan and India. China acquires approximately 32.4% of the Australian copper exports given the demand influenced by the above average growth of urbanisation and energy use. Japan accounts for approximately 29.4%, and commonly utilises copper concentrates for further processing into final copper goods. Industry revenue is expected to grow over the next five years, as output is expected to increase in response to stabilising prices.

Source: IBISWorld and US Geological Survey



## 8.2 Gold Industry

Gold is a soft malleable metal which is highly desirable due to its rarity and unique mineral properties. Gold has been used in jewellery and as a form of currency for thousands of years, however in more recent history there has been increasing demand for its use in the manufacture of electronics, dentistry, medicine and aerospace technology.

In addition to its practical applications, gold also serves as an international store of monetary value. Gold is widely regarded as a monetary asset as it is considered less volatile than world currencies and therefore provides a safe haven investment during periods of economic uncertainty.

Once mined, gold continues to exist indefinitely and is often melted down and recycled to produce alternative or replacement products. Consequently, demand for gold is supported by both gold ore mining and gold recycling.

The gold ore mining industry has performed steadily in recent years, with growth driven by price increases and slow economic growth. However, as the world economy stabilises following uncertainty surrounding the United States ('US') Presidential Election and the United Kingdom's exit from the European Union, Industry revenue is projected to stagnate.

#### **Gold Prices**

The price of gold peaked at US\$1,900 on 5 September 2011, due largely to the debt market crisis in Europe and the Standard and Poor's downgrade of the US credit rating. Global stock markets subsequently went into turmoil, which saw investors opt for the stability offered by gold.

The price of gold fluctuated around US\$1,700 during 2012 before entering a steep decline in 2013. The downturn represented the beginning of a correction in the price of gold, which had almost tripled in the two-year period prior to the European crisis in 2011. Improved market sentiment and increased risk appetite from investors saw gold prices continue to decline throughout 2014 and 2015 to US\$1,051 in December 2015.

During 2016, gold prices strengthened, likely as a result of heightened uncertainty surrounding the US Presidential election and the United Kingdom's exit from the European Union. The price of gold reached US\$1,363 in late 2016 before stabilising around US\$1,200 to US\$1,300 throughout 2017. In January 2018, the gold price reached a six-month high of US\$1,358. The gold spot price since 2008 and forecast prices through to 2027 are depicted in the graph below:



2,000

1,600

1,200

800

400

Historical Price

Forecast Price

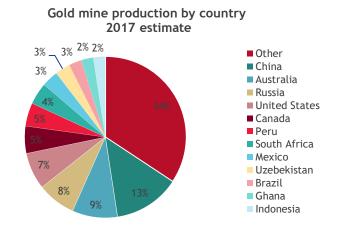
Gold Spot and Forecast Price

Source: Bloomberg, Consensus Economics and BDO Analysis

# **Gold Ore Mining Trends**

Gold ore mining is a capital intensive and high cost process, which is becoming increasingly difficult and more expensive as the quality of ore reserves diminishes. The Industry also incurs many indirect costs related to exploration, royalties, overheads, marketing and native title law. Typically, many of these costs are fixed in the short term as a result of Industry operators' inability to significantly alter cost structures once a mine commences production.

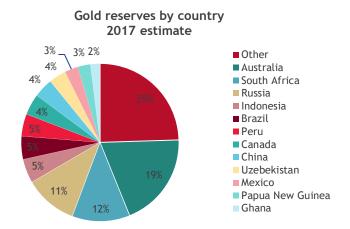
Until the late 1980s, South Africa produced approximately half of the total gold ore mined globally. More recently however, the Industry has diversified geographically and China and Australia now dominate global gold production. According to the United States Geological Survey for January 2018, total estimated global gold ore mined for 2017 was approximately 3,150 metric tonnes. The chart below illustrates the estimated global gold production by country for 2017.



Source: United States Geological Survey and BDO analysis



Despite China leading global gold production in 2017, Australia, South Africa and Russia hold the largest known gold reserves globally. As depicted below, collectively these three countries account for approximately 42% of global gold reserves.



Source: United States Geological Survey and BDO analysis

According to the 2017 US Geological Survey, Australia holds 9,800 tonnes of gold, representing 19% of global reserves and the largest percentage held by any country. In 2018-19, IBIS World estimates domestic Industry revenue to increase by 2.7% to reach \$18.0 billion, boosted by increased domestic production. Over the five years through 2022-23, it is forecast that revenue will grow at an annualised 0.8%, to reach approximately \$18.8 billion. However, rising production costs due to lower ore quality and higher transportation costs are anticipated to reduce industry profitability over the period.



# 9. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('FME')
- Discounted cash flow ('DCF')
- Quoted market price basis ('QMP')
- Net asset value ('NAV')
- Market based assessment

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information. In our assessment of the value of Kalia shares we have chosen to employ the following methodologies:

## 9.1 Valuation of Kalia Shares prior to the Issue of Shares to Tygola

In our assessment of the value of Kalia shares prior to the Issue of Shares to Tygola, we have chosen to employ the following methodologies:

- NAV on a going concern basis as our primary valuation methodology; and
- QMP as our secondary methodology as this represents the value that a Shareholder can receive for a share if sold on market.

We have chosen these methodologies for the following reasons:

- Kalia's primary asset, its existing interest in the Tore Project, does not currently generate any
  income nor are there any historical profits that could be used to represent future earnings, so the
  FME approach is not appropriate;
- Kalia currently has no foreseeable future net cash inflows, so the application of the DCF valuation approach is not appropriate;
- consequently, we have adopted the NAV approach as our primary valuation methodology. Kalia's
  primary asset, its interest in the Tore Project, is not a producing asset and no revenue or cash
  flows are currently generated by this asset and therefore we consider that the NAV approach is
  best suited for the valuation; and
- we have adopted QMP as our secondary approach. The QMP basis is a relevant methodology to
  consider because Kalia's shares are listed on the ASX. This means there is a regulated and
  observable market where Kalia's shares can be traded. However, in order for the QMP
  methodology to be considered appropriate, the Company's shares should be liquid and the market
  should be fully informed of the Company's activities.

#### Independent specialist valuation

In valuing Kalia's interest in the Tore Project and its Australian mineral assets as part of our NAV valuation, we have relied on the independent specialist valuation performed by Agricola Mining Consultants Limited ('Agricola') in accordance with the Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets 2015 ('the Valmin Code') and the Australasian



Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2012 ('the JORC Code'). We are satisfied with the valuation methodologies adopted by Agricola, which we believe are in accordance with industry practice and compliant with the requirements of the Valmin Code. A copy of Agricola's valuation report is attached in Appendix 3.

# 9.2 Valuation of Kalia Shares following the Issue of Shares to Tygola

In our assessment of the value of a Kalia share following the Issue of Shares to Tygola, we have chosen to employ the NAV (sum-of-parts) as our primary valuation methodology, having consideration for:

- the value of Kalia's interest in the Tore and Indiana Projects (placing reliance on Agricola's independent specialist valuation opinion); and
- the value of the other assets and liabilities of Kalia.
- We note that the procurement of a \$1million funding facility as agreed has been included in our assessment of fairness but it will comprise a notional asset (amount drawn down) and matching notional liability (borrowing) with no net effect on value, this would also be the case if the facility is extended to \$1.5 million. We have addressed the impact of the procurement of the funding facility in our assessment of reasonableness (section 14).

# 9.3 Security Transaction and Additional Loan Facility Transaction

In the case of the Security Transaction for the purpose of ASX Listing Rule 10.1, the value of the proceeds of the sale of the Secured Assets, that would be provided to Tygola in the event of default would be less than or equal to the value of the liabilities to be settled. Therefore, we do not consider it necessary or relevant to value the Company or the Assets. In our assessment of the value of the liabilities to be settled, we consider the nominal value of the amount payable in the event of default to represent the fair market value.



# 10. Valuation of Kalia prior to the Issue of Shares to Tygola

#### 10.1 Net Asset Valuation of Kalia

The value of Kalia assets on a going concern basis is reflected in our valuation below:

Statement of Financial Position	Notes	As at 31-Dec-18 \$	Low valuation \$	Preferred valuation \$	High valuation \$
CURRENT ASSETS					
Cash and cash equivalents		99,998	99,998	99,998	99,998
Trade and other receivables		16,647	16,647	16,647	16,647
Other assets		29,014	29,014	29,014	29,014
TOTAL CURRENT ASSETS	<del>-</del>	145,659	145,659	145,659	145,659
NON-CURRENT ASSETS		,	,		,
Property Plant and Equipment		227,775	227,775	227,775	227,775
Exploration and evaluation expenditure TOTAL NON-CURRENT ASSETS	a -		5,500,000	7,800,000	9,900,000
TOTAL ASSETS	-	227,775	5,727,775	8,027,775	10,127,775
CURRENT LIABILITIES		373,434	5,873,434	8,173,434	10,273,434
Trade and other payables		629,826	629,826	629,826	629,826
Borrowings		3,000,000	3,000,000	3,000,000	3,000,000
TOTAL CURRENT LIABILITIES	-	3,629,826	3,629,826	3,629,826	3,629,826
TOTAL LIABILITES NET ASSETS		3,629,826 (3,256,392)	3,629,826 2,243,608	3,629,826 4,543,608	3,629,826 6,643,608
Shares on issue (number)			2,514,347,391	2,514,347,391	2,514,347,391
Value per share			0.0009	0.0018	0.0026

Source: BDO analysis

We have been advised by management that there have been no material changes to net assets in the consolidated statement of financial position since 31 December 2018, other than those outlined below. We have assumed that the fair market value of the assets and liabilities as at 31 December 2018, other than exploration and evaluation expenditure, is equal to the carrying value as set out in the above consolidated statement of financial position.

The table above indicates the net asset value of a Kalia share prior to the Additional Loan Funding Transaction is between \$0.0009 and \$0.0026 with a preferred value of \$0.0018.

We note the following in relation to the valuation in the table above and the adjustments which were made to the net assets of Kalia as at 31 December 2018 in arriving at our valuation.

## Note a: Exploration and evaluation expenditure

## Valuation of the Tore Project and Australian Mineral Assets

We instructed Agricola to provide an independent market valuation of the exploration assets held by Kalia. Agricola considered a number of different valuation methods when valuing the exploration assets of Kalia.

Agricola adopted the following methodology:



- Comparable market transactions method; and
- Geo-Scientific method.

We consider these methods to be appropriate for Kalia's exploration assets, given the early stage of development for the both the Tore Project and the Australian Mineral Assets.

Full details of Agricola's valuation are provided in Appendix 3 to our Report.

The range of values for each of Kalia's exploration assets as assessed by Agricola is set out below:

Kalia Limited	Low value	Preferred value	High value
Mineral Asset Valuation	\$ million	\$ million	\$ million
Bougainville Projects			
EL03	3.5	4.8	6.1
EL04	1.9	2.8	3.6
Value of 100% of Bougainville Projects	5.4	7.6	9.7

Source: Agricola

Kalia Limited	Low value	Preferred value	High value
Mineral Asset Valuation	\$ million	\$ million	\$ million
Australian Projects			
Indiana EL31391	0.1	0.2	0.2
Value of 100% of Australian Projects	0.1	0.2	0.2

Source: Agricola

The combined value of the Bougainville Projects and the Australian Projects based on Kalia's ownership

## Consideration of dilution from exercise of options and performance rights

We have also considered the impact on the valuation by considering the possible exercise of options (and performance shares) currently on issue. We note that the majority of options have exercise prices in excess of our assessed value.

For the performance rights, exercise is dependent on future performance. For the Class A and Class B rights the performance milestone to be achieved for conversion is the announcement of a JORC 2012 compliant inferred resource. As this would indicate successful progress of the exploration assets we consider that conversion would not be dilutive. However, for the Class C rights, the performance milestone to be achieved is the grant of a licence in the Tinputz district of Bougainville and then funding, undertaking initial mapping and drilling on a Kalia Project.

As a result of our analysis we have concluded that the impact is immaterial to our opinion.

## 10.2 Quoted Market Prices for Kalia Securities

To provide a comparison to the valuation of Kalia in Section 10.1, we have also assessed the quoted market price for a Kalia share.

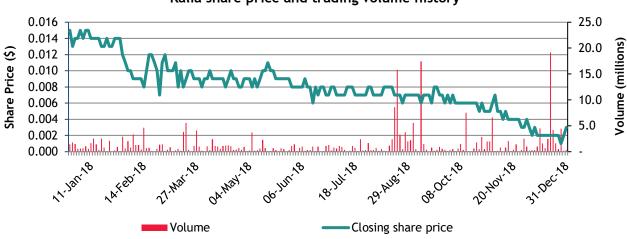


The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

# Minority interest value

Our analysis of the quoted market price of a Kalia share is based on the pricing prior to the announcement of the Proposed Transactions. This is because the value of a Kalia share after the announcement may include the effects of any change in value as a result of the Proposed Transactions. However, we have considered the value of a Kalia share following the announcement when we have considered reasonableness in Section 14..

Information on the Proposed Transactions were announced to the market on 2 January 2019. Therefore, the following chart provides a summary of the share price movement over the 12 months to 31 December 2018, which was the last trading day prior to the announcement.



# Kalia share price and trading volume history

Source: Bloomberg

The daily price of Kalia shares from 31 December 2017 to 31 December 2018 has ranged from a low of \$0.001 on 27 December 2018 to a high of \$0.015 on 5 January 2018, 9 January 2018 and 10 January 2018. The highest single day of trading was on 14 December 2018, when 19,176,808 shares were traded. We note the spike in volume traded on this date did not align with any announcement released by the Company. Over the 12-month period from 31 December 2017 to 31 December 2018 the share price of Kalia has generally trended downwards.



During this period a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement \$ (movement)		Closing Share Price Three Days After Announcement \$ (movement)			
29/10/2018	Quarterly Activities Report	0.005	•	0.0%	0.007	•	40.0%
29/10/2018	Quarterly Cashflow Report	0.005	•	0.0%	0.007	•	40.0%
19/09/2018	Geophysical Survey update	0.008	•	0.0%	0.006	•	25.0%
30/07/2018	Quarterly Activities Report	0.007	•	12.5%	0.007	•	0.0%
30/07/2018	Quarterly Cashflow Report	0.007	•	12.5%	0.007	•	0.0%
27/04/2018	Quarterly Cashflow Report	0.009	•	0.0%	0.009	•	0.0%
27/04/2018	Quarterly Activities Report	0.009	•	0.0%	0.009	•	0.0%
17/04/2018	Assay Results Enhance Geological Understanding	0.009	•	0.0%	0.009	•	0.0%
30/01/2018	Quarterly Cashflow Report	0.014	•	0.0%	0.010	•	28.6%
30/01/2018	Quarterly Activities Report	0.014	•	0.0%	0.010	•	28.6%
09/01/2018	Exploration Land Access Agreement and Director Changes	0.015	•	7.1%	0.014	•	6.7%

On 9 January 2018, the Company announced that it had signed an exploration land access and compensation agreement. The same announcement also noted that Mr Nick Burn had resigned as Executive Director and that Mr Peter Batten had been appointed as Technical Director. On the date of the announcement the share price increased by 7.1%, to close at \$0.015, before declining by 6.7% over the subsequent three-day trading period to close at \$0.014.

On 30 January 2018, the Company released its quarterly cash flow report and quarterly activities statement, in which the Company highlighted key corporate activities including the placement of shares to institutional and sophisticated investors, the resignation of director Dr David Denata, the Company's involvement in legal action brought by various plaintiffs and its subsidiary being granted exploration licenses 03/2017 and 04/2017 in the Mt Tore Region. The share price remained unchanged on the date of the announcement, closing at \$0.014, before declining by 28.6% over the subsequent three-day trading period to close at \$0.010.

On 30 July 2018, the Company released its quarterly cash flow report and quarterly activities statement, in which the Company highlighted key corporate activities including ASX approval for the acquisition of the outstanding shares in Kalia Holdings, the appointment of Mr Sean O'Brien to the Board as a Non-Executive Director, and the first drawdown of the Tygola secured loan. The share price decreased by 12.5% on the date of the announcement, to close at \$0.007.

On 19 September 2018, the Company provided an update on the geophysical survey being undertaken in Bougainville. In the announcement, the Company noted that good quality data was being collected, and that close to one quarter of the intended survey area had been covered, however it did note that electromagnetic atmospherics had been limiting the surveying activity. On the date of the announcement,



the share price closed unchanged for the previous trading day, at \$0.008, before declining by 25% over the subsequent three-day trading period to close at \$0.006.

On 29 October 2018, the Company released its quarterly cash flow report and quarterly activities statement, in which the Company highlighted key corporate activities including the drawdown of the \$1.68 million of the Tygola loan, continued work on the geophysical survey data collection, and results from assays at Aita. On the date of the announcement the share price closed unchanged from the previous trading day, at \$0.005, before increasing by 40% over the subsequent three-day trading period to close at \$0.007.

To provide further analysis of the market prices for a Kalia share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 31 December 2018.

Share Price per unit	31-Dec-18	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.003				
Volume weighted average price (VWAP)		\$0.002	\$0.003	\$0.004	\$0.005

Source: Bloomberg, BDO analysis

The above weighted average prices are prior to the date of the announcement of the Proposed Transaction, to avoid the influence of any increase in price of Kalia shares that has occurred since the Proposed Transaction was announced.

