



HANNANS REWARD

Exploring for Gold and Base Metals

## ASX Announcement

23 December 2011

### Notice of AGM and ASIC Approval of Application to Extend AGM Date

Hannans Reward Ltd (ASX:HNR) (Hannans) is pleased to advise that the Annual General Meeting (AGM) will be held on 31 January 2012.

The Notice of Meeting setting out the matters to be considered at the general meeting is attached to this ASX release.

At the AGM shareholders will, amongst general matters of business, have the opportunity to vote on the proposed equal reduction in capital and in specie distribution.

Hannans advises that earlier today the Australian Securities and Investment Commission (ASIC) approved an application to enable Hannans to extend the period of time within which it may hold its AGM to no later than 31 January 2012.

The Corporations Act (**Act**) provides that a public company must hold an AGM at least once in each calendar year and within 5 months after the end of its financial year. Hannans financial year ends on 30 June. Accordingly, Hannans is required to hold an AGM prior to 30 November each year.

The Act further provides that a company may lodge an application with ASIC to extend the period within which the company may hold its AGM.

The basis for Hannans' request to have the period within which it may hold its AGM extended was a desire to have the proposed equal reduction in capital and in specie distribution as contemplated in the attached Notice of Meeting) put to shareholders along with other AGM matters at the same time.

For Further Information please contact:

Damian Hicks  
Managing Director  
Hannans Reward Ltd  
Tel: +61 8 9324 3388

#### Fast Facts

ASX Code: HNR

#### Capital Structure

Shares on issue: 131.6m

Options on issue: 5m (ex 20c to \$1)

Market cap: \$14.5m (at 11c)

#### Financial Position (at end of Quarter)

Cash on hand: \$0.3m (Sep 2011)

Value of Equity Positions &  
Convertible Notes: ~\$20m

#### Board of Directors

Richard Scallan Chairman

Damian Hicks Managing Director

William Hicks Non-Executive Director

Jonathan Murray Non-Executive Director

#### Projects (Western Australia)

Forrestania Nickel & Gold

QVR Nickel

Lake Johnston Nickel & Gold

Jigalong Manganese  
and base metals

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**HANNANS REWARD LIMITED**

**ACN 099 862 129**

**NOTICE OF ANNUAL GENERAL MEETING**

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**TIME:** 12:00pm (WST)

**DATE:** 31 January 2012

**PLACE:** The Park Centre  
45 Ventnor Ave  
WEST PERTH WA

*This Notice of Meeting 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.*

*Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (+61 8) 9324 3388.*

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**TIME AND PLACE OF MEETING AND HOW TO VOTE**

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**VENUE**

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The general meeting of the Shareholders to which this Notice of Meeting relates will be held at 12:00pm (WST) on 31 January 2012 at:

The Park Centre  
45 Ventnor Ave  
WEST PERTH WA

**YOUR VOTE IS IMPORTANT**

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

**VOTING IN PERSON**

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

**VOTING BY PROXY**

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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.

New sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this Annual General Meeting. Broadly, the changes 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.

Further details on these changes is set out below.

***Proxy vote if appointment specifies way to vote***

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

***Transfer of non-chair proxy to chair in certain circumstances***

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
  - the proxy is not recorded as attending the meeting;
  - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

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**IMPORTANT NOTICES**

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**Key Dates\***

Company announces the Proposal	27 June 2011
Cut off for lodging proxy form for Annual General Meeting	28 January 2012
Snapshot date for eligibility to vote at the Annual General Meeting	29 January 2012
Annual General Meeting to approve the in-specie distribution of NewCo Shares	31 January 2012
ASX informed of Shareholder approvals	31 January 2012
Last day for trading in pre-organised securities	1 February 2012
Trading in the re-organised securities on an "ex return of capital" basis	2 February 2012
Record Date	8 February 2012
In specie distribution to Shareholders of Errawarra Shares	9 February 2012
Company issues holding statements to Shareholders	9 February 2012
Despatch Date	13 February 2012

\*These dates are indicative only and may change

**Purpose of this Document**

The main purpose of this document is to explain the terms of the proposed transfer of the Assets and the subsequent in-specie distribution, and the manner in which the in-specie distribution will be implemented (if approved), and to provide such information as is prescribed or otherwise material to the decision of Shareholders whether or not to approve Resolution 4 to give effect to the in-specie distribution. This document includes a statement of all the information known to the Company that is material to Shareholders in deciding how to vote on Resolution 4, as required by Section 256C(4) of the Corporations Act.

**Not a Prospectus**

This document is not a prospectus lodged under Chapter 6D of the Corporations Act. However the Company has been granted relief from ASIC to enable it to dispose of the Assets by way of an in-specie distribution to Shareholders without the need for a prospectus. Further information regarding the effect of the relief is contained in Section 4.16(f) of this Notice.

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## NOTICE OF ANNUAL GENERAL MEETING

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Notice is given that the Annual General Meeting of Shareholders of Hannans Reward Ltd (Hannans or the Company) will be held at 12:00pm (WST) on 31 January 2012 at The Park Centre, 45 Ventnor Avenue West Perth, Western Australia.