An analysis of the volume of trading in Kalia shares for the twelve months to 31 December 2018 is set out below:

Trading days	Share price	Share price	Cumulative volume	As a % of
	low	high	traded	Issued capital
1 Day	\$0.003	\$0.003	333,333	0.01%
10 Days	\$0.001	\$0.003	35,186,436	1.40%
30 Days	\$0.001	\$0.007	59,979,071	2.39%
60 Days	\$0.001	\$0.008	110,489,414	4.39%
90 Days	\$0.001	\$0.008	161,258,176	6.41%
180 Days	\$0.001	\$0.015	248,135,702	9.87%
1 Year	\$0.000	\$0.015	257,985,238	10.26%

Source: Bloomberg, BDO analysis

This table indicates that Kalia's shares display a low level of liquidity, with 10.26% of the Company's current issued capital being traded in a twelve month period. RG 111.69 states that for the quoted market price methodology to be an appropriate methodology there needs to be a 'liquid and active' market in the shares and allowing for the fact that the quoted price may not reflect their value should 100% of the securities not be available for sale. We consider the following characteristics to be representative of a liquid and active market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and



• There are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'liquid and active', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In the case of Kalia, we don't consider there to be a liquid and active market for the Company's shares as a result of only 6.41% of the Company's current issued capital being traded over the 90-day period prior to the announcement. We also consider there to unexplained price movements and fluctuations in trade volumes during the period.

Our assessment is that a range of values for Kalia shares based on market pricing, after disregarding post announcement pricing, is between \$0.002 and \$0.004 on a minority interest basis. With a control premium of 20% to 25% as discussed in section 11.1, Note (c) our range on a controlling interest basis is \$0.0024 to \$0.005. We note that the low of the QMP range overlaps with the high of our NAV range. However we consider that the NAV method is more appropriate due to the lack of liquidity and the incorporation of a VALMIN valuation of the exploration assets.

# 11. Valuation of Kalia following the Issue of Shares to Tygola

#### 11.1 Net Asset Valuation of Kalia

As discussed in section 9, we have relied on the NAV methodology in determining the value of a Kalia share following the Issue of Shares to Tygola upon conversion. Our valuation of Kalia following the Issue of Shares to Tygola is summarised below.

		Low	Preferred	High
	Notes	valuation	valuation	valuation
		\$	\$	\$
Net Assets pre transaction	9.1	2,243,608	4,543,608	6,643,608
Loan Facility Conversion	a	1,000,000	1,000,000	1,000,000
NET ASSETS		3,243,608	5,543,608	7,643,608
Shares on issue (number)	b	2,764,347,391	2,764,347,391	2,764,347,391
Value per share (\$) - controlling basis		\$0.0012	\$0.0020	\$0.0028
Minority Discount	С	20%	18.50%	17%
Value per share (\$) - minority basis		\$0.0009	\$0.0016	\$0.0023

Source: BDO analysis

The table above indicates the net asset value of a Kalia share following the Additional Loan Facility Transaction on a minority basis is between \$0.0011 and \$0.0023 with a preferred value of \$0.0016. The following adjustments were made to the net assets of Kalia as at 31 December 2018 in arriving at our valuation of the Company following the Additional Loan Facility Transaction.



#### Note a: loan liability

We have increased the value of the net assets by adding back the value of the loan liability that would not require to be paid in the event of conversion.

#### Note b: Number of shares on issue

In determining a valuation per share for Kalia following the Additional Loan Facility Transaction, we adjusted the number of shares on issue to reflect the new Shares to be issued to Tygola being 250 million shares. The number of fully paid ordinary Kalia shares that will be on issue following the Additional Loan Facility Transaction will be 2,764,347,391.

# **Note c: Minority Discount**

A minority interest discount is the inverse of a premium for control and is calculated using the formula 1-(1÷ (1 + control premium)). As discussed in below, we consider an appropriate control premium for Kalia to be in the range of 20% to 25%, giving a minority interest discount in the range of 17% to 20%. We have reviewed the control premiums paid by acquirers of companies listed on the ASX. We have summarised our findings below. We note that there have been no completed gold or copper mining transactions in 2019 as at 18 February 2019:

Gold or copper mining companies

Year	Number of Transactions	Average Deal Value (A\$m)	Average Control Premium (%)
2018	4	35.32	46.56
2017	2	13.74	41.04
2016	6	19.94	55.04
2015	4	56.22	53.80
2014	7	141.00	50.46
2013	5	194.82	46.52
2012	7	302.06	53.80
2011	6	2076.44	37.35
2010	9	1124.19	52.53
2009	4	439.99	44.87
2007		137177	11107

Source: Bloomberg, BDO Analysis

#### All ASX listed companies

Year	Number of Transactions	Average Deal Value (A\$m)	Average Control Premium (%)
2019	5	170.26	39.97
2018	38	1268.24	41.39
2017	28	1009.52	42.67
2016	42	718.51	49.58
2015	33	850.04	33.23
2014	45	518.59	40.00
2013	41	128.21	50.99
2012	52	472.10	51.68
2011	68	891.85	44.43
2010	54	575.28	44.05
2009	53	553.92	57.77

Source: Bloomberg, BDO Analysis



The mean and median of the entire data sets comprising control transactions from 2009 onwards for gold or copper mining companies and all ASX listed companies, respectively, is set out below.

	Gold or copper mining companies		All ASX list	ed companies
Entire data set metrics	Deal value (A\$m)	Control premium (%)	Deal value (A\$m)	Control premium (%)
Mean	545.50	49.12	674.27	46.16
Median	35.58	42.55	97.60	35.89

Source: Bloomberg, BDO Analysis

In arriving at an appropriate control premium to apply we note that observed control premiums can vary due to the:

- Nature and magnitude of non-operating assets;
- Nature and magnitude of discretionary expenses;
- Perceived quality of existing management;
- Nature and magnitude of business opportunities not currently being exploited;
- Ability to integrate the acquiree into the acquirer's business;
- Level of pre-announcement speculation of the transaction;
- Level of liquidity in the trade of the acquiree's securities.

When performing our control premium analysis, we considered completed transactions where the acquirer held a controlling interest, defined at 20% or above, pre transaction or proceeded to hold a controlling interest post transaction in the target company.

The table above indicates that the long term average control premium paid by acquirers of gold or copper mining companies, and all ASX listed companies is 49.12% and 46.16%, respectively. However, in assessing the transactions included in the table, we noticed several outliers. These outliers included 4 gold or copper mining transactions, and 38 ASX listed company transactions, for which the premium was in excess of 100%.

In a population with the presence of outliers, the median can often represent a superior measure of central tendency when compared to the mean. We note the median announced control premium since 2009 was 42.55% for gold or copper mining companies and 35.89% for all ASX listed companies.

In the case of Kalia, we have taken a number of influencing factors into account. Specifically, we note that Kalia's auditor outlined the existence of material uncertainty related to going concern in the Company's Annual Report for the year ended 30 June 2018 and was in a negative net assets position as at 31 December 2018 based on management accounts.

Further, we note Kalia does not currently have any revenue generating operations and the Company is in its exploration phase and has a smaller scale of operations than a number of the sample companies determined above. We note that larger companies and transactions tended to have a higher control premium. As such, a potential acquirer would not be expected to pay a premium for control as high as historical averages.

Based on the above analysis, we consider an appropriate premium for control to be between 20% and 25%, with a midpoint of 22.5%.



# 12. Valuation of security provided and liabilities settled

# 12.1 Value of security provided as security in event of default

Kalia will provide Tygola with a first ranking general security over all the assets of the Company under a security agreement to secure repayment of the Tygola Loan. In the event of default, Tygola would only be entitled to recover the principal and interest accrued of the Tygola Loan and not all the proceeds from the sale of the Company's assets. Therefore, we do not need to consider the value of the Company or its assets for this purpose as Tygola will not receive more than the value of the liability if the security is called. We consider the value of security provided to be less than or equal to the value of the liabilities settled.

# 12.2 Value of liabilities settled by the provision of the security

In the event the Company is in breach of the terms of the Tygola Loan, an event of insolvency occurs in respect of the Company or Kalia fails to perform any covenant, agreement or obligation under the Tygola Loan and which remains unperformed following expiry of any cure period, Tygola is entitled to seek repayment of the amount outstanding in respect of the Tygola Loan by the sale of the assets secured by the deed. Interest is calculated at a rate of 10 per cent per annum. The nominal value of the total secured amount (including amounts relating to the principal funds drawn down and interest accrued) represents the valuation of liabilities settled by the provision of security.



# 13. Are the Proposed Transactions fair?

# Issue of Shares to Tygola

The value of a Kalia share prior to the Issue of Shares to Tygola on a controlling interest basis compares to the value of a Kalia share following the Issue of Shares to Tygola on a minority interest basis, as detailed below:

	Ref	Low \$	Preferred \$	High \$
Value of Kalia share prior to the Issue of Shares to Tygola on a controlling basis	10	0.0009	0.0018	0.0026
Value of Kalia share following the Issue of Shares to Tygola Transaction on a minority basis	11	0.0009	0.0016	0.0023

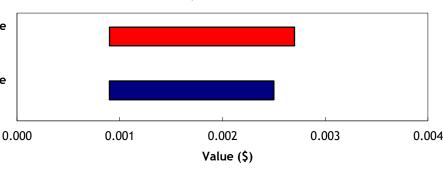
We note from the table above that overall the value prior to the Issue of Shares to Tygola on a controlling interest basis is more than the value following the Issue of Shares to Tygola on a minority basis for the majority of the range of values. Therefore, we consider that the Issue of Shares to Tygola is not fair.

The above value ranges are graphically presented below:

#### Valuation Summary

Value of Kalia share prior to the Issue of Shares to Tygola on a controlling interest basis

Value of Kalia share following the Issue of Shares to Tygola on a minority basis



We note that whilst it appears that the ranges overlap significantly that as the assets pre and post are the same the low preferred and high values pre should be considered in comparision to the respective value outcome following the Issue of Shares to Tygola.

#### Security Transaction and Additional Loan Facility Transaction

As stated in section 12, the Security Transaction and Additional Loan Facility Transaction is fair if the value of the security provided is equal to or less than the value of the liabilities settled in the event of default under the Tygola Loan. In the scenario that the value of the Secured Assets is greater than or equal to the amounts owed to Tygola, and there is an event of default, then Tygola would only be entitled to recover the principal and interest accrued under the Tygola Loan. In a scenario that the value of the Company's Assets is less than the amounts owed to Tygola, in an event of default, then the Company's Assets would be sold and the proceeds provided to Tygola. This can be summarised as follows:



Scenario		Consequence	Fairness
Security Provided	> Liabilities To Be Settled	Security Provided = Lia	abilities To Be Settled Fair
Security Provided	= Liabilities To Be Settled	Security Provided = Lia	abilities To Be Settled Fair
Security Provided	< Liabilities To Be Settled	Security Provided < Lia	abilities To Be Settled Fair

Source: BDO analysis

If there is an event of default, then Tygola in only entitled to be repaid the principal and interest accrued under the Tygola Loan, we consider that the Security Transaction and the Additional Loan Facility Transaction is fair in all scenarios.

# 14. Are the Proposed Transactions reasonable?

# 14.1 Alternative Proposal

We are unaware of any alternative proposal that might offer the Shareholders of Kalia a premium over the value ascribed to, resulting from the Proposed Transactions.

#### 14.2 Practical Level of Control

If the Issue of Shares to Tygola is approved then Peter Yunghanns (with his associates) will hold an interest of approximately 28.76% in Kalia.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution required 75% of shares on issue to be voted in favour to approve a matter. If the issue is approved then Peter Yunghanns (with his associates) will be able to block special resolutions.

Peter Yunghanns (with his associates') control of Kalia following the issue will be significant when compared to all other shareholders, although low. Therefore, in our opinion, while Peter Yunghanns (with his associates) will be able to significantly influence the activities of Kalia, they will not be able to exercise a similar level of control as if it held 100% of Kalia.

# 14.3 Consequences of not Approving the Proposed Transactions

# The Company will have to attract funds from elsewhere

Kalia's auditor outlined the existence of material uncertainty relating to going concern in Kalia's Annual Report for year ended 30 June 2018 and its review report for the half-year ended 31 December 2018; specifically, the material uncertainty related to the Company's working capital deficiency.

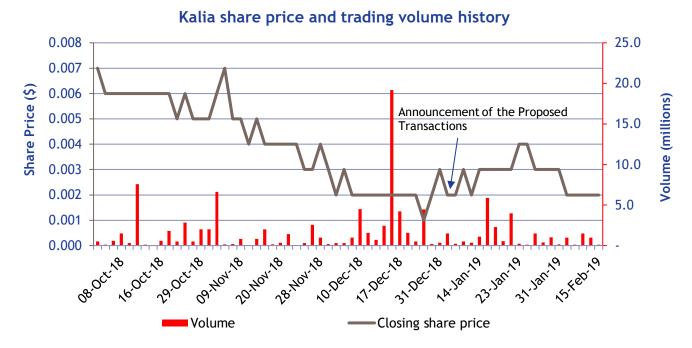
If the Proposed Transactions are not approved, the Directors of Kalia will need to raise funds through alternative methods, this may include other capital raisings, debt funding and/or asset sales. As noted in section 14.1 above, we are unaware of any alternative proposals available to the Company.

The requirement to raise additional funds is imminent and represents a serious challenge for the Company if the Proposed Transactions are not approved.



# Potential decline in share price

We have analysed movements in Kalia's share price since the Proposed Transactions were announced. A graph of Kalia's share price leading up to and following the announcement is set out below. For a longer historical period, please refer to Section 10.2 of Our Report to review Kalia's 12-month pre-announcement share price history.



Source: Bloomberg

The closing price of a Kalia share from 2 October 2018 to 15 February 2019 ranged from a low of \$0.001 on 27 December 2018 to a high of \$0.007 on 1 November 2018.

The Proposed Transactions were announced on 2 January 2019. Prior to the announcement, the closing price of a Kalia share had been in a downward trend, from \$0.007 at the beginning of October 2018 to a low of \$0.001 on 27 December 2018. On the date that the Proposed Transactions were announced, the share price closed at \$0.002, down from a closing price of \$0.003 on the previous trading day. On the day of the announcement, 1.50 million shares were traded representing approximately 0.06% of Kalia's current issued capital.

Following the announcement of the Proposed Transactions, the share price of Kalia has fluctuated between \$0.002 and \$0.003 before increasing up to \$0.004 on 23 January 2019. Over the last week of January 2019 and into the first half of February 2019, Kalia's share price decreased steadily to close at \$0.002 on 7 February 2019, where it remained at until the end of the assessed period being 15 February 2019. We note that although initially the price of a Kalia share declined on the day the Proposed Transactions were announced, the price of a Kalia share did increase momentarily over the subsequent weeks. This suggests that the announcement has been well received by the market.

Therefore, if the Proposed Transactions are not approved, there is a risk that the price of a Kalia share may continue its declining trend prior to the announcement.



# 14.4 Advantages of Approving the Proposed Transactions

# Issue of Shares to Tygola

We have considered the following advantages when assessing whether the Issue of Shares to Tygola is reasonable.

Advantage	Description
Removes the need for immediate funding	The Additional Loan Facility provides the Company with short term working capital, enabling the Company to further advance exploration activities which may result in an increase in value if successful. In the event of Conversion the Company will not have to raise capital to repay the amount outstanding.
Reduces the possibility of future capital raisings being at a lower price per share	If the Transaction is approved it will provide the Company with time to undertake exploration which, if positive, may enhance the value of the Company and as a consequence will reduce the possibility of Kalia having to pursue future capital raisings at a lower price per share which would further dilute the existing shareholders' interests for the same amount of funds raised.

# Security Transaction and Additional Loan Facility Transaction

We have considered the following advantages when assessing whether the Security Transaction and Additional Loan Facility Transaction is reasonable.

Advantage	Description
The Security Transaction is fair  The Additional Loan Facility  Transaction is fair	The Security Transaction is fair. RG 111 states that an offer is reasonable if it is fair.
Supports debt funding	The provision of security enables the Company to obtain the debt funding that it requires. If Kalia seeks alternate funding through bank debt, it is more likely that there will be a requirement to furnish adequate collateral to secure the bank debt. Therefore, the provision of security for debt funding purposes is not unusual.

# 14.5 Disadvantages of Approving the Proposed Transactions

# Issue of Shares to Tygola

If the Issue of Shares to Tygola is approved, in our opinion, the potential disadvantages to Shareholders include those listed in the table below:



Disadvantage	Description
Dilution of existing shareholders' interests	Upon Conversion existing shareholders will be diluted with the Conversion Shares representing approximately 9.94% of the shares on issue.

# Security Transaction and Additional Loan Facility Transaction

Disadvantage	Description
Kalia will grant Tygola a first ranking security over all the assets of the Company to secure the Loan	In the Event of Default by the Company, Tygola may enforce the security and require that Kalia sell the secured assets in order to repay the monies outstanding under the Loan Agreement.
Onerous restrictions on dealing with the Company's assets	The security agreement that Kalia and Tygola will enter into subject to Shareholder approval will place restrictions on the Company's ability to deal with its assets.

# 15. Conclusion

We have considered the terms of the Proposed Transactions as outlined in the body of this report and have concluded that:

- in the absence of an alternate offer, the Issue of Shares to Tygola is not fair but reasonable to Shareholders.
- In the absence of any other relevant information, the Security Transaction and Additional Loan Facility Transaction is fair and reasonable to Shareholders.

In our opinion, the Issue of Shares to Tygola is not fair as the value prior to the Issue of Shares to Tygola on a controlling interest basis is more than the value following the Issue of Shares to Tygola on a minority basis for the majority of the range of values.

We have separately considered the terms of the Security Transaction and Additional Loan Facility Transaction as outlined in the body of this report and have concluded that, in the absence of any other relevant information, the Security Transaction and Additional Loan Facility Transaction is fair and reasonable to Shareholders.



# 16. Sources of information

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- The General Security Deed between Kalia and Tygola dated 17 January 2019;
- The loan agreement between Kalia and Tygola dated 17 January 2019
- Audited financial statements of Kalia for the years ended 30 June 2018 and 30 June 2017;
- Reviewed accounts of Kalia for the period ended 31 December 2018;
- Independent Valuation Report of Kalia's mineral assets dated 19 February 2019 performed by Agricola Mining Consultants;
- Share registry information;
- Information in the public domain:
  - ASX announcements;
  - United States Geological Survey publication;
  - IBISWorld Report;
  - Autonomous Bougainville Government announcements;
  - Reserve Bank of Australia monthly statement;
  - Consensus Economics publication;
     Bloomberg data.; and
- Discussions with Directors and Management of Kalia.

# 17. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$25,000 (excluding GST and reimbursement of out of pocket expenses). Our fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Kalia in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the Kalia, including the non-provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement, BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Kalia Limited and Tygola and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of Kalia Limited and Tygola and their respective associates.

Within the past two years, neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd have had any professional relationship with Kalia Limited or their associates, other than in connection with the preparation of this report and for the provision of an Independent Experts Report issued in April 2018 for which a fee of approximately \$22,000 was received. .

A draft of this report was provided to Kalia Limited and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.



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# 18. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Fellow of Chartered Accountants Australia & New Zealand. He has over 30 years' experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 300 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Corporate Finance Practice Group Leader of BDO in Western Australia, the Global Natural Resources Leader for BDO and a former Chairman of BDO in Western Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 21 years in the Audit and Assurance and Corporate Finance areas. Adam is a CA BV Specialist and has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

## 19. Disclaimers and consents

This report has been prepared at the request of Kalia Limited for inclusion in the Explanatory Memorandum and Notice of Meeting which will be sent to all Kalia Limited Shareholders. Kalia Limited engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the Proposed Transactions. You will be provided with a copy of our report as a retail client because you are a shareholder of Kalia.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the Explanatory Memorandum and Notice of Meeting. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.



BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Explanatory Memorandum and Notice of Meeting other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Kalia Holdings. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Proposed Transactions, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Kalia Limited, or any other party.

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent valuations of mineral assets held by Kalia Limited.

The valuer engaged for the mineral asset valuation, Agricola Mining Consultants, possess the appropriate qualifications and experience in the industry to make such assessments. The approaches adopted and assumptions made in arriving at their valuation is appropriate for this report. We have received consent from the valuer for the use of their valuation report in the preparation of this report and to append a copy of their report to this report.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd is required to provide a supplementary report if we become aware of a significant change affecting the information in this report arising between the date of this report and prior to the date of the meeting or during the offer period.

Yours faithfully

**BDO CORPORATE FINANCE (WA) PTY LTD** 

Adam Myers

**Sherif Andrawes** 

Mary

Director

Director



# Appendix 1 - Glossary of Terms

Reference	Definition
ABG	Autonomous Bougainville Government
The Act	The Corporations Act 2001 Cth
Agricola	Agricola Mining Consultants Pty Ltd
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Additional Loan Facility	The \$1m loan facility entered into between Kalia and Tygola dated 17 January 2019
BDO	BDO Corporate Finance (WA) Pty Ltd
EL03	Bougainville Exploration Licence 03
EL04	Bougainville Exploration Licence 04
Bougainville	Autonomous Region of Bougainville
The Company	Kalia Limited
Corporations Act	The Corporations Act 2001 Cth
DCF	Discounted Future Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FME	Future Maintainable Earnings
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
GB Energy	GB Energy Limited
GDP	Gross Domestic Product



Reference	Definition
GRIT	Global Resources Investment Trust plc
GRIT Transaction	The acquisition of 27.71% of Kalia Holdings from GRIT, with consideration in the form of 480,000,000 shares in Kalia
Indiana Project	Kalia's tenements located in the Northern Territory
JORC Code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2012 Edition)
Kalia	Kalia Limited
Kalia Holdings	Kalia Holdings Pty Ltd
Kalia Investments	Kalia Investments Ltd
Kimberly Project	Kalia's tenements located in Western Australia
LME	London Metal Exchange
LSE	London Stock Exchange
Mardasa	Mardasa Nominees Pty Ltd
NAV	Net Asset Value
The Option	120 day put option to acquire 100% of Kalia Holdings
Panguna	Panguna copper mine, located in Bougainville
The Proposed Transactions	The Additional Funding Facility Transaction, the Issue of Shares to Tygola and the Security Transaction
QMP	Quoted market price
RBA	Reserve Bank of Australia
Regulations	Corporations Act Regulations 2001 (Cth)
Our Report	This Independent Expert's Report prepared by BDO
RG 74	Acquisitions approved by Members (December 2011)
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)



Reference	Definition
Section 411	Section 411 of the Corporations Act
Section 611	Section 611 of the Corporations Act
Security Transaction	The Company has signed a \$3 million loan facility with Tygola Pty Ltd ('Tygola'). Under the terms of the loan facility, the Company will granted a first ranking general security over all the assets and undertaking of the Company which is to be extended to 28 June 2019. Approval is being sought by the Company for approval for an extension to 31 December 2019
Shareholders	Shareholders of Kalia
Sum-of-Parts	A combination of different methodologies used together to determine an overall value where separate assets and liabilities are valued using different methodologies
Tore Project	BEL03 and BEL04
Toremana	Toremana Resources Ltd
The `Transaction Document	The Notice of Meeting
Tygola	Tygola Pty Ltd
Tygola Loan	A \$3 million loan facility with Tygola
USD	United Stated Dollar
Valmin Code	Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets (2015 Edition)
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.
VWAP	Volume Weighted Average Price
WACC	Weighted Average Cost of Capital



### Appendix 2 - Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

#### 1 Net asset value ('NAV')

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

#### 2 Quoted Market Price Basis ('QMP')

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a liquid and active market in that security.

#### 3 Capitalisation of future maintainable earnings ('FME')

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.



The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('EBIT') or earnings before interest, tax, depreciation and amortisation ('EBITDA'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

#### 4 Discounted future cash flows ('DCF')

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

#### 5 Market Based Assessment

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

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The Directors
BDO Corporate Finance (WA) Pty Ltd
38 Station Street
SUBIACO, WA 6008

Australia



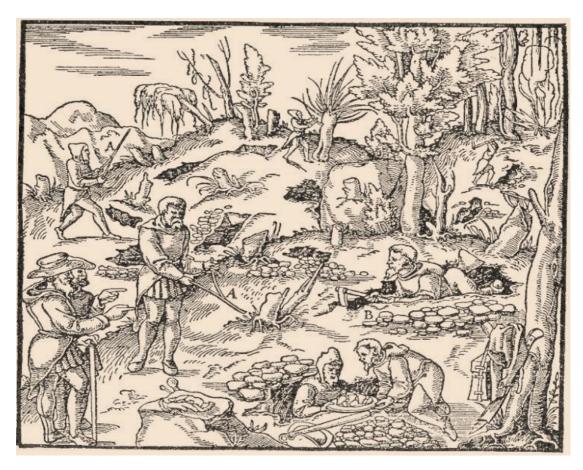
## Appendix 3 - Independent Valuation Report



#### AGRICOLA MINING CONSULTANTS PTY LTD

# INDEPENDENT VALUATION of the MINERAL ASSETS held by KALIA LIMITED in BOUGAINVILLE and AUSTRALIA

**Effective Date: 19 March 2019** 



Georgius Agricola: De Re Metallica, 1556



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Email: mcastle@castleconsulting.com.au

ABN: 84 274 218 871

19 March 2019
The Directors
BDO Corporate Finance (WA) Pty Ltd

Dear Sirs,

## Re: INDEPENDENT VALUATION of the MINERAL ASSETS held by KALIA LIMITED in BOUGAINVILLE and AUSTRALIA

Effective Date: 19 March 2019

Agricola Mining Consultants Pty Ltd ("Agricola") was commissioned by the Directors of BDO Corporate Finance (WA) Pty Ltd (the "Client") to provide a Mineral Asset Valuation Report (the "Report") of the Tore Exploration Licences in Northern Bougainville and Projects in the Northern Territory held by Kalia Limited ("Kalia" or the "Company"). This report serves to comment on the geological setting and exploration results on the properties and presents a technical and market valuation for the assets based on the information in this Report. The effective date of the valuation is 19 March 2019.

Agricola is independent of, and is perceived to be independent of, interested parties within the meaning of the Valmin Code 2015, Section 4.2 and has a clear written agreement with the Company concerning the purpose and scope of the Specialist's work. Agricola has previously carried out a valuation which was carried out on an independent professional basis of the Company's assets in March 2018 and has had no other professional engagement with Kalia and/or their subsidiaries and associates prior to this assignment.

The present status of the tenements is based on information made available by the Company and independently verified by Agricola. The Report has been prepared on the assumption that the tenements are lawfully accessible for evaluation. Where the registered holder of a tenement is another party, the relationship between Kalia and the tenement holders has not been reviewed by Agricola or commented on.

For the purposes of the Corporations Act 2001, Agricola Mining Consultants Pty Ltd consents to the release of this Independent Valuation Report (contained as an Annexure to the IER) to Shareholders and the market as a whole.

#### The Mineral Assets

Kalia Limited was granted two Exploration Licences (EL03 and EL04) by the Autonomous Bougainville Government in the Tore region of Bougainville Island. The geology of the Tinputz region is dominated by andesites, diorites and granodiorites, similar to the Crown Prince Range and Panguna. Four intrusive granodiorites have been identified in the area of the Emperor Range. Gold anomalies have been identified in keeping with the geological understanding of the area. The modelling and field work has highlighted some areas of interest that warrant further exploration.

The Indiana Project in the Northern Territory is targeting sulphide mineralisation within the Riddock Amphibolite and later intrusives within the Irindina Province and extensions under thin cover. Existing Blackadder and Baldrick Cu-Ni-PGE prospects are located over outcropping copper-bearing gabbro intrusions. Both projects include anomalous nickel and copper rock chip assay. The project is approximately 15km NE of the Basil Copper-Cobalt sulphide prospect.

#### **Valuation Opinion**

Based on an assessment of the factors involved, the estimate of the market value for the 75% equity in the North Bougainville Project held by the Company is in the range of:

#### A\$5.4 million to A\$9.7 million with a preferred value of A\$7.6 million.

Based on an assessment of the factors involved, the estimate of the market value for the 100% equity in the Indiana Project held by the Company is in the range of:

#### A\$0.7 million to A\$1.4 million with a preferred value of A\$1.1 million.

The Total Value for the Projects held by the Company is in the range of:

A\$6.1 million to A\$11.1 million with a preferred value of A\$8.7 million.

This valuation is effective on 19 March 2019.

#### Summary of the Valuation Elements:

MINERAL ASSET VALUATION - EXPLORATION GROUND						
Project		Mar	ket Value, A	\\$M		
	Tenement	Low	High	Preferred		
Bougainville	EL03	3.5	6.1	4.8		
Bougainville	EL04	1.9	3.6	2.8		
Subtotal		5.4	9.7	7.6		
Indiana, NT	EL31391	0.1	0.2	0.2		
Indiana, NT	EL31542	0.2	0.4	0.3		
Indiana, NT	ELA31537	0.4	0.8	0.6		
Subtotal		0.7	1.4	1.1		
TOTAL		6.1	11.1	8.7		
Differences from	m detail are due to r	ounding				

This Mineral Asset valuation endeavours to ascertain the unencumbered price which a willing but not anxious vendor could reasonably expect to obtain, and a hypothetical willing but not too anxious purchaser could reasonably expect to have to pay for the property if the vendor and the purchaser had got together and agreed on a price in friendly negotiation (the Spencer Test). *It applies to the direct sale of existing equity in the Projects at the date of this Report.* 

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#### **PROJECT REVIEW**

#### The Island-Arc CU-AU Porphyry Model



Copper-gold porphyry deposits are ore bodies associated with porphyritic intrusions and the fluids that accompany them during their cooling from magma to rock at depths of 1 – 5kms below surface. The island-arc porphyry model has been well established over a number of years and has been used in the discovery of numerous deposits. Cu-Au porphyries are generally associated with island-arc settings similar to the Philippines, Bougainville and Fiji.

The island-arc model is characterised by the following properties:

- Mineralisation is associated with subvolcanic intrusions ranging in compositions from diorites to quartz monzonite.
- Host rocks generally comprise volcanic rocks and associated volcaniclastics.
- Intrusions typically in the form of upright-vertical cylindrical bodies and/or dyke-complexes.
- Hydrothermal alteration around deposits is typically zoned from propylitic to phyllic/argillic, with a potassic core, and may extend hundreds of metres from mineralised intrusion.
- An outer-halo of Fe sulphides (pyrite) is present surrounding the mineralised core.
- Mineralisation characterised by copper-sulphides localised within network of fracture-controlled stockwork veinlets.

#### Discovery and Mining at Panguna, Bougainville

A long history of mining exists with alluvial gold mined continuously for more than 100 years, gold and copper mined during German colonial administration as well as the largest operating copper and gold porphyry mine of its day in Panguna.

The Panguna porphyry copper-gold deposit is located in the Crown Prince Range of central-south Bougainville Island in eastern Papua New Guinea, at an altitude of 500 to 1200 m.

Gold was initially discovered by prospectors at Kupei in 1930, and shortly after at nearby Panguna, 5.5 km to the south-west. Cu-Au bearing quartz veins and associated alluvials were mined on a small scale at both Kupei and Panguna, from the 1930s until the Japanese occupation in 1941.

In the early 1960s, J E Thompson, Government Geologist in Port Moresby, recognised the porphyry association from a 1936 government report. During the same period, a technical visit to porphyry Cu-Au deposits in the Philippines by K Phillips of CRA Exploration led him to consider searching for an analogue in the New Guinea islands.

After discussions at the Geological Survey in Port Moresby Thompson advised Phillips of is conclusions and showed him the reports of Cu-Au mineralisation associated with porphyry intrusions and agglomerates in the Crown Prince Range on Bougainville Island. Phillips then made a field inspection in May 1964, confirmed the similarities, and following stream sediment and ridge and spur soil sampling program, his exploration team delineated a 13 sq km copper anomaly, focused on a 300 m diameter core.

The project was held by Bougainville Copper Limited (BCL) and by 1969, over 80,000 m of diamond drilling had been completed. The original pre-mining ore reserve in 1969 was - 994 Mt @ 0.48% Cu, 0.56 g/t Au, 3 g/t Ag.

The mine commenced stripping in 1969 and full commercial production in April 1972, but was closed due to civil unrest in May 1989. Production over this period amounted to 710 Mt of ore @ 0.53% Cu, 0.63 g/t Au for 3 Mt of contained Cu metal, 306 tonnes of gold and 784 tonnes of silver.

2012 Order of Magnitude Study (OMS) Update (BCL)

In 2012, BCL revised the OMS with current metal price and cost estimates, and revised the scale and options for a potential development including consideration of a higher throughput more efficient ore processing plant and larger scale open-pit mining. The OMS base case considered mining rates of up to 100 million tonnes a year and processing Direct Feed Ore (DFO) and preconcentration screening material (PCS) fines at 60 million tonnes a year. The resource estimate based on this OMS resulted in a 70 per cent increase in tonnage to 1.8 billion tonnes, a 50 per cent increase in contained metal to over five million tonnes of copper and 19 million ounces of gold and highlights the significance of the Panguna mineral resource.



Panguna Mine during operation in the late 1980's

#### Remaining Mineral Resource Estimate

As part of the OMS a revised Mineral Resource was estimated in accordance with the JORC code (2012). The Mineral Resource was estimated using geological, mine planning and production data archived in 1989. The archived data sets (including 80,778m of diamond drilling, 4700m of underground sampling and production blast hole sampling) were reviewed and validated by Rio Tinto and ex Bougainville Copper staff.

During the operating period the geological block model underestimated the copper production by approximately five per cent. This low bias was principally attributed to the drill spacing being too wide to sufficiently sample relatively narrow high grade zones within the orebody, and to material lost during the diamond drilling process. Although the bias had been identified, at this stage no upgrade has been applied to the remaining resource. No additional geological data was collected from the deposit as part of the 2012 OMS, although potential remediation, re-development, mining and processing assumptions were all updated.

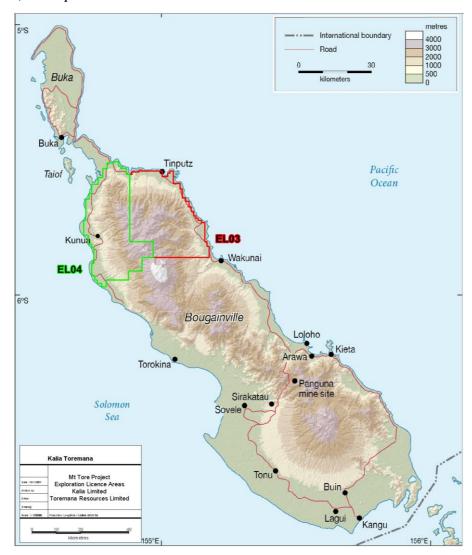
The updated Mineral Resource is quoted as DFO above a 0.24 per cent copper cut off grade and PCS above cut off grades of 0.16 per cent to 0.20 per cent copper (dependent on lithology) within a confining conceptual pit design based on conventional truck and shovel mining and a potential 60 million tonnes a year processing rate.