The Explanatory Statement provides additional information on matters to be considered at the Annual General Meeting. The Explanatory Statement and the Proxy Form are part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Annual General Meeting are those who are registered Shareholders of the Company at 5.00pm (Perth time) on 29 January 2012.

Terms and abbreviations used in this Notice of Meeting are defined in the Glossary.

## AGENDA

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### ORDINARY BUSINESS

#### Financial Statements and Reports

To receive and consider the annual financial report of the Company for the financial year ended 30 June 2011 together with the declaration of the directors, the directors' report, the remuneration report and the auditor's report.

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#### 1. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **non-binding resolution**:

*"That, for the purpose of Section 250R(2) of the Corporations Act and for all other purposes, approval is given for the adoption of the Remuneration Report as contained in the Company's annual financial report for the financial year ended 30 June 2011."*

**Note: the vote on this Resolution is advisory only and does not bind the Directors or the Company.**

#### Voting Prohibition Statement:

A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a person described above may vote on this Resolution if:

- (c) the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the Resolution; and
- (d) the vote is not cast on behalf of a person described in sub-paragraphs (a) or (b) above.

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2. **RESOLUTION 2 – RE-ELECTION OF DIRECTOR – MR RICHARD SCALLAN**

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

*“That, for the purpose of clause 13.2 of the Constitution and for all other purposes, Mr Richard Scallan, a Director, retires by rotation, and being eligible, is re-elected as a Director.”*

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3. **RESOLUTION 3 – RE-ELECTION OF DIRECTOR – MR JONATHAN MURRAY**

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

*“That, for the purpose of clause 13.2 of the Constitution and for all other purposes, Mr Jonathan Murray, a Director, retires by rotation, and being eligible, is re-elected as a Director.”*

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4. **RESOLUTION 4 – APPROVAL FOR AN EQUAL REDUCTION OF CAPITAL**

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 256C(1) of the Corporations Act and for all other purposes, Shareholder approval is given for:*

- (a) the sale of all of the shares in Errawarra Pty Ltd to NewCo; and*
- (b) for the net assets of Hannans to be reduced by the Company making a pro rata in specie distribution of approximately 131,648,715 NewCo Shares to all holders of Hannans’ Shares on the basis of 1 NewCo Share for every 1 Share held by Shareholders on the record date (rounded up to the nearest whole NewCo Share),*

*on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

**Voting Exclusion:** Hannans will disregard any votes cast on this Resolution by any person who may obtain a benefit, except a benefit solely in the capacity of a security holder, if the Resolution is passed and any associates of those persons. However, Hannans 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.

**DATED: 23 DECEMBER 2011**  
**BY ORDER OF THE BOARD**



**DAMIAN HICKS**  
**DIRECTOR**

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## EXPLANATORY STATEMENT

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This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the Hannans Annual General Meeting to be held at 12:00pm (WST) on 31 January 2012 at The Park Centre, 45 Ventnor Avenue West Perth, Western Australia.

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Meeting.

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## FINANCIAL STATEMENTS AND REPORTS

In accordance with the Constitution, the business of the Meeting will include receipt and consideration of the annual financial report of the Company for the financial year ended 30 June 2011 together with the declaration of the directors, the directors' report, the remuneration report and the auditor's report.

The Company will not provide a hard copy of the Company's annual financial report to Shareholders unless specifically requested to do so. The Company's annual financial report is available on its website at [www.hannansreward.com](http://www.hannansreward.com).

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### 1. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

#### 1.1 General

The Corporations Act requires that at a listed company's annual general meeting, a resolution that the remuneration report be adopted must be put to the shareholders. However, such a resolution is advisory only and does not bind the Directors or the Company.

Under recent changes to the Corporations Act which came into effect on 1 July 2011, if at least 25% of the votes cast on Resolution 1 are voted against adoption of the Remuneration Report at the Annual General Meeting, and then again at the Company's 2012 annual general meeting, the Company will be required to put to Shareholders a resolution proposing the calling of an extraordinary general meeting to consider the appointment of directors of the Company (**Spill Resolution**).

If more than 50% of Shareholders vote in favour of the Spill Resolution, the Company must convene the extraordinary general meeting (**Spill Meeting**) within 90 days of the Company's 2012 annual general meeting. All of the Directors who were in office when the Company's 2012 Directors' report was approved, other than the managing director of the Company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting. Following the Spill Meeting those persons whose election or re-election as Directors is approved will be the Directors of the Company.

The remuneration report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The remuneration report is part of the Directors' report contained in the annual financial report of the Company for the financial year ending 30 June 2011.

A reasonable opportunity will be provided for discussion of the remuneration report at the Annual General Meeting.



## 1.2 Proxy Restrictions

Pursuant to the Corporations Act, if you elect to appoint the Chair, or another member of Key Management Personnel whose remuneration details are included in the Remuneration Report or any Closely Related Party of that member as your proxy to vote on this Resolution 1, *you must direct the proxy how they are to vote*. Where you do not direct the Chair, or another member of Key Management Personnel whose remuneration details are included in the Remuneration Report or Closely Related Party of that member on how to vote on this Resolution 1, the proxy is prevented by the Corporations Act from exercising your vote and your vote will not be counted in relation to this Resolution 1.

## 1.3 Definitions

**Key Management Personnel** has the same meaning as in the accounting standards and broadly includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

**Closely Related Party** of a member of the Key Management Personnel means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependent of the member or the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
- (e) a company the member controls; or
- (f) a person prescribed by the *Corporations Regulations 2001 (Cth)*.

**Remuneration Report** means the remuneration report set out in the Director's report section of the Company's annual financial report for the year ended 30 June 2011.

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## 2. RESOLUTION 2 – RE-ELECTION OF DIRECTOR – MR RICHARD SCALLAN

Clause 13.2 of the Constitution requires that at the Company's annual general meeting in every year, one-third (or the number nearest one-third) of those Directors must retire at each annual general meeting, provided always that no Director (except a Managing Director) shall hold office for a period in excess of 3 years, or until the third annual general meeting following his or her appointment, whichever is the longer, without submitting himself or herself for re-election.

A Director who retires by rotation under clause 13.2 of the Constitution is eligible for re-election.

The Company currently has 4 Directors and accordingly 2 must retire.

Mr Richard Scallan retires by rotation and seeks re-election.

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### 3. RESOLUTION 3 – RE-ELECTION OF DIRECTOR – MR JONATHAN MURRAY

Clause 13.2 of the Constitution requires that at the Company's annual general meeting in every year, one-third (or the number nearest one-third) of those Directors must retire at each annual general meeting, provided always that no Director (except a Managing Director) shall hold office for a period in excess of 3 years, or until the third annual general meeting following his or her appointment, whichever is the longer, without submitting himself or herself for re-election.

A Director who retires by rotation under clause 13.2 of the Constitution is eligible for re-election.

The Company currently has 4 Directors and accordingly 2 must retire.

Mr Jonathan Murray retires by rotation and seeks re-election.

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### 4. RESOLUTION 4 – APPROVAL FOR AN EQUAL REDUCTION OF CAPITAL

#### 4.1 Background and Overview of the Proposal

As announced to ASX on 27 June 2011, Hannans proposes to restructure its assets through the sale of its subsidiary Errawarra Pty Ltd (**Errawarra**) to NewCo (being a company which Hannans proposes to incorporate as its 100% wholly owned subsidiary) in consideration for the issue of 131,648,715 NewCo Shares to Hannans. It is proposed that Hannans will then distribute in-specie those NewCo Shares to its Shareholders.

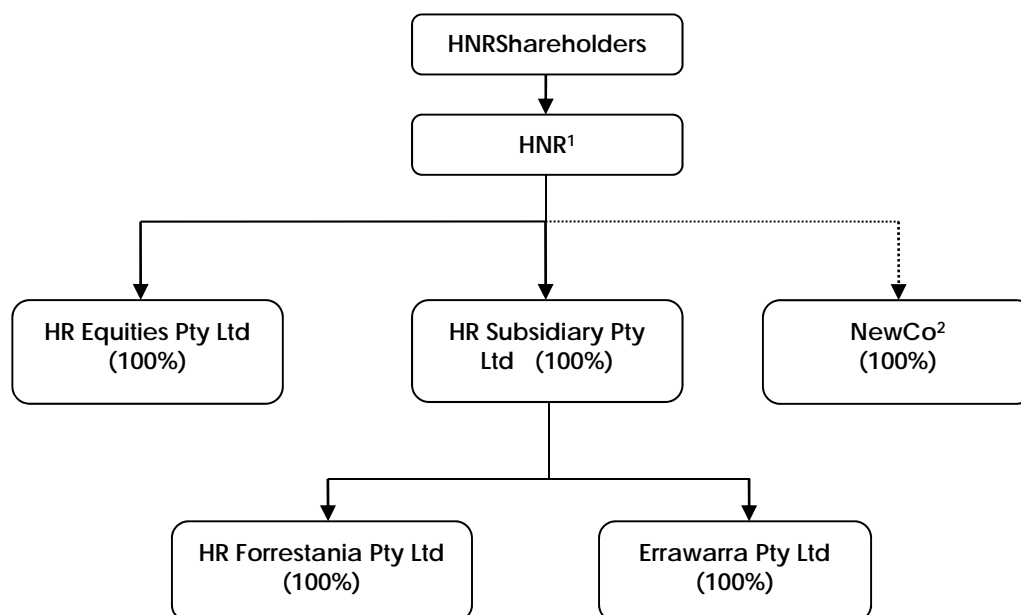
Hannans is seeking to develop NewCo into a new manganese focussed company, in an attempt to extract greater value for the Shareholders assets. Errawarra is the registered holder of a number of tenements in the Shire of the East Pilbara, Western Australia, prospective for manganese and iron. As a result of this Proposal, NewCo will become the new owner of Errawarra and Hannans Shareholders will become the shareholders of NewCo.