As at December 31, 2015 the Stated Mineral Resource was estimated to be: Indicated Resource – 1,538 million tonnes at 0.30% Cu, 0.34g/t Au; Inferred Resource – 300 million tonnes at 0.3% Cu, 0.4g/t Au. The estimate was prepared under JORC 2012 and is quoted for background information only.

Source: Bougainville Copper Limited, 2013, Bougainville Copper Announces A Significant Increase In Its Resource Base Press Release, 7 February, 2013 & Bougainville Copper Limited, 2016, Resource statement, 3 February, 2016

#### The Kalia Exploration Project, North Bougainville

- Granted tenements, EL03 and EL04,
- 1,704 square kilometres



Location of EL03 and EL04 in Northern Bougainville

Very little exploration was carried out across Bougainville after the discovery and development of Panguna, in its time the biggest and richest mine in the world. The orebody remains with a JORC 2012 resource of 1.83 billion tonnes at 0.30% Copper and 0.34g/t gold

Kalia's two Exploration Licences (EL03 and EL04) are held jointly with an incorporated landowner group, Toremana Resources Limited (25%) in the Mt Tore region were granted on the 15th of November 2017.

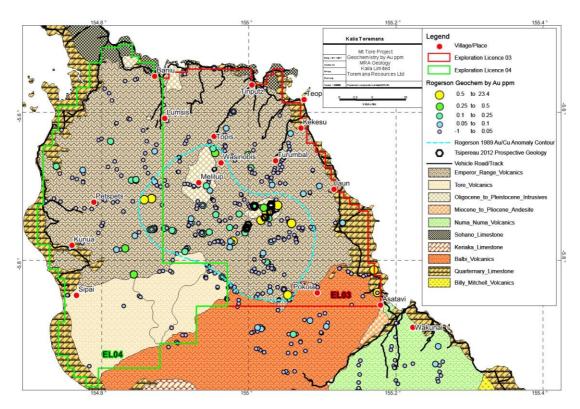
Kalia obtained a copy of the original sample files from the field survey conducted

by the Geological Survey of Papua New Guinea (GSPNG) led by Dr Rick Rogerson that was included in the Memoir 16 publication of 1989 giving the last and most complete study of geology undertaken for the whole of Bougainville and Buka Islands.

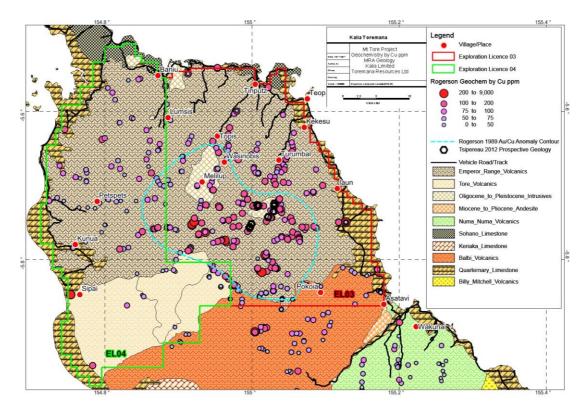
The Rogerson study incorporated findings from airborne geophysical survey conducted on behalf of the GSPNG by The Federal Institute for Geosciences and Natural Resources, Federal Republic of Germany (FIGNR). The survey recorded Magnetics, Electromagnetics and Radiometrics (K, TH, U).

Toremana Resources Ltd sourced a copy of a field report conducted in the Rarie' Puspa district of the Tore region (Tsiperau, C.U., 2012) as part of a Master's of Geology course from the University of Papua New Guinea and supervised by staff of The Geology Department University of Leicester, U.K, This work included rock chip sampling of a number of traverse lines for whole rock, petrographic and chemical analysis. Although the report does not specify the grade analysis for individual samples several occurrences of chalcopyrite were mentioned with GPS coordinates and other sites of interest (brecciation, epithermal veining) are within the body of work with coordinates.

The geology of the Tore region is dominated by andesites, diorites and granodiorites similar to the geology of the Crown Prince Ranges to the south, home to the famous Panguna Mine.



Gold results, after Rogerson (1989)

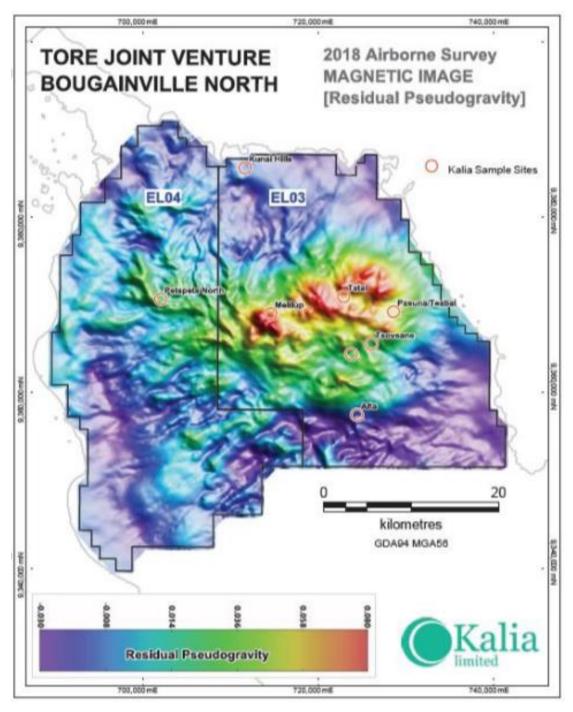


Copper Results after Rogerson (1989)

Source: Kalia Limited, 2017, Project and Investor update Annual General Meeting, ASX Announcement, 28 November 2017.

Fathom Geophysics Australia Pty Ltd (Fathom) undertook the reprocessing of the raw airborne geophysical data collected by the FIGNR and subjected the data to modern processing techniques to produce clearer and better defined images. Fathom is experienced in exploration in epithermal terranes. Fathom has undertaken processed and filtered the data to create datasets specifically engineered to highlight anomalism within the surveyed data that is consistent and comparable to models of known mineralisation from existing sites (Batu Hijau, Grasberg, Alumbrera).

Source: Kalia resources Ltd, 2019, Geophysical Survey Update, ASX Announcement 21 January 2019

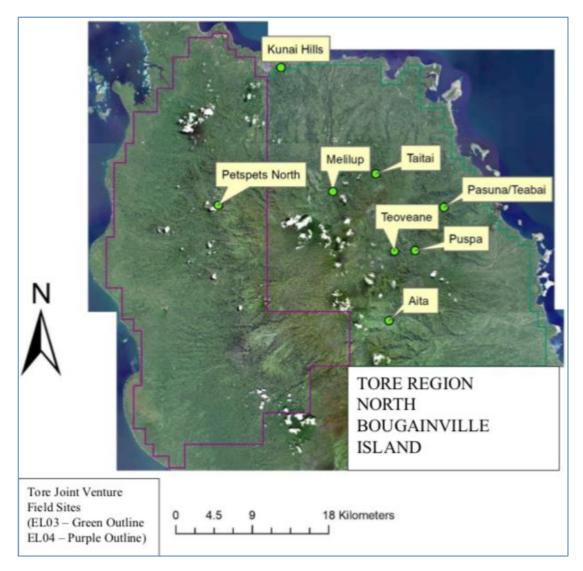


Residual Pseudo-gravity data (Preliminary Image)

#### **Exploration Areas of Interest**

Kalia has identified four intrusive granodiorites in the Tore region of the Emperor Ranges in the EL area. These are priority areas for geological exploration ahead of other identified areas of interest.

Field trips and sample collection have taken place at the Teoveane, Baiano Area, Aita and Melilup prospects.



Areas of Interest on EL03, North Bougainville

#### Exploration results - Teoveane 1

Two expeditions to assess the areas of interest at Rarie/Puspa were planned. Samples from the Teoveane location enroute to Rarie/Puspa on the first trip returned assay results that warranted a revisit on the second trip. First trip rock chip sample returned a single gold assay of 0.19g/t Au from an altered diorite/granodiorite.

The results of the second sampling program were also positive, enhancing the extent of the original outcrop from anomalous gold grades. One sample returned a good copper result from the original outcrop and more significantly a second and similar outcrop was located 1.1 kilometres from the original.

#### Exploration results - Teoveane 2

The alteration of the diorite outcrop appears zoned with epidote at the contact (left hand side of outcrop image below). Mineralogy changes to less epidote and

introduction of magnetite (and biotite?). This is the location of a single rock chip from outcrop that assayed 6.37 ppm Au and 0.45% Cu

The field trip extended upstream to the north of this outcrop where, at a location 1.1km to the north another altered diorite outcrop was sampled with one sample anomalous with a gold assay of 0.935 ppm Au and elevated copper at 565 ppm Cu.

Exploration results - Baiano Area, Aita

Three field trips have been completed in the Aita region. Access was negotiated to the north of the district where historic sampling indicated epithermal alteration with elevated copper signatures.

Mapping of the area has shown what appears to be a collapsed volcanic vent structure, with exposed quartz and alunite ridges. Sampling has defined a  $1000m \times 400m$  of elevated copper anomalism in rock chips.

River float sampling, at Aita, produced the highest grade copper in the North Bougainville region of 1.45% Cu.

Exploration results - Melilup

Only one field trip was possible prior to the need to renegotiate access with separate landowner groups. This trip did not reach the location of highest order geophysical anomaly for this region.

Elevated copper results were returned for all samples within the projected intrusive zone of the sampling program with the highest copper rock chip assay of 1800ppm Cu) resulting from sampling directly below the area of interest.

All sampling was rock chip from outcrop and is not necessarily representative of significant volumes of material.

#### Indiana Project, Northern Territory

- Granted tenements, EL31391 and 31542 and application ELA31537;
- 1,067.51 square kilometres

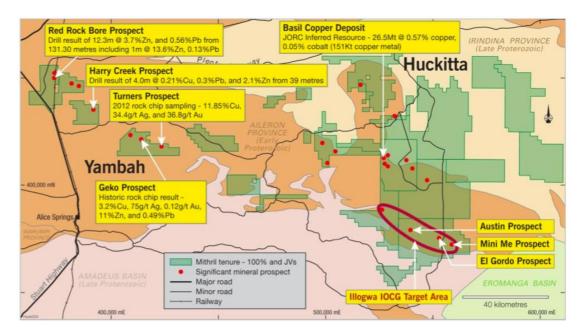
The Indiana Project is targeting sulphide mineralisation within the Riddock and other Amphibolite's and later intrusives within the Irindina Province and cover extensions eastwards under thin cover from the Basil Project resource.

Exploration licence applications EL31537 is subject to the standard processes of the Northern Territory Department of Primary Industries and Resources and grant cannot be guaranteed.

The Project is targeting sulphide mineralisation within the Riddock Amphibolite and later intrusives within the Irindina Province and extensions under thin

cover. Blackadder and Baldrick Cu-Ni-PGE prospects are located over outcropping copper-bearing gabbro intrusions. Both projects include anomalous nickel and copper rock chip assay. These prospects were covered by EL31275, now ceased, but are indicative of the style of mineralisation under consideration. In 2009 Mithril reported elevated Ni and Cu values from these prospect.

The project is approximately 15km NE of the Basil Copper-Cobalt sulphide prospect and north of the Illogwa IOGC area of interest in the Huckitta Province



Mineralisation in the Huchitta - Yambah Area, East Arunta,

Source: Mithril Resources Ltd

#### **VALUATION CONSIDERATIONS**

The valuation specialist must have the appropriate *qualifications and exploration experience* relevant to the commodity being valued, so that the requirements of the relevant national reporting standard (CIMVal Standards and Guidelines in Canada, VALMIN Code in Australia, SAMVAL Code in South Africa) can be satisfied. Experience and qualifications must be explained and the specialist should be independent of the commissioning entity.

Values should preferably be derived using more than one valuation method whenever possible, usually a primary and a secondary method to ensure *reasonableness and transparency*. The method applied depends on the nature of the valuation, the development status of the mineral property and the extent and reliability of available information. There are three generally accepted valuation approaches in the mining industry:

**Income Approach.** Based on expected future benefits, usually in the form of *discounted cash flow analysis*.

**Market Approach.** Based on actual sales or *comparable transactions*.

**Cost Approach.** Based on an assessment of perceived prospectivity in various categories (*Geoscience Factors*) or contribution to value through past exploration expenditures (*Prospectivity Enhancement Multipliers*).

Valuation Approach	Valuation Method
	Discounted Cash Flow (DCF)
	Monte Carlo Simulation of DCF
Income	Real Option
	Actual Transactions on Property
	Comparable Transactions on projects at a similar stage
Market	Comparable Transactions – Value per unit of metal
Iviainet	Comparable Transactions – Value per unit of area
	Option, Farm In, JV Agreement Terms
Cost	Geoscience (Geo Rating) Factor
	Multiple of Exploration Expenditure
	Market Capitalisation
Company	Enterprise Value
	Book Value

Income approaches are applied to later-stage Mineral Resource and development properties, with Cost or Market approaches being used for exploration and early-stage properties. Any Mineral Resources relied upon should comply with, or be reconciled with, the relevant national reporting standard such as *JORC Code 2012*.

The Geoscience Factor method is based on the minimum required expenditure for the initial exploration period adjusted by the perceived prospectivity based on technical features of the project. The Multiple of Exploration Expenditure approach assesses the outcome of past expenditure and whether it has increased (or decreased) the value of the project.

One of the main primary Market approaches is *Comparable Transactions*. This method can provide very useful data on which to base a valuation if a reasonable number of truly comparable transactions can be found. Unfortunately, this is often not the case, and professional judgements have to be made on the basis of a few (if any) truly comparable transactions and a larger number of only partly comparable transactions. If a reasonable database of values can be compiled, derivative methods such as *value per unit area* of the property or *value per unit of contained metal* in Mineral Resources can be applied.

Market valuation approaches may involve the terms of an exploration option or joint venture agreement in order to convert them into the equivalent of a cash transaction *at the time of the deal*. This is based on the rationale that, in being prepared to incur expenditure to earn an interest in an exploration property, the purchaser is placing a monetary value on the vendor's interest at the time that the deal is made. That value is referred to as the "deemed expenditure", and it usually represents the full value of the property at the time of the deal. There are generally four components to a joint venture or farm-in agreement:

- Cash: This is usually relatively easy to convert to present value. However, if the transaction involves time payment deals or payments dependent on future events, such as a decision to mine, the relevant cash amounts need to be discounted for time and probability of the future event occurring.
- Shares: These should be converted to cash using the share price at the time of the deal and treated like cash payments for future amounts. Conversion can be more complex if the shares are in an unlisted company.
- Exploration expenditures: Annual exploration commitments are usually part of option/farm-in/JV agreements, with those after the first year optional along with the cash and share commitments. These also need to be discounted for time and for the probability that they will be incurred.
- Conditional payments: For example, royalties, feasibility study, sole funding etc. These require adjustment for time, the probability of the project going ahead and, in the case of royalties, the likely parameters on which the royalty could be based. The author's experience is that the influence of conditional payments on value is usually small because of time / probability discounts and because such payments are generally only a small part of the deal.

Specialists must ensure that they exercise their independence and do not succumb to client pressure to produce a desired result. The client often has a

vested interest in whether a valuation is on the high side, as, for example in a take-over defence, or the low side, as, for example in an assessment of tax liability. Specialists must remain true to their professional obligations and ethics, and resist any such pressure.

The valuation report should be clear, transparent and logically presented, and explain why and by whom the valuation was requested. It should explain why certain methods were used and others were not, and any limitations on their applicability. It must contain all the material information necessary to allow both experts and non-experts to understand how the valuation was derived, including a description of the key risks, assumptions, limitations, and uncertainties. It should compare the result with previous valuations of the property if available.

Finally and most importantly, the valuation must be consistent with values likely to be assigned in real life.

#### Fair Market Value of Mineral Assets

Exploration mineral assets are defined as mining and exploration tenements held or acquired in connection with the exploration, the development of and the mineral resources estimated in accordance with the JORC Code (2012 Edition) or its equivalent.

The VALMIN Code defines fair market value of a mineral asset as the estimated amount of money or the cash equivalent of some other consideration for which, in the opinion of the Specialist reached in accordance with the provisions of the VALMIN Code, the mineral asset should change hands on the effective valuation date between a willing buyer and a willing seller in an arms length transaction, wherein each party has acted knowledgeably, prudently and without compulsion.

The VALMIN Code notes that the value of a mineral asset usually consists of two components; the underlying or *Technical Value* which is independent of external influences, and the Market component which is a premium relating to market, strategic or other considerations which, depending on circumstances at the time, can be either positive, negative or neutral. When the Technical and Market components of value are assessed the resulting value is referred to as the *Market Value*. Values are usually expressed as a range of estimates from Low to High to emphasise the risk and assumptions and a preferred value.

The value of mineral assets is time and circumstance specific. The asset value and the market premium (or discount) changes, sometimes significantly, as overall market conditions, commodity prices, exchange rates, political and country risk change. These issues can influence the market's perception of a mineral asset over and above its technical value. The Comparable Transactions database usually includes a component of market premium or discount in the final deal value.

#### Rounding to Significant Figures

Estimates are not precise calculations, being dependent on the interpretation of limited information on the location, shape and continuity of the mineral occurrence and on the available sampling results. Reporting of figures should reflect the relative uncertainty of the estimate by rounding off to appropriately significant figures and to emphasize the imprecise nature of a Mineral Asset Valuation. (Adapted from JORC Code 2012, Clause 25)

Given the subjectivity of the valuation methods used for exploration properties, it is not usually sensible to produce values more detailed than the nearest \$0.1 million for significant projects or the nearest \$10,000 for lesser projects. The final valuation is an experience-based judgement and it should always be expressed as a range from LOW to HIGH and a PREFERRED value in order to reflect the uncertainty and subjectivity of the estimate.

#### Reasonableness and Transparency

Transparency requires that the reader of a Public Report is provided with sufficient information, the presentation of which is clear and unambiguous, to understand the report and not be misled by this information or by omission of material information. (VALMIN Code 2015, clauses 3.3)

Reasonableness requires that an assessment that is impartial, rational, realistic and logical in its treatment of the inputs to a Valuation or Technical Assessment has been used, to the extent that another Practitioner with the same information would make a similar Technical Assessment or Valuation. (VALMIN Code 2015, clauses 4.1)

#### Methods of Valuing Mineral Assets - Exploration Ground

When valuing an exploration or mining property without resources, the Specialist is attempting to arrive at a value that reflects the potential of the property to yield a mineable Ore Reserve and which is, at the same time, in line with what the property will be judged to be worth when assessed by the market.

It is obvious that on such a matter, opinions are based entirely on professional judgement, where the judgement reflects the Specialist's previous geological experience, local knowledge of the area, knowledge of the market and so on, that no two Specialists are likely to have identical opinions on the merits of a particular property and therefore, their assessments of value are likely to differ.

The most commonly employed methods of exploration asset valuation are:

- ➤ Geo Factor (Geoscience) rating methods such as the Kilburn method (potential based); assessing various aspects relating to future prospectivity; (The Primary Method)
- ➤ Multiple of exploration expenditure method (exploration based) also known as the premium or discount on costs method or the appraised

- value method assessing the value outcome of previous exploration expenditure, and
- Comparable market value method Comparing other mineral asset sales with the current mineral asset, usually on the basis of value per unit area; (The Secondary Method)

It is possible to identify positive and negative aspects of each of these methods. It is notable that most specialists have a single favoured method of valuation for which they are prepared to provide a spirited defence and, at the same time present arguments for why other methods should be disregarded. The Specialist must be cognisant of actual transactions taking place in the industry in general to ensure that the value estimates are transparent, reasonable and realistic.

In Agricola's opinion, a Specialist charged with the preparation of a tenement valuation must give consideration to a range of technical issues as well as make a judgement about the 'market'. Key technical issues that need to be taken into account include:

Exploration Ground - Technical Value

- Evidence of mineralization and mines on adjacent properties;
- Proximity to existing production facilities of the property;
- Geological setting of the property;
- Existing 20ineralized deposits within tenement boundaries;
- The relative size of the landholding;
- Proportion of prospective ground within tenement boundaries
- Results of exploration activities on the tenement;
- Implications for future successful exploration outcomes;

#### Geo Rating Method

The specialist must specify the key aspects of the valuation process and must specify and rank aspects that enhance or downgrade the intrinsic value of each property. The intrinsic value is the base acquisition cost ("BAC") described below.

The Geo Factor method systematically assesses and grades four key technical attributes of a tenement to arrive at a series of multiplier factors, usually as a range of values including:

Known mineralization in adjacent areas

Mineralization within the tenements

Areas of interest identified in the tenement group

Extent of prospective geological setting

The multipliers are then applied to the BAC and area of each tenement or group with the values being multiplied together to establish the overall technical value of each mineral property. Adjustments are made for the status of the tenure (live or pending) and for equity held in the projects.

	Geoscientific Ranking Factors							
Ranking	Off Property Factors	On Property Factors	Anomaly Factors	Geological Factors				
	A	В	C	D				
0.5			Extensive previous exploration with poor results to date. Further	Generally unfavourable geological setting/Poor geological setting.				
0.9			exploration may be warranted.	Generally favourable setting, under cover.				
1.0	No Known Mineralisation in the district	No known mineralisation within the tenement	No targets defined. Exploration has been extensive.	Generally favourable geological setting				
1.5	Mineralisation identified	Mineralisation identified	Targets identified with initial positive indications.Scattered	exposed over part of the tenement.				
2.0	Resource Targets	Exploration targets identified. Historic	soil/geophysics/RAB results. Drilling recommended.	Favourable geological setting. Prospective host				
2.5	Identified with good potential	resources may be present.	Significant intersections from	rocks over most of the tenement.				
3.0	Along Strike or adjacent to known	Mine or abundant workings with	drilling with no evidence of extent.	Mineralised zones exposed in prospective				
3.5	significant mineralisation	significant previous production	Several Significant Ore grade intersections	host rocks.				
4.0	Along Strike from a major mine	Major mine with significant historical	that can be correlated between sections. Extent could be					
5.0	Along strike from a world class mine	production	significant.					
		Prospectivity Index =	A*B*C*D					

A fifth factor, the market factor, is then multiplied by the technical value to arrive at the fair market value. An overview of the factors influencing the current market is outlined in more detail in a later section.

The successful application of this method depends on the selection of appropriate multipliers that reflect the tenement prospectivity. Furthermore, there is the expectation that the outcome reflects the market's perception of value, hence the application of the market factor.

Agricola is philosophically attracted to the Geo Factor type of approach because it endeavours to implement a system that is systematic and defendable. It also takes

account of the key factors that can be reasonably considered to impact on the exploration potential.

#### Base Acquisition Cost (BAC)

The keystone of the method is the Basic Acquisition Cost (BAC also known as the base holding cost). The concept of the Base Acquisition Cost (BAC) is the minimum initial budget required to acquire, maintain and explore a tenement for the first year. It assumes no previous exploration has been carried out (or is not available or relevant) and that exploration will commence based on desktop review and concept generation only.

The BAC assumes that projects are classed as early exploration projects without defined mineral resources as a starting point. Agricola prefers to use a BAC that assumes the initial exploration phase as a uniform starting point for early stage exploration projects and to apply appropriate Geo Factors based on the perceived prospectivity in four categories.

The indicative budget must be realistic and reasonable and the BAC is expressed on a dollar per square kilometre basis. Different practitioners use slightly differing approaches to calculate the BAC.

There is an augment to be put that more mature tenements with a positive history of exploration encouragement with substantial exploration results (including Prospecting Licence and Mining Leases) should attract a higher BAC as a starting point. More advanced projects with past production, exploration targets and mineral resources (or, in the case of historic and abandoned mining operations where such elements are known to exist even though that information may not be disclosed under the listing rules of the ASX) will attract a much higher BAC commensurate with the indications of defined mineralisation and expenditure anticipated in the next year.

#### - Australian Holding Costs

It may be argued that on occasions an exploration licence may be converted to a mining lease expediently for strategic reasons rather than based on exploration success, and hence it is unreasonable to value such a mining lease starting at a relatively high BAC compared to that of an exploration licence. In Agricola's opinion, exploration ground should be valued on the basis of an Exploration Licence without regard to the actual tenement type where no miner resources have been estimated.

Agricola has researched and reviewed information on application fees, annual rent and exploration commitments for the states of Australia. The valuation

metrics for the Australian States and Agricola's preferred BAC are shown above. Values have been rounded in accordance with the JORC Code.

Conceptual Minimum Year 1 Exploration Program Average BAC values for each State, A\$/km2							
AV	WA	NSW	QLD	TAS	Z NT	SA	VIC
Application Foo		_		_			-
!!	Application Fee 15 15 15 17 10 15 20						
Annual Rent	30	25	35	30	40	15	35
Exploration Commitment	Exploration Commitment 350 380 400 275 375 300 375						
Administration 35 30 40 28 35 30 30							
Total	430	450	490	350	460	360	460

Source: State Government publications and websites; Agricola estimates

The preferred base acquisition cost for Australian exploration projects is in the range of **A\$350** to **A\$490** per square kilometre

#### - Overseas Jurisdictions Holding Costs

Many overseas jurisdictions do not specify a minimum expenditure commitment but require that sufficient work is completed in the first year to allow granting of the tenement into the second year. This usually requires preparation of a report with results of exploration carried out. The conceptual first year budget may include desktop studies, field visits rock chip sampling, soil surveys, possible scout drilling and general research. Agricola believes an Australian company would consider this reasonable for the first phase of work in any country based on its experience with exploration budgets.

Conceptual Exploration Program, A\$/km² Overseas Tenements – Initial Exploration						
Low High Preferred						
Application Fee 20 20 20						
Rent	Rent 30 30 30					
Direct Exploration, 400 500 450						
Administration	25	25	25			
Legal 45 45 45						
Total	500	600	550			

Source: Valuation and ITAR Reports, Company websites; Agricola estimates

The BAC for overseas tenements is higher than for those in Australia because of the difficulties in getting established and additional legal costs. Agricola has researched and BAC estimates from other specialists and considered its own experience in overseas jurisdictions. A conceptual minimum exploration budget was compiled to assess the expected minimum level of expenditure.

The preferred base acquisition cost for overseas exploration projects is selected at **A\$550** per square kilometre.

- Advanced projects where Mineral Resources have been estimated in accordance with the IORC Code

The Geo Rating method is considered to be the most appropriate for valuing exploration projects where Mineral resources have not yet been estimated. The method may also be used as a cross check or second valuation method for areas with estimates of mineral resource based on an increased exploration cost commensurate with the scale of exploration activity required to advance the project to scoping and pre-feasibility level.

In Agricola's experience and opinion, an exploration budget will escalate to cover the costs of mineral resource definition and estimation and more advanced feasibility work. This activity would include RC and Diamond drilling and metallurgical test work.

The preferred Exploration cost for advanced projects with mineral resource estimates (valued separately) will be project specific and estimated at the time of valuation and a review of the project information.

A *secondary method* may involve assessing the tenement area on the basis of comparable transactions principles (\$ per unit area) as a test of reasonableness and transparency.

#### Market Value

In addition to these technical issues the Specialist has to take particular note of the market's demand for the type of property being valued. Obviously this depends upon professional judgement. As a rule, adjustment of the technical value by a market factor must be applied most judiciously. The comparable transactions approach is often based on sales at the market value. It is Agricola's view that an adjustment of the technical value of a mineral tenement should only be made if the technical and market values are materially different.

#### Market Value

- Legal issues; Native Title; State and National reserves and restrictions
- Commercial issues; royalties; Joint Venture/Farm In; Administration Risk
- Market Conditions; supply and demand
- Commodity Price outlook
- Country Risk
- Community resistance
- Competing projects

It is Agricola's opinion that the market may pay a premium over the technical value for high quality mineral assets (i.e. assets that hold defined resources that

are likely to be mined profitably in the short-term or projects that are believed to have the potential to develop into mining operations in the short term even though no resources have been defined). On the other hand exploration tenements that have no defined attributes apart from interesting geology or a 'good address' may well trade at a discount to technical value. Deciding upon the level of discount or premium is entirely a matter of the Specialist's professional judgement. This judgement must of course take account of the commodity potential of the tenement, the proximity of an asset to an established processing facility and the size of the land holding.

#### Agricola's Preferred Valuation methodology

#### The Current Valuation Report - VALMIN 2015

The author of this report (the Technical Specialist) is a Member of the Australasian Institute of Mining and Metallurgy ("AusIMM") and therefore, is obliged to prepare mineral asset valuations in accordance with the Australian reporting requirements as set out in the VALMIN Code (2015 Edition) and the JORC Code (2012 Edition).

The opinions expressed and conclusions drawn with respect to this valuation are appropriate at the *effective date* stated in the Report. The valuation is valid for this date and may change with time in response to variations in economic, market, legal or political conditions in addition to on-going exploration results.

#### Exploration Ground - Geo Rating Method

Agricola is of the opinion that the Geo Rating method provides the most appropriate approach to the exploration potential of mineral properties on which there are no defined resources. The method may also be used as a cross check against the comparable transactions valuation for mineral resources with appropriate adjustments to the BAC.

An estimate of technical value is compiled for the tenements based on an assessment of off site, on-site, anomaly and geology factors applied to the base acquisition or holding cost.

The exploration ground has been valued on the basis of the Geo Rating as the *primary method*. A *secondary method* may be applied to the exploration ground as a check reviewing comparable transactions for tenements without defined mineral resources and a database is included in the appendix to this Report. The two methods were compared to ensure the estimates are reasonable and transparent.

Agricola has reviewed previous geo factor assessment and comparable market transactions for projects at a similar state of development based on exploration

potential The review is not intended to be a definitive listing of all market transactions, but rather a list of transactions that offer comparability to the projects in terms of the state of the project as a whole.

Several groups of projects can be recognised:

- o Greenfields Projects with prospective geology; may include extensive exploration history and some areas of interest. Some targets yet to be explored. (Group A)
- Regional areas adjacent to known small-scale resources or old workings with significant areas of interest. (Group B)
- Mineralised areas of interest within tenements with significant exploration encouragement. (Group C)
- Brownfields areas adjacent to resources; may include Historic Resources.
   (Group D)

	Greenfields		Regional		Mineralised		Brownfields	
	Group A		Group B		Group C		Group D	
	Low			High	Low	High	Low	High
Geo Ratings		_		_		_		_
LOW	2.0	5.0	5.0	10 .0	10.0	40.0	40.0	120.0
HIGH	4.0	10.0	10.0	17.0	17.0	60.0	60.0	150.0
Comparable Transactions,								
A\$'000/km2	1.0	3.0	3.0	6.0	6.0	15.0	15.0	60.0

#### Prospectivity Index and Comparable Transactions ranges

	Mineral Assets Classification
Early stage exploration projects	<ul> <li>Mineral assets in the exploration stage - Tenure holdings where exploration has been undertaken and specific areas of interest identified that warrant further detailed evaluation, usually by drill testing, trenching or some other form of detailed geological sampling. Mineralization may or may not have been identified, but where Mineral Resources have not been assessed;</li> <li>Projects: North Bougainville, Indiana (NT)</li> </ul>
	Valuation Methods: Primary: Geo Rating Secondary: Comparable Transactions - \$/km²
Reality Check	Multiple of historical exploration expenditure methods have been considered as a cross check where reliable information is available

Agricola's preferred valuation method is in bold print

#### **GEO-FACTOR RATING - Exploration Ground**

The Geo Rating Method (also known as the Kilburn Method) converts a series of experience and scientific opinions about a property into a numeric evaluation system. The success of this method relies on the selection of factors that reflect the tenement's prospectivity.

The issues that need to be addressed for exploration properties include:

Possible extensions of mineralization from adjacent areas

Mineralization delineated within the tenements

Areas of interest within in the tenement group

Geological setting of the project

Tenement Status, Equity and Grant Factor

KALIA - Explo	oration		Tenement Details				
Project	Tenement	State	Area, km2	Equity	Status	Grant	
Bougainville	EL03	PNG*	865.30	75%	Live	100%	
Bougainville	EL04	PNG*	838.70	75%	Live	100%	
Subtotal			1,704.00				
Indiana, NT	EL31391	NT	119.80	100%	Live	100%	
Indiana, NT	EL31542	NT	227.08	100%	Live	100%	
Indiana, NT	ELA31537	NT	720.63	100%	Pending	60%	
Subtotal			1,067.51				
*Autonomous I	Region of Bouga	inville					

Uncertainty may exist where a tenement is in the application stage. Competing applications may be present where a ballot is required to determine the successful applicant or Native Title issues and negotiations may add to the risk of timely grant. Other issues may also be present such as state parks or forestry and wildlife reserves, competing land use and compensation agreements. There is an inherent risk that the tenement may not be granted and this needs to be recognized in the valuation assessment. A 'grant factor' of zero may be applied where there is no realistic chance of approval (e.g. sacred sites). Where no significant impediments are known the factor may be set at about 60% to reflect delays and compliance with regulations.

One of the Company's tenements in the Northern Territory is pending and attract a 'grant factor' of 60%.

Other tenements in Bougainville and the Northern Territory are granted and attract a 'grant factor' of 100%.

#### Base Acquisition Cost and Minimum Initial Budget

The Basic Acquisition Cost (BAC) is the important input to the Geo Rating Method and it is assessed by estimating the statutory expenditure for a period of 12 months for a first stage exploration tenement such as an Exploration Licence (the first year holding cost). Advanced tenements such as Mining Leases may attract a higher expenditure than early stage exploration Licences. The current BAC for exploration projects or tenements at an early stage is the average expenditure for the first year of the licence tenure per square kilometre. (*Refer to earlier discussion of BAC*).

The BAC and tenement area are combined to suggest the minimum initial budget as a starting point for the Geo Factor valuation method. It represents the exploration cost for a set period of the tenement.