To give effect to this intention and subject to the passing of this Resolution 4 by Shareholders:

- (a) Hannans will incorporate NewCo as a wholly owned unlisted public company;
- (b) Errawarra will then transfer to Hannans (or its nominee) a 100% interest in all minerals other than manganese and iron on Errawarra's Tenements.
- (c) Hannans will simultaneously transfer to Errawarra a 100% interest in all iron and manganese rights on the Hannans Tenements located in the Pilbara, Murchison, Peak Hill and East Murchison Mineral Fields and the Shire of East Pilbara, registered at the date of the Annual General Meeting;
- (d) The effect of (b) and (c) above will be that Errawarra will thereafter retain rights to manganese and iron on the Tenements (excluding iron rights on the Jigalong Tenements owned by FerrAus Limited) (**Assets**);
- (e) Hannans will then sell to NewCo all of the shares in Errawarra, in consideration for NewCo issuing to Hannans 131,648,715 NewCo shares;
- (f) Hannans will then in-specie distribute 100% of the NewCo shares to its Shareholders on a pro-rata basis; and

- (g) Hannans will provide NewCo with funding via a convertible note to enable it to continue exploration activities in the short to medium term.

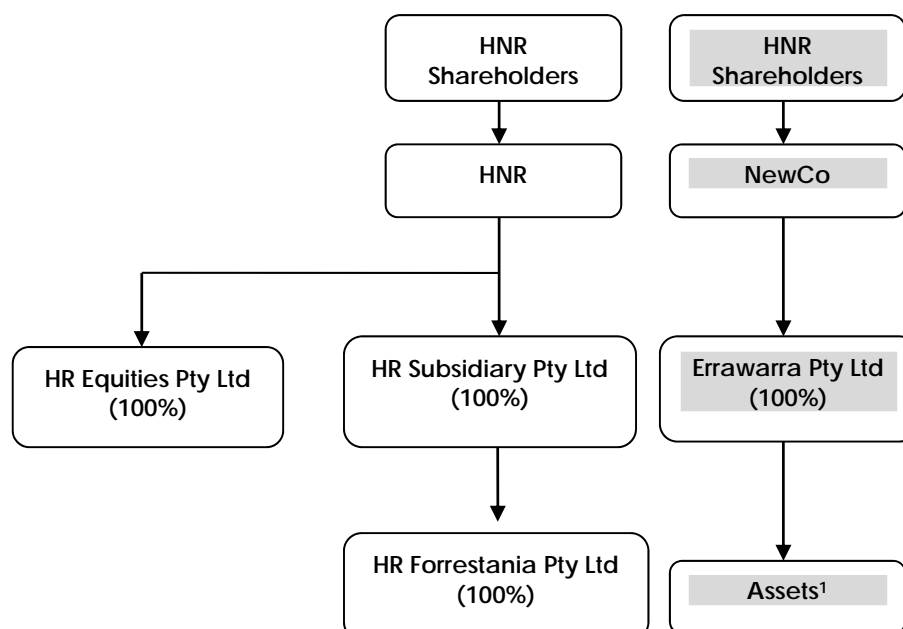
As at the date of this Notice, the structure of the Company is as follows:



1. Hannans Reward Ltd (ASX:HNR)

2. NewCo is yet to be incorporated. Upon Resolution 4 being passed by Shareholders, the Company will incorporate NewCo.

In the event that Resolution 4 is passed and post distribution of NewCo Shares, the structure of the Company and NewCo will be as follows:



1. The reference to "Assets" in the above diagram is a reference to the rights to iron and manganese minerals on the Tenements (excluding iron rights on the Jigalong Tenements which are owned by FerrAus Limited).

### Prior sale of Jigalong Tenement iron rights

Pursuant to a mineral rights acquisition agreement (**Warwick Mineral Rights Agreement**) Errawarra sold the iron rights to the Jigalong Tenements to Warwick

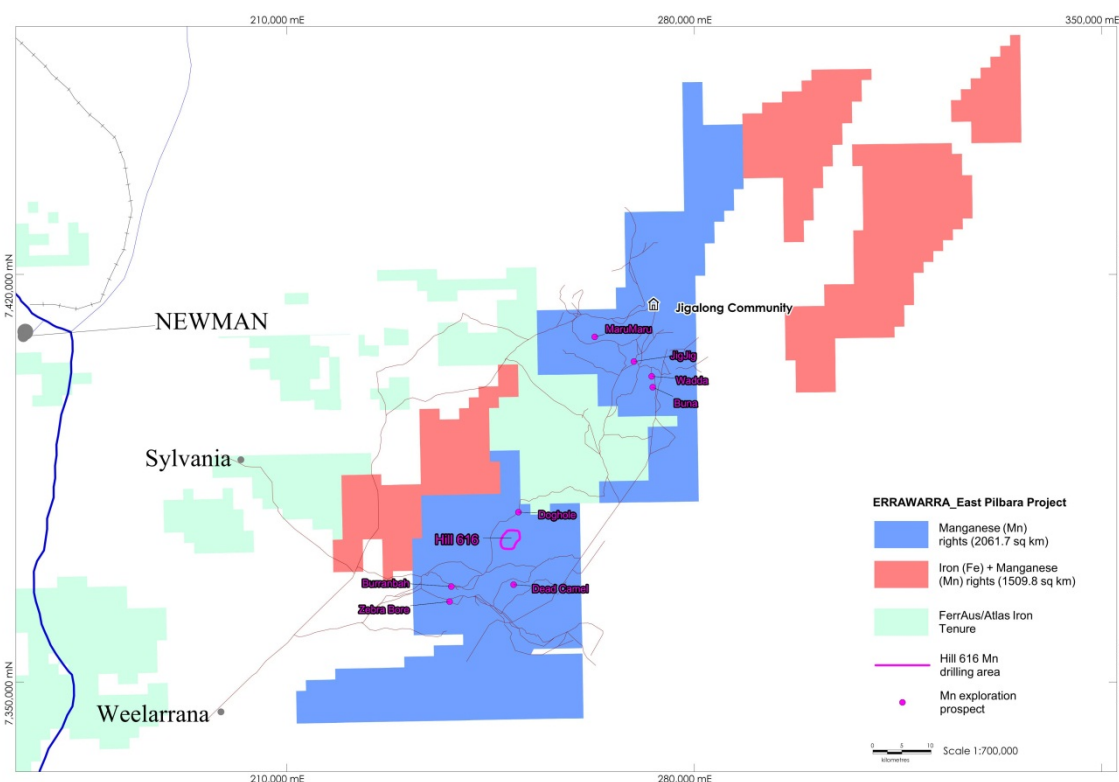
Resources Limited (**Warwick Resources**) which was subsequently acquired by Atlas Iron Limited (**Atlas Iron**). More recently Atlas Iron have acquired FerrAus Limited (**FerrAus**) and Atlas Iron has transferred the iron rights on the Jigalong Tenements to FerrAus. Under the Warwick Mineral Rights Agreement, Errawarra retained the rights to all minerals other than iron on the Jigalong Tenements.