Several groups of projects can be recognised:

- o Greenfields Projects with prospective geology; may include extensive exploration history and some areas of interest. Some targets yet to be explored. (Group A)
- Regional areas adjacent to known small-scale resources or old workings with significant areas of interest. (Group B)
- Mineralised areas of interest within tenements with significant exploration encouragement. (Group C)
- Brownfields areas adjacent to resources; may include Historic Resources.
   (Group D)

KALIA - Explo	ration		Base Acquisi	tion Cost (BAC)	, <b>A</b> \$		
Project	Stage	Group BAC, A\$ Area, km2 Budge					
Bougainville	Regional	В	550	865	476,000		
Bougainville	Regional	В	550	839	461,000		
Subtotal				1,704	937,000		
Indiana, NT	Greenfields	Α	460	120	55,000		
Indiana, NT	Greenfields	Α	460	227	104,000		
Indiana, NT	Greenfields	Α	460	721	331,000		
Subtotal				1,068	490,000		
Budget = Initial	proposed budget f	or granted tenu	re [BAC]*[Area]				

Agricola considers that the initial proposed budget for the Bougaunville and Indiana Projects is reasonable and consistent with the location, area and concepts of the project areas and that the expenditure is warranted and justified on the basis of the historical exploration activity and demonstrated potential for discovery of mineralization

#### Prospectivity Assessment Factors

#### Geo Ratings

In Agricola's opinion the Geo Rating (Kilburn) method provides the most appropriate approach in the technical valuation of the exploration potential of mineral properties on which there are no defined resources.

The method systematically assesses and grades four key technical attributes of a tenement to arrive at a series of multiplier factors. The multipliers are then applied to the holding cost (BAC) of each tenement with the values being multiplied together to establish the overall technical value of each mineral property. The four technical attributes are:

#### Off-Site

Location with respect to any off-property mineral occurrence of value, or favourable geological, geochemical or geophysical anomalies. Physical indications of favourable evidence for mineralization, such as workings and mining on the nearby properties. Such indications are mineralized outcrops, old workings through to world-class mines;

#### On-Site

Nature of any mineralization, geochemical, geological or geophysical anomaly within the property and the tenor (grade) of any mineralization known to exist on the property being valued. Local mineralization within the tenements and the application of conceptual models within the tenements. Location and nature of any mineralization, geochemical, geological or geophysical anomaly within the property;

#### **Anomalies**

Geophysical and/or geochemical areas of interest and the number and relative position of anomalies on the property being valued. Identified anomalies warranting follow up within the tenements. Geophysical and/or geochemical areas of interest and the number and relative position of anomalies on the property being valued:

#### Geology

Geological patterns and models appropriate to the property being valued. The proportion of structural and lithological settings within the tenements and difficulty encountered by cover rocks and other factors;

The geo factors were arrived at after careful consideration of the results so far obtained and the potential for future discoveries based on a predetermined scale (please see the earlier Valuation Considerations section). A discussion of the geology and prospectivity is included in the Project Review section of the Report.

KALIA - Exploration	ı	Prospectivity	Factors - Explo	oration Ground		
Tenement	Off Site	On Site	Anomaly	Geology	INDEX	
EL03	Group B					
Low	3.00	1.25	1.75	1.50	9.8	
High	3.25	1.50	2.00	1.75	17.1	
EL04	Group B					
Low	2.50	1.00	1.50	1.50	5.6	
High	2.75	1.25	1.75	1.75	10.5	
EL31391	Group A					
Low	1.25	1.00	1.00	1.50	1.9	
High	1.50	1.25	1.25	1.75	4.1	
EL31542	Group A					
Low	1.25	1.00	1.00	1.50	1.9	
High	1.50	1.25	1.25	1.75	4.1	
ELA31537	Group A					
Low	1.25	1.00	1.00	1.50	1.9	
High	1.50	1.25	1.25	1.75	4.1	
Prospectivity In	Prospectivity Index = [Off Site Factor]*[On Site Factor]*[Anomaly Factor]*[Geology Factor]					
Prospectivity Fa	actor rounded in a	accordance wi	th the uncertaint	ty		

#### **Technical Value**

The Technical Value represents the intrinsic value of the mineral asset without regard to external market factors.

Technical Value = [Grant Factor]\*[Budget]\*[Prospectivity Index]

KALIA - Exploration			Technical Value Assessment					
Tenement	Garnt	Budget	Prospectivity Index		Technical Value, A\$M			
	Factor	A\$	Low	High	Low	High	Preferred	
EL03	100%	476,000	9.8	17.1	4.66	8.14	6.40	
EL04	100%	461,000	5.6	10.5	2.58	4.84	3.71	
Subtotal		937,000			7.24	12.98	10.11	
EL31391	100%	55,000	1.9	4.1	0.10	0.23	0.17	
EL31542	100%	104,000	1.9	4.1	0.20	0.43	0.32	
ELA31537	60%	331,000	1.9	4.1	0.38	0.81	0.60	
Subtotal		490,000			0.68	1.47	1.09	
Total		1,427,000			7.92	14.45	11.20	
Grant Factor reflects Tenement Status								
Preferred Value = average of Low and High estimates; Technical Value based on 100% Equity								

#### **Equity**

The equity a Company may hold in a tenement through joint venture arrangements or royalty commitments may be addressed in assessing base value but it is often considered separately at the end of a valuations report.

The Projects are valued initially on the basis of 100% equity. An adjustment for the equity held by the Company is included in the following table. The Company holds 75% equity in the Bougainville tenements and 100% in the Australian tenements.

KALIA - Exploration	Equity - Technical Value, A\$M				
	Equity	Low	High	Preferred	
EL03	75%	3.50	6.11	4.80	
EL04	75%	1.94	3.63	2.78	
		5.43	9.74	7.58	
EL31391	100%	0.10	0.23	0.17	
EL31542	100%	0.20	0.43	0.32	
ELA31537	100%	0.38	0.81	0.60	
		0.68	1.47	1.09	
Total		6.11	11.21	8.67	
Equity Value = [Equity Factor]*[Technical Value]					

#### MARKET VALUE

#### Market Premium or Discount

Mineral Assets are volatile in nature and show marked cyclicality. In boom times the market in Australia may pay a premium over the technical value for high quality Assets (i.e. assets that hold defined resources that are likely to be mined profitably in the short-term or projects that are believed to have the potential to develop into mining operations in the short term even though no resources have been defined). On the other hand in times of bust conditions exploration tenements that have no defined attributes apart from interesting geology or a good address may well trade at a discount to technical value.

The market for vanadium projects are considered to be neutral with a number of competing projects available worldwide. Market influences are largely incorporated into the Geo Ratings and Comparable Transactions.

Other considerations may play a part in ascribing a premium or discount. Deciding on the level of discount or premium is entirely a matter of the technical expert's professional judgment. This judgment must, of course, take account of the commodity potential of the tenement, the proximity of an asset to an established processing facility and the size of the landholding.

Agricola considers that **no premium or discount** should be applied to the exploration ground in the projects.

#### Market value Summary

A Market Factor of 100% is applied to the Equity/Technical Value

MARKET VALUE - EXPLORATION GROUND						
KALIA - Exploration	n	Market Value,	A\$M		<b>Preferred Metric</b>	
	Factor	Low	High	Preferred	AREA	\$/KM2
EL03	100%	3.50	6.11	4.80	865	5,550
EL04	100%	1.94	3.63	2.78	839	3,320
Subtotal		5.43	9.74	7.58	1,704	
EL31391	100%	0.10	0.23	0.17	120	1,420
EL31542	100%	0.20	0.43	0.32	227	1,410
ELA31537	100%	0.38	0.81	0.60	721	1,383
Subtotal		0.68	1.47	1.09	1,068	
TOTAL		6.11	11.21	8.67	2,772	
ELA31537 - \$/km2 adjusted for Pending status						
Market Value = [Market Factor]*[Equity Value]						

#### Exploration Ground - Comparable Transactions Method

Agricola has chosen to apply a second valuation method to the projects and is satisfied that given the early stage of exploration, comparable transactions in the mining industry for projects without Mineral Resources may be applied to the projects as a guide to value per square kilometre and the database included in the appendix applies to early-stage projects generally.

The tenements are granted or in the application stage and an allowance for this aspect has been considered in assessing the unit rate per square kilometre by the Geo Factor Method. The projects are immature and very little on-ground exploration has taken place or been validated. The secondary method is based on market transactions and tenement status is considered in the unit rates.

The Comparable Transactions data has been considered in four groups with appropriate unit rates. Details if the transactions are included as an appendix.

Exploration Ground – Comparable Transactions Method				
Group	Characteristics			
А	Greenfields Projects with prospective geology; may include extensive exploration history and some areas of interest. Some targets yet to be explored.  Comparable Transactions, A\$ per square kilometre: A\$1,000 to A\$3,000			
В	Regional areas adjacent to known small-scale resources or old workings with significant areas of interest.  Comparable Transactions, A\$ per square kilometre: A\$3,000 to A\$6,000			

The valuations of the Company's projects assessed by the Comparable Transactions method are as follows:

Comparable Transactions - Exploration Ground, A\$/km2										
		·		Comparable Range		Market Value, A\$M				
PROJECT	Group	Area	Grant	Low	High	Low	High	Preferred		
Bougainville	В	865.30	100%	4,500	5,850	3.89	5.06	4.48		
Bougainville	В	838.70	100%	3,000	3,900	2.52	3.27	2.89		
Indiana, NT	Α	119.80	100%	1,000	1,300	0.12	0.16	0.14		
Indiana, NT	Α	227.08	100%	1,000	1,300	0.23	0.30	0.26		
Indiana, NT	Α	720.63	60%	1,000	1,300	0.43	0.56	0.50		
Total						7.19	9.35	8.27		

A comparison of the two methods confirms the validity of the Geo Rating outcome. This is considered to be reasonable and transparent as required by the VALMIN Code (2015) based on the earlier discussion in the Report.

	COMPARISON O	F METHOI	DS - EXPLOR	ATION GROUN	ND					
KALIA - Exploration	Geo F	hod	Comparable Transactions Check							
	Low	High	Preferred	Low	High	Preferred				
EL03	3.5	6.1	4.8	3.9	5.1	4.5				
EL04	1.9	3.6	2.8	2.5	3.3	2.9				
EL31391	0.1	0.2	0.2	0.1	0.2	0.1				
EL31542	0.2	0.4	0.3	0.2	0.3	0.3				
ELA31537	0.4	0.8	0.6	0.4	0.6	0.5				
TOTAL	6.1	11.1	8.7	7.1	9.5	8.3				
Differences from de	Differences from detail are due to rounding									

Agricola considers the valuation of the Company's Projects by the Geo Rating Method to be consistent with the comparative transactions data and is presented as the primary valuation method.

#### **VALUATION OPINION**

Summary of the Valuation Elements:

MINERAL ASSET VALUATION - EXPLORATION GROUND								
Project	Market Value, A\$M							
	Tenement	Low	High	Preferred				
Bougainville	EL03	3.5	6.1	4.8				
Bougainville	EL04	1.9	3.6	2.8				
Subtotal		5.4	9.7	7.6				
Indiana, NT	EL31391	0.1	0.2	0.2				
Indiana, NT	EL31542	0.2	0.4	0.3				
Indiana, NT	ELA31537	0.4	0.8	0.6				
Subtotal		0.7	1.4	1.1				
TOTAL		6.1	11.1	8.7				
Differences from	m detail are due to r	ounding						

Based on an assessment of the factors involved, the estimate of the market value for the 75% equity in the North Bougainville Project held by the Company is in the range of:

## A\$5.4 million to A\$9.7 million with a preferred value of A\$7.6 million.

Based on an assessment of the factors involved, the estimate of the market value for the 100% equity in the Indiana Project held by the Company is in the range of:

## A\$0.7 million to A\$1.4 million with a preferred value of A\$1.1 million.

The Total Value for the Projects held by the Company is in the range of:

## A\$6.1 million to A\$11.1 million with a preferred value of A\$8.7 million.

## This valuation is effective on 19 March 2019.

This Mineral Asset valuation endeavours to ascertain the unencumbered price which a willing but not anxious vendor could reasonably expect to obtain, and a hypothetical willing but not too anxious purchaser could reasonably expect to have to pay for the property if the vendor and the purchaser had got together and agreed on a price in friendly negotiation (the Spencer Test). It applies to the direct sale of existing equity in the Projects at the date of this Report.

#### TENURE, RISK, DECLARATIONS and INDEPENDENCE

#### Tenement Schedule

The present status of the tenements is based on information made available by the Company and independently verified by Agricola. The Report has been prepared on the assumption that the tenements are lawfully accessible for evaluation.

A determination of the Status of Tenure is necessary and must be based on a sufficiently recent inquiry to ensure that the information is accurate for the purposes of the Report. Tenure that is Material must be or recently have been verified independently of the Commissioning Entity. (*Adapted from VALMIN Code 2015, Clause 7.2*)

KALIA LIMITED	Tenement Factors								
Tenement	Area.km2	Grant	Expiry	Status					
Bougainville Pr	ojects, Autonomou	ıs Region of Boı	ugainville, PNG						
EL03	865.30	15/11/17	14/11/20	Live					
EL04	838.70	15/11/17	14/11/20	Live					
Total	1,704.00								
Holder: Kalia	Investment Limited	(75%), Toremana	Resources Limite	ed (25%)					
Indiana Project	, Northern Territory	1							
EL31391	119.80	26/4/17	25/4/23	Live					
EL31542	227.08	7/2/18	6/2/24	Live					
ELA31537	720.63	Application	2/3/17	Pending					
Total	1,067.51								
Holder: GBE I	Explorations Pty Ltd	(100%)							

Kalia Limited Tenement Schedule

The status of the tenements in North Bougainville has been verified based on a recent independent inquiry of direct independent public announcements from the Bougainville Executive Council by Agricola, pursuant to section 7.2 of the Valmin Code, 2015. The tenements are believed to be in good standing based on this inquiry.

Kalia Limited (ASX: KLH) was granted two Exploration Licences (EL03 and EL04) on Applications 007 and 008 by the Autonomous Bougainville Government in the Tore region of Bougainville Island in the Autonomous Region of Bougainville, Papua New Guinea on 15 November 2017.

Press Release, Autonomous Region of Bougainville, 20 November 2017

In the TORE area, TINPUTZ, two exploration licenses were given to joint venture companies, Kalia Investment Limited (75% interest) and Toremana Resources Limited (25% interest). Toremana Resources Limited represents the interests of the landowners and has no funding requirement through to production.

The Exploration Licences are valid for 3 years and are renewable in 2 year periods requiring the holders to release 20% of the Exploration Licence area at each renewal. (Refer to the comments in the Introductory Letter on independent verification of the Status of Tenure. The source is quoting the ABG President and not the company.)

Source: <a href="http://bougainville.typepad.com/newdawn/2017/11/171117two-local-companies-get-exploration-licenses-by-aloysius-laukai-the-bougainville-executive-council-today-approved-to-ar.html">http://bougainville.typepad.com/newdawn/2017/11/171117two-local-companies-get-exploration-licenses-by-aloysius-laukai-the-bougainville-executive-council-today-approved-to-ar.html</a>

The status of the **Indiana Project** tenement applications has been verified based on a recent independent inquiry of the Strike database maintained by the Northern Territory Department of Primary Industry and Resources (strike.nt.gov.au). The tenements are in application stage and no obligations are due until granted.

All tenement reporting obligations such as annual reports, expenditure commitments, rents and renewals have been lodged and are progressing in accordance with the relevant Mining Acts.

## Risks for Exploration Companies

The VALMIN Code (Section 10) suggests a Public Report should include an evaluation of the risks likely to apply to the Mineral Assets under consideration. A risk evaluation includes an analysis of the uncertainties inherent in the assumptions made and the effects they may have on the outcome. A Practitioner should report upon the likelihood of deviating from base assumptions.

These may include delays in completion or commissioning of projects; major changes in operating practices; or possible difficulties with new or scaled-up technologies, especially where such factors may have a significant effect on the technical or financial viability of the Mineral Assets. Risks may arise with respect to the availability, uncertainty and quality of data and other information, including, but not limited to:

- geological prospectivity and the possibility that further exploration may fail to demonstrate economic mineralisation (in the case of projects without defined Ore Reserves),
- geology of the mineral deposits,
- estimation of Mineral Resources or Ore Reserves,
- operational aspects including the mining/extraction method, dilution and mining losses, equipment sizing and efficiencies, use of selective mining assumptions, waste management, meeting regulatory requirements and mine closure,
- mineral processing and the variability of metallurgical parameters and wellfield extraction such as recovery rates, process plant availability and the ability of new processes to be financed and perform as forecast,

- construction, including unforeseen physical conditions or weather or industrial disputes, which may affect both capital costs and completion date,
- provision and adequacy of infrastructure,
- commodity price, inflation and exchange rate forecasts,
- production of marketable commodities in terms of quality, price and cost of production,
- sovereign risk involving social, political, environmental, cultural and security factors that cannot be controlled by project operators, and
- project funding.
- Agricola has identified a range of risk elements or risk factors, which may
  affect the exploration outcomes of the Company's Projects. Some of the
  risk factors are completely external, which is beyond the control of
  management. However, advance planning can mitigate the projectspecific risks.
- Risks inherent in exploration and mining include, among other things, successful exploration and identification of Mineral resources; satisfactory performance of mining operations if a mineable deposit is discovered; and competent management;

## Country and Sovereign Risk

Papua New Guinea is rated as 'B' for Country Risk and 'C' for Business Climate Risk. The Autonomous Region of Bougainville controls the issue of mineral titles.

Landowners in the Autonomous Region of Bougainville are partnering with investors to conduct mineral exploration in areas sanctioned by the Autonomous Bougainville Government.

Prospecting has started since the introduction of legislation allowing landowners complete ownership of customary land, and the lifting of the moratorium on specific localities for mineral exploration.

Currently there is a moratorium on Panguna Mine due to its history and sensitive nature, which is being carefully addressed. However, exploration has been allowed in other parts of the island.

Australia is rated as 'A2' for Country Risk and 'A1' for Business Climate Risk.

(Source: www.coface.com)

#### Security of Tenure

Risks are associated with obtaining the grant of any or all of the mining tenements or permits which are applications, or renewal of tenements upon expiry of their current term, including the grant of subsequent titles where applied for over the same ground;

The grant or refusal of tenements is subject to ministerial discretion and there is

no certainty that the tenements applied for will be granted;

Applications are also subject to additional processes and requirements under the Native Title Act in Australia. The right to negotiate process under Native Title matters can result in significant delays to the implementation of any project or stall it. Negotiated native title agreements may adversely impact on the economics of projects depending on the nature of any commercial terms agreed;

## **Exploration Approvals and Permits**

Prior to commencement of mining, government permits and approvals may be required to commence development or earth moving activities and the associated access roads. Any delays in obtaining the required approvals may affect the future timing of cash inflows.

Associated interruptions or delays may occur in the future and that this may have a material impact on the value of the concession.

#### Land Access

Risks arising because of the rights of indigenous groups in domestic and overseas jurisdictions which may affect the ability to gain access to prospective exploration areas and to obtain exploration titles and access, and to obtain production titles for mining if exploration is successful. If negotiations for such access are successful, compensation may be necessary in settling indigenous title claims lodged over any of the tenements held or acquired by the Company. The level of impact of these matters will depend, in part, on the location and status of the tenements;

The risks associated with being able to negotiate access to land, including by conducting heritage and environmental surveys, to allow for prospecting, exploration and mining, is time and capital consuming and may be over budget and is not guaranteed of success;

## **Government Policy**

The risk of material adverse changes in the government policies or legislation of the host country may affect the level and practicality of mining and exploration activities including environmental management issues and reporting with which the holder may be required to address from time to time. There are very substantive legislative and regulatory regimes with which the holder needs to comply for land access, exploration and mining that can lead to significant delays;

## Access for Equipment and Management

Poor access to exploration areas as a result of remoteness or difficult terrain;

Poor weather conditions over a prolonged period which might adversely affect mining and exploration activities and the timing of earning revenues;

Unforeseen major failures, breakdowns or repairs required to key items of exploration equipment and vehicles, mining plant and equipment or mine structure resulting in significant delays, notwithstanding regular programs of repair, maintenance and upkeep;

The availability and high cost of quality management, contractors and equipment for exploration, mining, and the corporate and administrative functions in the current economic climate and the cost of identifying, negotiating with and engaging the right people.

#### Resources & Reserve Risk

No resources have been estimated for the projects considered in this Report. Exploration may (or may NOT) lead to the estimation of mineral resources in accordance with the JORC Code 2012 at variance to Company expectations and may jeopardise project viability.

## Extraction and Processing Route Risk

It may be possible that unfavourable results from the future samples may jeopardise project viability. This may include problems with the future production of saleable coal. Pre-feasibility studies and full-scale testing are yet to be done.

## Project Infrastructure Associated Risk

Although, accessibility of the projects is reasonable with existing and planned road infrastructure, a significant infrastructure facility including access tracks for drill rigs and equipment may need to be upgraded before commencement of mining and further exploration activity.

#### Environmental and Social Risks

While environmental and social risks and management plans have been considered by the Company, it is possible that failure to comply with the environment criteria or failure to maintain good relationships with the local community in Australia will have an impact on the project. These risks are not considered to be greater for these Projects than any other mineral project.

## Commodity Price Risk

Commodity price, supply and demand are cyclical in nature and subject to significant fluctuations, and any significant decline in the commodity price or demand could materially and adversely affect the Company's business and financial results of operations and prospects. Commodity markets are highly competitive and are affected by factors beyond the Company's control, which include but not limited to:

#### **Global Economic Condition:**

Government and Central Banks actions; and

Fluctuations in industries with high demand.

If there is a fall in long-term commodity prices, there may be a substantial reduction in the viability of the project.

These risks may affect an investor's perception of the projects.

#### **Declarations**

Scope of the Valuation Report

A valuation report expresses an opinion as to monetary value of a mineral asset but specifically excludes commentary on the value of any related corporate securities. Agricola prepared this Report utilizing information relating to exploration methods and expectations provided to it by various sources. Where possible, Agricola has verified this information from independent sources. This Report has been prepared for the purpose of providing information to the Expert.

This mineral asset valuation endeavours to ascertain the unencumbered price which a willing but not anxious vendor could reasonably expect to obtain and a hypothetical willing but not too anxious purchaser could reasonably expect to have to pay for the property if the vendor and the purchaser had got together and agreed on a price in friendly negotiation.

This is commonly known as the *Spencer Test* after the Australian High Court decision upon which these principles are based and to which the Courts have used in their determinations of market value of a property<sup>1</sup>. In attributing the price that would be paid to the hypothetical vendor by the hypothetical purchaser it is assumed that the property will be put to its "highest and best use".

Applying the *Spencer Test* may not be confined to a technical valuation exercise but may involve a consideration of market factors. In a highly speculative market during 'boom' conditions or a depressed market during 'bust' conditions the hypothetical purchaser may expect to pay a premium or receive a discount commensurate with the current market for mineral properties.

The findings of the valuation Report include an assessment of the technical value (i.e. the value implied by a consideration of the technical attributes of the asset) and a market value (which considers the influences of external market forces and risk). A range of values (high, low and preferred) has been determined and stated in the Report to reflect any uncertainties in the data and the interaction of the various assumptions made.

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<sup>&</sup>lt;sup>1</sup> Spencer v. Commonwealth 5 CLR 418, 1907. <a href="https://www.ato.gov.au/law/view/document?">https://www.ato.gov.au/law/view/document?</a>
<a href="Docid=JUD/5CLR418/00002&PiT=99991231235958">Docid=JUD/5CLR418/00002&PiT=99991231235958</a>

The main requirements of the Valuation Report are:

Prepared in accordance with the 'Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets' ('VALMIN Code 2015') and the 'Australasian Code for Reporting of Exploration Results, Mineral resources and Ore Reserves' ('JORC Code 2012');

Contain all the information that investors and their professional advisers would reasonably require and expect to find to make an informed decision on the subject of the report;

Experience and qualifications of key personnel to be set out;

Details of valuation methodologies to be described;

Reasoning for the selection of the valuation approach adopted explained;

Details of the valuation calculations included; and

Conclusion on value as a range with a preferred value.

## The report includes the following:

A competent person's statement, that demonstrates the requirements of a practitioner under section 2.2 of the VALMIN Code 2015;

The basis of the consideration and approximate fee for the report to comply with section 6.3 of the VALMIN Code 2015; and

Compliance with section 7.2 of the VALMIN Code 2015, relating to Status of Tenure.

## Relevant codes and guidelines

This Report has been prepared as a Valuation Report in accordance with the Australasian Code for Public Reporting of Technical Assessment of Mineral Assets (the "VALMIN Code", 2015 Edition), which is binding upon Members of the Australasian Institute of Mining and Metallurgy ("AusIMM") and the Australian Institute of Geoscientists ("AIG"), as well as the rules and guidelines issued by the ASIC which pertain to Independent Expert Reports (Regulatory Guides RG111 and RG112, March 2011). Agricola regards RG112.31 to be in compliance whereby there are no business or professional relationships or interests, which would affect the expert's ability to present an unbiased opinion within this report.

Where exploration results and Mineral resources have been referred to in this report, the information was prepared and first disclosed under the *Australasian Code for Reporting of Exploration Results, Mineral resources and Ore Reserves* 

("JORC Code" 2012), prepared by the Joint Ore Reserves Committee of the AusIMM, the AIG and the Minerals Council of Australia. <sup>2</sup>

## Sources of Information

The statements and opinion contained in this report are given in good faith and this review is based on information provided by the title holders, along with technical reports by consultants, previous tenements holders and other relevant published and unpublished data for the area. Agricola has endeavoured, by making all reasonable enquiries, to confirm the authenticity, accuracy and completeness of the technical data upon which this report is based. A final draft of this report was provided to the Company, along with a written request to identify any material errors or omissions in the technical information prior to lodgement.

In compiling this report, Agricola did not carry out a recent site visit to the Project areas. Malcolm Castle, author of this report, visited Bougainville and the Panguna Mine in 1968 and is familiar with the exploration environment in Papua New Guinea. Based on its professional knowledge, experience and the 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 visit.

This Report may contain statements that are made in, or based on statements made in previous geological reports that are publicly available from either a government department or the ASX. These statements are included in accordance with ASIC Corporations (Consents to Statements) Instrument 2016/72 (clauses 6 and 7). <sup>3</sup>

ASIC, 2011, Independence of Experts, Regulatory Guideline 111, March 2011. Available from: <a href="https://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/">https://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/</a> RG-112-independence-of-experts/

JORC, 2012. Australasian Code for Reporting of Exploration Results, Mineral resources and Ore Reserves (The JORC Code) [online]. Available from: http://www.jorc.org (The Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia).

VALMIN, 2015, Australasian Code for Public Reporting of Technical Assessments and Valuations of Mineral Assets (The VALMIN Code) [online]. Available from: http://www.valmin.org (The VALMIN Committee of the Australasian Institute of Mining and Metallurgy and Australian Institute of Geoscientists).

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<sup>&</sup>lt;sup>2</sup> ASIC, 2011, Content of Expert Reports, Regulatory Guideline 111, March 2011. Available from: <a href="https://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/RG-111-content-of-expert-reports/">https://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/RG-111-content-of-expert-reports/</a>

<sup>&</sup>lt;sup>3</sup> ASIC Corporations (Consents to Statements) Instrument 2016/72, 11 March 2016. Available online from: <a href="https://www.legislation.gov.au/">https://www.legislation.gov.au/</a> Details/F2016L00326

The independent valuation report has been compiled based on information available up to and including the date of this report. The information has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to value. However, Agricola does not warrant that its enquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose.

Qualifications and Experience

The person responsible for the preparation of this report is:

Malcolm Castle, B.Sc.(Hons), GCertAppFin (Sec Inst), MAusIMM

Malcolm Castle has over 50 years' experience in exploration geology and property evaluation, working for major and minor companies for throughout his career as an exploration geologist including Kennecott, Amoco, Esso, Plutonic, Laverton Gold, Transcontinental Resource Group, Fortescue Metals Group and BMG Ltd.

He established a consulting company over 30 years ago and specializes in exploration management, technical audit, due diligence and property valuation at all stages of development. He has wide experience in a number of commodities including precious metals, base metals, nickel, cobalt, iron ore, coal, mineral sands, uranium, sulphate of phosphate, specialty metals including rare earths, scandium, lithium and vanadium over his professional career.

He has been responsible for project discovery and exploration through to feasibility study in Papua New Guinea, Australia, Fiji, South Africa, Indonesia and Brazil and technical audits in many overseas locations including Juneau, Alaska, Francistown, Botswana, Lynn Lake, Manitoba, Canada, Lubumbashi, Democratic Republic of the Congo, Asmara, Eritrea, Rawas, Sumatra, Indonesia, Letseng, Lesotho, Antananarivo, Madagascar, Windhoek, Namibia, Tolukuma, Papua New Guinea, Luzon and Manila, Philippines, Rotifunk and Boamahun, Sierra Leone, Pilgrim's Rest, Mpumalanga, South Africa, Karamoja, Uganda, Copper Belt, Kitwe, Zambia and Matobo, Zimbabwe.

He has completed numerous Independent Technical Assessment Reports and Mineral Asset Valuation Reports on properties in a number of countries over the last decade as part of his consulting business.

Mr Castle completed studies in Applied Geology with the University of New South Wales in 1965 and was awarded a B.Sc.(Hons) degree. He has completed postgraduate studies with the Securities Institute of Australia in 2001 and was awarded a Graduate Certificate in Applied Finance and Investment in 2004. He has been a Member of the Australasian Institute for Mining and Metallurgy (AusIMM) for over 50 years.

- Mr Castle is the Principal Consultant for Agricola Mining Consultants Pty Ltd, an independent geological consultancy.
- Mr Castle is appropriately qualified geologist and is a member of a relevant recognized professional association;
- He has the necessary technical and securities qualifications, expertise, competence and experience appropriate to the subject matter of the report; and
- He has at least ten years of suitable and recent experience in the particular technical or commercial field in which he is to report.

Declaration – VALMIN Code: The information in this report that relates to Technical Assessment and Valuation of Mineral Assets reflects information compiled and conclusions derived by Malcolm Castle, who is a Member of The Australasian Institute of Mining and Metallurgy. Malcolm Castle is not a permanent employee of the Company. Malcolm Castle has sufficient experience relevant to the Technical Assessment and Valuation of the Mineral Assets under consideration and to the activity, which he is undertaking to qualify as a Practitioner as defined in the 2015 edition of the 'Australasian Code for the Public Reporting of Technical Assessments and Valuations of Mineral Assets'. Malcolm Castle consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Competent Persons Statement – JORC Code: The information in this report that relates to Exploration Results and Mineral resources of the Company is based on, and fairly represents, information and supporting documentation reviewed by Malcolm Castle, who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Castle has sufficient experience, which is relevant to the style of mineralization and type of deposit under consideration and to the activity, which they are undertaking to qualify as an Expert and Competent Person as defined under the VALMIN Code and in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral resources and Ore Reserves'. Mr Castle consents to the inclusion in this report of the matters based on the information and supporting documentation in the form and context in which they appear.

Agricola or Malcolm Castle is not aware of any new information or data, other than that disclosed in this Report, that materially affects the assessments included in this Report and that all material assumptions and parameters underpinning Exploration Results and Mineral resource Estimates continue to apply and have not materially changed.

## **Independence and Competency**

Mr Castle has prepared valuation assignments for public release for a large number of companies over the past decade. He is a Non Executive director of BMG Ltd, currently exploring lithium projects in Chile.

He has wide experience in a number of commodities including precious metals, base metals, nickel, cobalt, iron ore, coal, mineral sands, salt lake potash, uranium, specialty metals including rare earths, scandium, lithium, graphite and vanadium over his professional career.

Please refer to the list of recent valuation reports at the end of this report.

Agricola has prepared a valuation on the North Bougainville and Indiana Projects in March 2018 as an independent consultant and has had no material association during the previous two years with the owners/promoters of the mineral assets, the company acquiring the assets or any of the assets to be acquired and has no material interest in the projects;

There are no business relationships between Agricola and the Company. Agricola or its employees and associates are not, nor intend to be a director, officer or other direct employee of the Company. The relationship with the Company is solely one of professional association between client and independent consultant;

Agricola does not hold and has no interest in the securities of the company under review; Agricola has no relevant pecuniary interest, association or employment relationship with the Company and its subsidiaries; Agricola has no interest in the material tenements, the subject of the Report;

Agricola is not a substantial creditor of an interested party, or has a financial interest in the outcome of the proposal. The review work and this report are prepared in return for professional fees of \$10,000 plus GST based upon agreed commercial rates and the payment of these fees is in no way contingent on the results of this Report.

#### Consent

This mineral asset valuation endeavours to ascertain the unencumbered price which a willing but not anxious vendor could reasonably expect to obtain and a hypothetical willing but not too anxious purchaser could reasonably expect to have to pay for the property if the vendor and the purchaser had got together and agreed on a price in friendly negotiation (the Spencer Test).

This Valuation Report has been prepared by Agricola Mining Consultants Pty Ltd ("Agricola") solely for the internal use of the Company and may not be relied upon for any other purpose. It cannot be reproduced, copied or provided to a third party without the prior written consent of Agricola.

The information contained in this presentation is provided for information purposes only. Accordingly, it is provided on the basis of no liability whatsoever to Agricola, or the directors, officers and employees of Agricola who will not be responsible for any damages arising from any use made of the information herein. While all care has been taken in its preparation, this information has not been independently audited and Agricola, or the directors, officers and employees of Agricola make no representation and give no warranty or undertaking, express or implied, nor assume any responsibility for the authenticity, origin, validity, accuracy or completeness, or for any errors or omissions contained in the information. The assumptions that were made in its preparation were based on publicly available information which has not been verified by Agricola, or formally audited.

For the purposes of the Corporations Act 2001, Agricola Mining Consultants Pty Ltd consents to the release of this Independent Valuation Report (contained as an Annexure to the IER) to Shareholders and the market as a whole.

Agricola provides its consent on the understanding that the assessment expressed in the individual sections of this report will be considered with, and not independently of, the information set out in full in this report. Agricola consents to the use and reliance upon this specialist valuation report on the Mineral Assets in preparation of an Independent Expert's Report if appropriate. Agricola has no reason to doubt the authenticity or substance of the information provided.

Agricola Mining Consultants Pty Ltd has not withdrawn this consent prior to the lodgement of the Report.