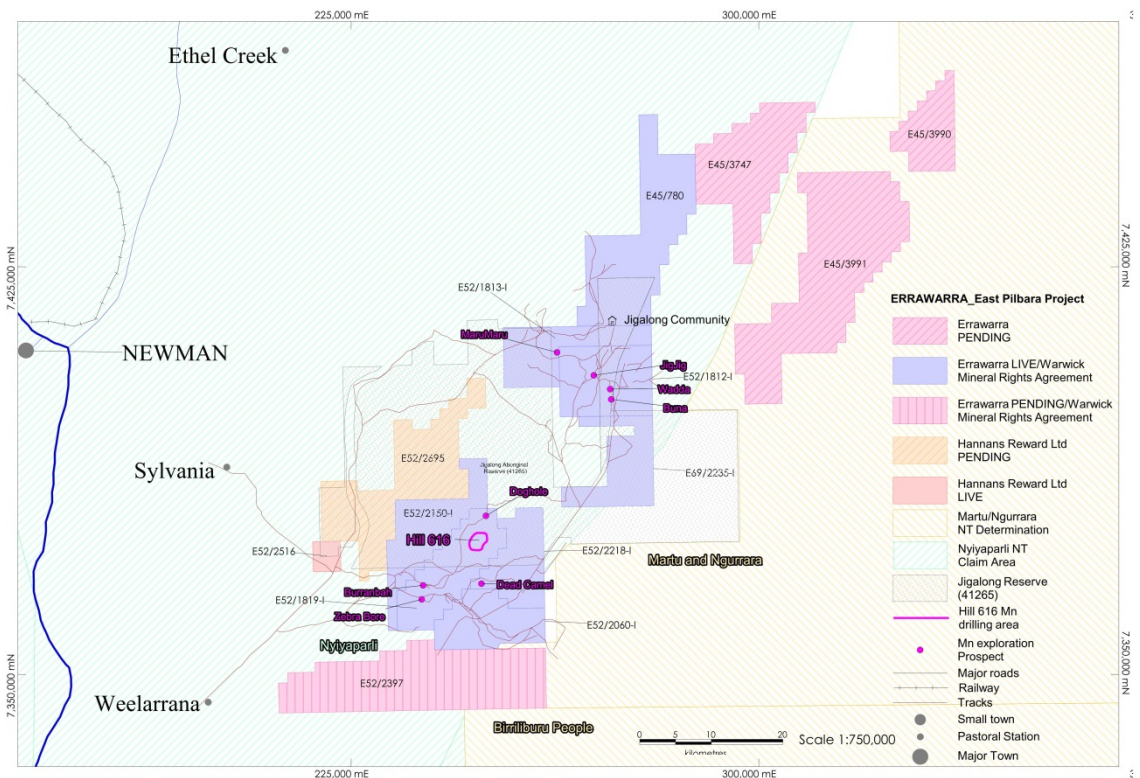
For the avoidance of doubt Errawarra does not own any rights to iron on the Jigalong Tenements.

As part of the Proposal, the right to all minerals other than manganese and iron on the Tenements will be transferred from Errawarra to Hannans (or its nominee) pursuant to the Mineral Rights Agreement. A summary of the proposed terms of the Mineral Rights Agreement is contained in section 4.8(a).

Under the Warwick Mineral Rights Agreement, Atlas Iron is responsible for 50% of the minimum annual expenditure commitment (other than rent and rates) for the Jigalong Tenements endorsed for iron exploration. This means that Atlas Iron is responsible for 50% of the annual expenditure for seven of the nine Jigalong Tenements.

In the event that Resolution 4 is passed, the Errawarra project will be comprised as follows:





## Rationale for the Proposal

The rationale for the Proposal is that Hannans Shareholders are not receiving a sensible valuation for their portfolio of assets; the current market valuation of Hannans' portfolio of projects as at the date of this Notice is zero. This value is calculated by subtracting the net assets of the Company from the Company's market capitalisation. Details of the valuation are set out in Schedule 3.

The Board therefore considers that it is appropriate to incubate the Assets within NewCo to ensure Shareholders receive a more realistic valuation for their assets in the future.

## Realisation of the Proposal

After receipt of Shareholder approval, Hannans proposes to achieve the realisation of shareholder value, via the Proposal, which is to be completed in the following manner:

- (a) Hannans will incorporate NewCo as a wholly owned unlisted public company;
- (b) pursuant to the Mineral Rights Agreement, Errawarra will transfer 100% ownership of non-manganese and non-iron rights on the Tenements to Hannans (or its nominee) and Hannans will transfer manganese and iron rights on the Hannans Tenements to Errawarra;
- (c) Hannans will transfer the shares in Errawarra, a wholly owned subsidiary of Hannans, to NewCo via a share sale agreement (**Share Sale Agreement**). A summary of the proposed terms of the Share Sale Agreement is contained in section 4.8(a)(vii).
- (d) NewCo will issue 131,648,715 of its shares to Hannans as consideration for the acquisition of Errawarra. The result of the issue of NewCo Shares to

Hannans is that the share capital of NewCo will be exactly the same as that of Hannans; and

- (e) Hannans as of 30 November 2011 owes Errawarra the sum of \$1,256,712 (30 June 2010 \$2,023,410) as an intercompany loan (**Loan**). Errawarra will continue exploring the Tenements and all costs will be paid for by Hannans until the Loan is reduced to zero. At this point Hannans will undertake to provide a convertible note facility to NewCo with a value of \$2,500,000 (**Convertible Note**). The terms of the proposed convertible note facility are contained in Schedule 2.

Following the completion of the Proposal, Hannans will undertake the capital reduction and an in specie distribution of NewCo Shares to Hannans Shareholders and then enter into the convertible note.

The incubation of the Assets in NewCo means that Shareholders will still own 100% of the Assets. However, Hannans existing portfolio of projects will be housed in two companies, Hannans and NewCo. Shareholders will own one Hannans Share and one NewCo Share.

Via the Proposal, Hannans is seeking to develop a major iron and manganese business in NewCo. NewCo will be a separate and distinct entity from Hannans. Consequently, following receipt of Shareholder approval pursuant to this Notice and the implementation of the Proposal, Hannans influence over NewCo will be limited to the extent that NewCo may draw down the Loan owed to Errawarra by Hannans and the Convertible Note provided by Hannans to NewCo (both detailed above).

Beyond these intercompany funding arrangements Hannans will not influence the activities of NewCo.

NewCo envisages that funds available under the Loan and Convertible Note will be applied in the manner set out in section 4.2 and Schedule 6.

NewCo's iron and manganese business will be created, initially, via the consolidation of iron and manganese projects in the Shire of the East Pilbara, Western Australia and later through the pursuit of overseas opportunities. The Company believes the demand for steel input materials including manganese will be strong over the long term.

It is envisaged that once NewCo has reached a critical scale, and if the prevailing global economic conditions are sufficiently stable, it will seek to raise additional capital through an initial public offering on the Australian Securities Exchange (**ASX**), the Toronto Stock Exchange (**TSX**) or the Alternative Investment Market of the London Stock Exchange (**AIM**).

However, the Company notes and confirms that there is no guarantee that NewCo will seek a listing on any of the above mentioned exchanges or indeed at all. The Board of NewCo will seek to advance the Assets in the manner which it considers to be in the best interests of NewCo shareholders at the relevant time. This may include, without limitation, conducting an IPO and seeking a listing on an appropriate stock exchange, conducting a private equity raising or seeking a joint venture partner.

The Company believes that the most likely course of action NewCo will take is listing via an IPO on either ASX, TSX or AIM. The Company believes that this course of action will offer NewCo the best opportunity to raise the funds required to advance exploration activities on the Tenements, assess any further mining/exploration asset acquisitions and fund its ongoing operational

expenditure. This is the Company's preferred course of action as the Board feels it will be the best means of realising the true value of the Assets, along with being the most reliable source of raising capital. This course of action will be entirely dependent upon the stability of the global economic environment in the short to medium term.

In lieu of undertaking an IPO the Company will seek to raise capital via a private equity raising. The Company believes that exploration of the Assets is sufficiently advanced to attract capital investment from private parties. This course of action would constitute a short term funding strategy, with the Company possibly seeking to undertake an IPO following any private equity raising in order to better realise the value of the Assets. Again, this course of action will be entirely dependent upon the stability of the global economic environment in the short to medium term.

In the event that an IPO or private equity raising are not considered by the Board to be viable options for the furtherance of NewCo and the Assets, the Company may seek a joint venture partner/s to assist in funding further exploration and mining of the Assets in the short to medium term. The Company believes that exploration of the Assets is sufficiently advanced to attract capital investment from a joint venture partner/s. Again, the Company believes that undertaking an IPO is the best way to realise the value of the Assets and views any joint venture as an intermediate funding strategy.