Yours faithfully

Malcolm Castle

B.Sc.(Hons) MAusIMM, GCertAppFin (Sec Inst)

Agricola Mining Consultants Pty Ltd

Recent Independent Valuation Reports

Aspire Mining Limited, 27 Aug 18 (Coal in Mongolia)

Peel Mining Limited, 16 Oct 17 (Gold in WA)

Apollo Minerals Limited, 7 Nov 17 (Gold in WA)

Blaze International Limited, 6 Nov 17 (Base Metals in NT)

Castle Resources Limited, 26 Mar 18 (Gold in Ghana)

Domingo Lithium Limited, 27 Apr 18 (Lithium in Argentina)

Draig Resources Limited, 20 Dec 17 (Gold in WA)

East Energy Resources Limited, 19 Feb 18 (Coal in Qld

Emmerson Resources Limited, 26 Mar 18 (Gold in NT)

Fox Resources Limited, 6 May 18 (Coal in Queensland)

Gondwana Resources Limited, 10 Oct 17 (Gold in WA)

Kalia Limited, 12 Mar 18 (Gold in Bougainville)

MRG Metals Limited, 22 May 18 (Mineral Sands in Mozambique)

Orminex Limited, 11 Feb 18 (Gold in WA)

Polymetallica Minerals Limited, 13 Mar 18 (Uranium in WA)

Resource and Energy Limited, 4 May 18 (Gold in WA)

Summit Resources Limited, 14 Aug 18 (Uranium in Qld)

Tanami Gold NL, 5 Apr 18 (Gold and Base Metals in NT)

## APPENDICES - VALMIN and Comparable Transactions

The Valmin Code 2015

A **Valuation Report** expresses an opinion as to monetary Value of a Mineral Asset but specifically excludes commentary on the value of any related corporate Securities.

**Specialists** are persons whose profession, reputation and relevant industry experience in a technical discipline (such as geology, mine engineering or metallurgy) provides them with the authority to assess or value Mineral Assets, and who prepare and accept responsibility for a Public Report. (VALMIN 2.1a)

## A Specialist **must**:

- o be Competent in, and have had at least five years of recent and relevant industry experience in relation to, the specific Mineral Asset to be reported upon;
- have at least five years of recent and relevant experience in Technical Assessment, and where a Valuation is being prepared, have at least an additional five years (totalling a minimum of ten years) of recent and relevant experience in the valuation of Mineral Assets;
- be a member of a Professional Organisation with an enforceable professional Code of Ethics and understand that a violation of the VALMIN Code may result in an investigation in accordance with the rules of the Professional Organisation; and
- be familiar with the VALMIN Code, the JORC Code, the relevant requirements of the Corporations Act, the public policies of ASIC, the ASX or other recognised Securities exchanges, and court decisions that may be relevant to the Public Report being prepared.

**Competence** or being **Competent** requires that the Public Report is based on work that is the responsibility of a suitably qualified and experienced person who is subject to an enforceable professional Code of Ethics.

**Materiality** or being **Material** requires that a Public Report contains all the relevant information that investors and their professional advisors would reasonably require, and reasonably expect to find in the report, for the purpose of making a reasoned and

balanced judgement regarding the Technical Assessment or Mineral Asset Valuation being reported.

**Independence** or being **Independent** requires that there is no present or contingent interest in the Mineral Asset(s), nor is there any association with the Commissioning Entity or related parties that is likely to lead to bias. Where the legal definition of Independence or Independent differs from the above, the legal definition takes precedence.

A Public Report must disclose the **basis of value**. The basis of value is a statement of the fundamental measurement assumptions of a valuation. The VALMIN Code primarily uses the terms Market Value and Technical Value, although circumstance may require the use of alternative definitions.

**Technical Value** is an assessment of a Mineral Asset's future net economic benefit at the Valuation Date under a set of assumptions deemed most appropriate by a Practitioner, excluding any premium or discount to account for market considerations.

**Market Value** is the estimated amount (or the cash equivalent of some other consideration) for which the Mineral Asset should exchange on the date of Valuation between a willing buyer and a willing seller in an arm's length transaction after appropriate marketing where the parties had each acted knowledgeably, prudently and without compulsion.

Market Value may be higher or lower than Technical Value. A Public Report should take such factors into account, stating the results of the principal Valuation Method(s) used and disclosing the amount of and reasons for the difference between the Market Value and Technical Value.

A **range of values** (high/most likely/low) **must** be determined and stated in a Public Report to reflect any uncertainties in the data and the interaction of the various assumptions made; however, the range should not be so wide as to render the conclusion of the Public Report meaningless.

A Public Report should also include a sensitivity analysis showing the effects of changing the most significant assumptions. In all cases, a most likely outcome should be identified. Any reasons for not doing so must be stated in the Public Report.

When a premium or discount is used in determining a **Market Value**, a Practitioner **must** state how these have been taken into account

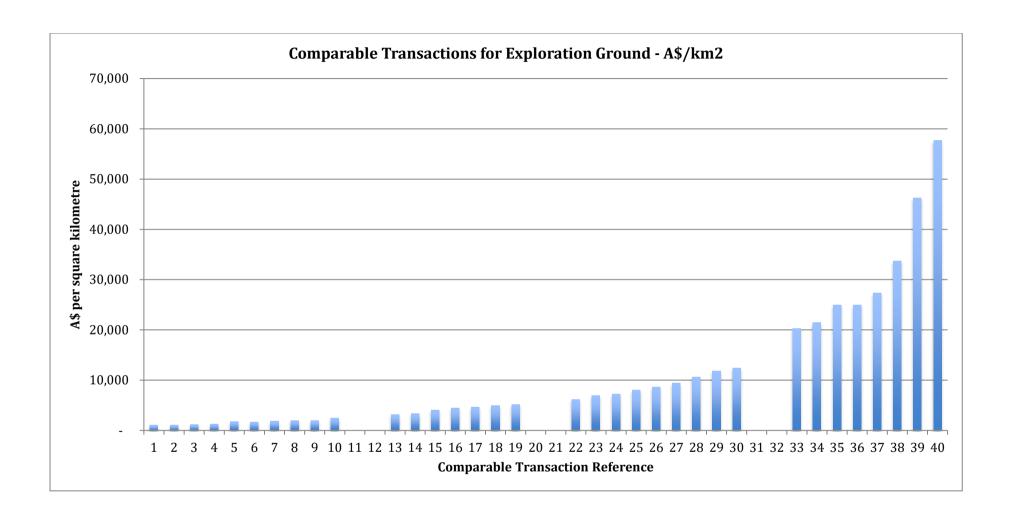
#### **Comparable Transactions**

Agricola has identified a number of transactions relating to projects in Australia that can be considered relevant in assessing the fair market value of the Company's Projects. These market transactions are listed in the following tables.

## Comparable Transactions - Exploration Ground Assessment

	Date	OJECTS with EXPLORATION Project	Country	Buyer	Seller	Deal A\$M	Area (km2)	A\$/km2
	Announced	110,000	oouna y	Dayo.	<b>3</b> 01101	Doui / tylli	7 11 Oct (111112)	7 (φ/10112
	GROUP A	Greenfields Projects with pro- and some areas of interest.			e exploration history			
		Comparable Transactions, AS	\$ per square	kilometre: A\$1,000 to A\$3	,000			
1	Aug-16	Marda- Diemels Greenstone	WA	Indus Energy Ltd	IMD Gold Mines Pty Ltd	2.98	2,761	1,078
2	Jul-16	Monument Project	WA	Syndicated Metals Limited	Monument Exploration Pty Ltd	0.23	210.00	1,095
3	Mar-16	Sandstone	WA	Enterprise Uranium	Sandstone Exploration	0.88	723.00	1,217
4 5	Mar-16 Sep-16	Avoca & Bailieston Gold Ida South	WA WA	Matsa Resources Latitude Consolidated	Currawong Resources Private Consortium	0.25 0.35	194.00 196.00	1,289 1,787
6	Oct-15	Garden Gully - Paynes Find	WA	Thundelarra Limited	Red Dragon Mines Ltd	1.24	739.50	1,680
7	May-16	Mt Venn Greenstone belt	WA	Enterprise Uranium	Sandstone Exploration	0.38	206.00	1,829
8	2008/2018	Narnoo	WA	A1 Minerals	Desertex	0.93	470.00	1,987
9	Oct-17	Pilbara Gold	WA	Kalamazoo Resources	Private Company	0.50	252.00	1,984
10	Aug-15	Talga, Warrawoona, Mosquito Ck	WA	Beatons Creek Gold Pty Ltd	Talga Resources Ltd	0.54	215.90	2,504
11 12	1 GROUP B Advanced regional area adjacent to known small scale resources or old workings							
13	2008/2018	Western Shaw, WA	WA	Atlas Iron	Buxton	0.40	127.00	3,152
14	2008/2018	Dundas, WA	WA	Australasia Gold	Private	2.20	660.00	3,327
15	2008/2018	Yagahong	WA	Silver Swan	Mercator	2.43	600.00	4,043

16	2008/2018	Mt Zephyr, WA	WA	Newsrest	Regal	1.14	254.00	4,489
17	2008/2018	E40/212, WA	WA	Lumacom	Undisclosed	0.23	50.00	4,609
18	2008/2018	Scorpion Well, WA	WA	Meteoric	Image Resources	1.21	244.00	4,971
_	Oct-17	Hardey	WA	Elysium Resources	Hardey Resources	2.65	512.00	5,180
19		•		<u> </u>	•	2.03	312.00	3,100
20	GROUP C			ements with significant explo	<u> </u>			
21		Comparable Transactions,	A\$ per squa	re kilometre: A\$6,000 to A\$	15,000			
22	2008/2018	Yalgoo, WA	WA	Ausorex	Prosperity	2.83	457.00	6,184
23	2008/2018	Hogans, WA	WA	Newmont	Gladiator	2.26	325.00	6,942
24	2008/2018	Kuaby Well	WA	Silver Swan	Mawson West	0.61	84.00	7,220
25	2008/2018	Revere, WA	WA	Revere	Enterprize	11.22	1,403.00	7,997
26	Mar-17	Mount Monger	WA	Undisclosed	Poz Minerals	0.63	72.80	8,654
27	2008/2018	Sunday, WA	WA	Aust. Min. Fields	Hannans Reward	0.46	49.00	9,407
28	2008/2018	Star of Mangaroon	WA	Prime	Fox Resources	0.76	72.00	10,614
29	2008/2018	Talga Peak	WA	Mining Prospects	Oakover	2.13	180.00	11,860
30	Aug-15	Spargos Reward Gold Project	WA	Mithril Resources	Corona Minerals	0.38	31.00	12,407
31	GROUP D	Brownfields areas adjacent	to resource	s; may include Historic Resc	ources			
32		Comparable Transactions,	A\$ per squa	re kilometre: A\$15,000 to A	\$60,000			
33	Dec-16	Sunrise Dam South	WA	Cervantes Corporation	Raven Resources Pty	0.94	46.30	20,259
34	2008/2018	Mt Monger, WA	WA	Integra	Solomon	0.64	30.00	21,430
35	Jul-13	Valley Floor	WA	Tychean Resources	Valley Floor Resources	0.15	6.00	25,000
36	Feb-13	Aurora Tank	WA	Appollo Minerals	Marmota Energy	1.20	48.00	25,000
37	Apr-13	Mt Egarton	WA	3D Resources	Tech-Sol Pty	0.52	19.00	27,368
38	Dec-17	Hong Kong	WA	Clancy Exploration	Undisclosed	1.35	40.00	33,750
39	May-13	Lynas find	WA	Alloy Resources	Trafford Resources	1.30	28.00	46,250
40	Sep-16	Klondyke	WA	Keras	Haoma	0.38	6.50	57,692



# SCHEDULE 2 - PRO-FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Audited 31 December 2018	Issue of Shares to Tygola Pty Ltd	Unaudited Proforma
	\$	\$	\$
Assets			
Current assets			
Cash and cash equivalents	99,998	1,000,000 <sup>(ii)</sup>	1,099,998
Trade and other receivables	16,647	-	16,647
Prepayments	29,014		29,014
Total current assets	145,659	1,000,000	1,145,659
Non-current assets			
Property, plant and equipment	227,775	_	227,775
Total non-current assets	227,775	-	227,775
Total assets	373,434	1,000,000	1,373,434
Liabilities			
Current liabilities			
Trade and other payables	255,080	-	255,080
Borrowings	3,000,000	-	3,000,000
Other payables	374,746	-	374,746
Total current liabilities	3,629,826	-	3,629,826
Total liabilities	3,629,826		3,629,826
Net liabilities	(3,256,392)	-	(2,256,392)
Equity			
Issued capital	30,037,228	1,000,000 <sup>(i)</sup>	31,037,228
Reserves	(5,474,130)	-	(5,474,130)
Accumulated losses	(27,819,490)	_	(27,819,490)
Total Equity	(3,256,392)	_	(2,256,392)
Assumptions			
Value per share to be issued (i)	\$0.004		
(All of Additional Loan Facility converted to shares)			
Additional Loan Facility (ii)	\$1,000,000		
Shares Issued	250,000,000		



LODGE YOUR VOTE ONLINE
ONLINE VOTE www.advancedshare.com.au/investor-login
MOBILE DEVICE VOTE  Lodge your proxy by scanning the QR code below, and enter your registered postcode.  It is a fast, convenient and a secure way to lodge your vote.

		19 EXTRA( e being shareh										
	API	POINT A PRO	ΧY									
	The Chair of the meeting <b>OR</b>									: If you leave the section blank, e Meeting will be your proxy.		
STEP 1	dire	or failing the person so named or, if no person is named, the Chair, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, and subject to the relevant laws as the proxy sees fit, at the Meeting to be held at 10:00am (WST) on 6 May 2019 at Celtic Club, 48 Ord Street, West Perth, Western Australia, Australia, and at any adjournment thereof.										
	The voti	CHAIR'S VOTING INTENTION IN RELATION TO UNDIRECTED PROXIES  The Chair intends to vote undirected proxies in favour of all Resolutions. In exceptional circumstances the Chair may change his/her voting intention on any Resolution. In the event this occurs an ASX announcement will be made immediately disclosing the reasons for the change.										
	VO	VOTING DIRECTIONS										
	Resolutions								For	Against	Abstain*	
7	1 Approval to Extend Term of Security Interest											
STEP	2 Grant of Additional Security Interest to Tygola Pty Ltd and Peter Yunghanns											
	3 Approval of Issue of Shares to Tygola Pty Ltd											
	* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.											
	SIG	NATURE OF S	HAREHOLDE	RS – TH	HIS MUST BI	E COMPLETE	D					
	Share	eholder 1 (Individu	ual)	Join	Joint Shareholder 2 (Individual)  Joint Shareholder 2 (Individual)			Joint Shareho	older 3 (Individual)			
m	Sole Director and Sole Company Secretary Director/Company Secretary (Delete one) Director						Director					
STEP	the	This form should be signed by the shareholder. If a joint holding, all the shareholder should sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the Corporations Act 2001 (Cth).										
	Ema	il Address										
		Please tick here dividend remitta				nt by the compa	any via en	nail. This may	include	meeting i	notifications,	

## IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE MEETING, PLEASE BRING THIS FORM WITH YOU. THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.

#### **CHANGE OF ADDRESS**

This form shows your address as it appears on Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes.

#### APPOINTMENT OF A PROXY

If you wish to appoint the Chair as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chair, please write that person's name in the box in Step 1. A proxy need not be a shareholder of the Company. A proxy may be an individual or a body corporate.

#### **DEFAULT TO THE CHAIR OF THE MEETING**

If you leave Step 1 blank, or if your appointed proxy does not attend the Meeting, then the proxy appointment will automatically default to the Chair of the Meeting.

#### **VOTING DIRECTIONS – PROXY APPOINTMENT**

You may direct your proxy on how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as they choose to the extent they are permitted by law. If you mark more than one box on an item, your vote on that item will be invalid.

**PLEASE NOTE**: If you appoint the Chair as your proxy (or if he is appointed by default) but do not direct him how to vote on an item (that is, you do not complete any of the boxes "For", "Against" or "Abstain" opposite that item), the Chair may vote as he sees fit on that item.

#### PROXY VOTING BY KEY MANAGEMENT PERSONNEL

If you wish to appoint a Director (other than the Chair) or other member of the Company's key management personnel, or their closely related parties, as your proxy, you must specify how they should vote on Resolution 1, 2 and 3 by marking the appropriate box. If you do not, your proxy will not be able to exercise your vote for Resolution 1, 2 and 3.

**PLEASE NOTE:** If you appoint the Chair as your proxy (or if they are appointed by default) but do not direct them how to vote on a resolution (that is, you do not complete any of the boxes "For", "Against" or "Abstain" opposite that item), the Chair may vote as they see fit on that item.

#### APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning Advanced Share Registry Limited or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) On each Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) Return both forms together.

#### CORPORATE REPRESENTATIVES

If a representative of a nominated corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A Corporate Representative Form may be obtained from Advanced Share Registry.

#### SIGNING INSTRUCTIONS ON THE PROXY FORM

#### Individual:

Where the holding is in one name, the security holder must sign.

#### Joint Holding:

Where the holding is in more than one name, all of the security holders should sign.

#### Power of Attorney:

If you have not already lodged the Power of Attorney with Advanced Share Registry, please attach the original or a certified photocopy of the Power of Attorney to this form when you return it.

#### Companies:

Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held.

#### LODGE YOUR VOTE

This Proxy Form (and any power of attorney under which it is signed) must be received at an address given below by 10:00am (WST) on 4 May 2019, being not later than 48 hours before the commencement of the Meeting. Proxy Forms received after that time will not be valid for the scheduled meeting.



#### **ONLINE VOTE**

www.advancedshare.com.au/investor-login



#### **BY MAIL**

Advanced Share Registry Limited 110 Stirling Hwy, Nedlands WA 6009; or PO Box 1156, Nedlands WA 6909



#### **BY FAX**

+61 8 9262 3723



#### **BY EMAIL**

admin@advanced share.com.au



## IN PERSON

Advanced Share Registry Limited 110 Stirling Hwy, Nedlands WA 6009



## **ALL ENQUIRIES TO**

Telephone: +61 8 9389 8033