In the event that an IPO, private equity raising or joint venture arrangement are not possible, the Company will consider sale of the Assets and apply the proceeds from any sale to investment in new resource development opportunities in Australia and/or overseas.

The Company re-iterates that any decision as to future matters will be made at the relevant time bearing in mind the circumstances that exist at that time.

#### **4.2 Application of funds following approval of the Proposal**

Following receipt of Shareholder approval in relation to the Proposal, the Company envisages that NewCo will apply existing sources of funds in the following manner:

(a) Rents and rates payable on the Tenements

Pursuant to the Warwick Mineral Rights Agreement, NewCo (as the parent company of Errawarra) will be required to pay 50% of the minimum annual expenditure commitments on the Tenements. For the 2012 period, this will amount to \$323,750. Pursuant to the Mineral Rights Agreement, Hannans will be liable for 25% of those annual expenditure commitments on the basis that it holds rights to explore for gold and precious metals on the Tenements. Therefore, the minimum annual expenditure commitment for NewCo in relation to the Tenements for 2012 will be \$161,875.

Pursuant to the Mineral Rights Agreement, Hannans will contribute to 50% of the rents and rates payable on the Tenements. As shown below, the rents and rates payable by NewCo for 2012 will be \$61,249.

As detailed at section 4.8(a) below, pursuant to the Mineral Rights Agreement, Hannans will be obliged to pay its portion of the annual expenditure commitments, rates and rents until such time as its interest in the Tenements is relinquished.

(b) Exploration Expenditure<sup>1</sup>

	2012	
	\$	%
Geological Activities	74,406	9.0
Geochemical Activities	89,287	10.8
Drilling	252,980	30.6
Field Supplies	53,572	6.5
Field Camp Activities	29,762	3.6
Heritage Surveys	14,881	1.8
Rent & Rates <sup>2</sup>	61,249	7.4
Office & Administration	250,000	30.3
<b>Total</b>	<b>826,138</b>	<b>100.0</b>

1. All figures contained in the above table, other than Rates and Rents, are estimated expenditure figures and these figures may be subject to change.
2. Actual figures calculated based upon the terms of the Warwick Mineral Rights Agreement and Mineral Rights Agreement.

The Company currently has access to sufficient funds (through the Loan and the Convertible Note) to meet its proposed expenditure requirements for 2012.

#### 4.3 NewCo's pro forma financial position upon completion of the Proposal

Schedule 6 outlines the pro forma statement of financial position of NewCo following completion of the Proposal.

#### 4.4 Advantages and Disadvantages of the Proposal

The principal advantages and disadvantages to Shareholders of the Proposal are as follows:

(a) **Advantages**

- (i) All Shareholders retain their interest in the Assets through their individual pro rata shareholdings in NewCo.
- (ii) All Shareholders retain their current percentage ownership interest in the capital of the Company.
- (iii) The Directors believe that the market is not attributing any value to the Assets. A new company primarily dedicated to the Assets may be able to extract additional value from them. The spin-off of the Assets should allow for a better focus on the advancement of the Assets and should enable a more transparent market value to be placed on the Assets, whilst the



Company continues to develop its remaining projects. The spin-off of the Assets from the Company will mean that both the Company and NewCo will have a primary focus that will not be affected by events or occurrences relating to other projects.

- (iv) Future capital raising should be more achievable by each individual entity as the focus of the funding will be on either specifically, the Company's remaining assets or the Assets transferred to NewCo.
- (v) The spin-off provides Shareholders with greater flexibility in respect of their investment portfolio. Following the spin-off Shareholders should be able to better manage their levels of exposure to each project. That is, Shareholders will hold the Company's Shares and separate NewCo Shares following the in specie distribution and, therefore, will be able to decide, on an individual basis once the Assets are spun-off, if they wish to hold or sell their interest in NewCo and/or the Company.

(b) **Disadvantages**

- (i) Unlike the market for the Hannans Shares currently held by Shareholders, there is likely to be no liquid market to facilitate the trading of the NewCo Shares for a period of time. For this reason, it may also be difficult to value the NewCo Shares after the implementation of the Proposal (refer to Section 4.19 below for further details).
- (ii) There is no guarantee that the NewCo Shares will increase in value.
- (iii) Following the Loan and Convertible Note facilities (detailed above) being exhausted NewCo will be reliant upon external third parties to obtain any future funding for its operations.

As outlined above, NewCo will seek to raise funds to meet its future administration and exploration expenses via one or more of the following: an initial public offer, private equity raising, joint venture arrangement or sale of the Assets. Any funds raised will be done so on the usual commercial terms applicable to the type of funding sought.

There are a number of potential disadvantages arising from NewCo seeking further funding. These include, but are not limited to:

- (A) dilution of NewCo Shareholders shareholding via either an initial public offer or private equity raising;
- (B) potential change in control via a private equity raising or joint venture arrangement;
- (C) diminished value for NewCo Shareholders upon the basis of decreased revenue flowing from a joint venture arrangement; and
- (D) loss of highly prospective exploration Assets upon the basis of the NewCo selling some or all of its interests in the Tenements.

However, as set out in sections 4.1 and 4.2 above, NewCo currently has funding in-excess of its proposed expenditure requirements for the 2012 period.

- (iv) The Convertible Note proposed to be issued to Hannans by NewCo has an interest rate of 12.5% per annum (refer to Schedule 2 below). In the event that NewCo exhausts the Convertible Note and NewCo seeks a loan facility from an unrelated entity it is likely that the interest rate payable on the loan facility will be in-excess of that currently payable on the convertible note. This will increase the costs of NewCo undertaking its proposed activities.
- (v) Shareholders may incur additional transaction costs if they wish to dispose of the new investment in NewCo (i.e. brokerage).
- (vi) There is a taxation consequence in respect of the distribution of the NewCo Shares to the Shareholders. Details of the general taxation effect of the transaction are set out in Section 4.20 of this Explanatory Statement.
- (vii) Retaining the Assets may diminish the ability of the Company to further develop its remaining assets to the extent considered necessary or desirable by the Directors.
- (viii) The costs relating to the creation of NewCo will include, but are not limited to:
  - (A) costs of incorporation of NewCo;
  - (B) ongoing administrative and office expenses required for the day to day running of NewCo. These expenses will be shared between the Company and NewCo as they will be sharing office space and administrative support;
  - (C) legal fees incurred in the preparation of agreements giving effect to the Proposal; and
  - (D) tax advice obtained in relation to taxation consequences of the Proposal.

Fees will not be paid to NewCo's directors until capital raising activities have been undertaken. Following the completion of capital raising activities NewCo's directors will be remunerated for work undertaken in relation to the capital raising via the issue of performance shares (subject to approval of NewCo's Shareholders at a general meeting). NewCo's directors will thereafter be remunerated on an annual fee basis based on their position as executive or non-executive directors and reflecting their respective experience.

As set out in section 4.15 below the board of NewCo will be different to that of Hannans. Following incorporation of NewCo, Hannans will assume no responsibilities for the remuneration of the board of NewCo, which will be responsible for all of its own exploration, management and administrations expenses (including directors' fees).

#### **4.5 Failure to achieve the Proposal**

In the event NewCo fails to, or is unable to, list, the Directors will fund the exploration of the Assets via drawing down funds owed by Hannans to Errawarra pursuant to Loan, or may seek to advance the Assets by other means, as set out at 4.1 above. This Loan is detailed in section 4.1 above. The value of the Loan is currently \$1,256,712.

Alternatively, NewCo may seek to fund the exploration of the Assets via either a private equity capital raising or entering into a joint venture arrangement with third parties. For further details on alternative sources of funding refer to section 4.1 above.

#### **4.6 Background of the Assets**

The 3,500 km<sup>2</sup> Jigalong Project is located 5kms from Consolidated Minerals Ltd's Coobina chromite mine, 40km south of Hancock Prospecting Pty Ltd's Nicholas Downs manganese mine and 150km south of Consolidated Minerals Ltd's Woodie Woodie manganese mine.

The Jigalong Project was first targeted for iron mineralisation during 2007, and subsequent exploration during 2008 resulted in the discovery of a significant resource of high grade hematite rich iron mineralization at the Mijimiji Prospect. The rights to the iron mineralisation were sold to Warwick Resources in 2009 in consideration of shares in Warwick Resources and cash. Warwick Resources was subsequently taken over by Atlas Iron Ltd. The Tenements cover a strike extent of approximately 150 km's and includes prospective stratigraphy which is host to manganese mineralisation throughout the region (Balfour Shale). Ongoing exploration within the Jigalong Project identified Zinc and Manganese mineralisation during 2008.

The manganese mineralisation outlined to date, within the Jigalong Project area, is similar in deposit style to that which is currently being mined at Nicholas Downs by Hancock Prospecting further to the north.

Significant manganese occurrences have already been identified at the Hill 616 prospect (up to 39.9% Mn in rock chip samples) and the Dead Camel prospect (up to 39.7% Mn in rock chip samples). In addition to these occurrences there are numerous other manganese prospects within the Jigalong Project area that require ongoing exploration.

Exploration completed this field season has included mapping, reverse circulation drilling and diamond drilling at the Hill 616 and Dead Camel prospects. The drilling has been designed to outline the extent of the mineralisation at both these prospects as well collect samples for metallurgical test work. The Company aims to be in a position to lodge a mineralisation report in relation to Hill 616 as early as possible in 2012.

#### **Competent Persons Statement**

The information in this document that relates to exploration results is based on information compiled by Mr Donald Huntly, Exploration Manager, who is a Full Member of the Australian Institute of Geoscientists and a Registered Professional Geoscientist. Mr Huntly is a full-time employee of Hannans. Mr Huntly has sufficient experience, which is relevant to the style of mineralisation and types of deposits under consideration and to the activity which has been undertaken to qualify as a Competent Person as defined by the 2004 edition of the "Australian Code for the Reporting of Exploration Results, Mineral Resources and Ore

Reserves'. Mr Huntly consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

### **Native Title Access**

Tenements E52/2397 and E45/3747 are subject to native title access agreements. The Company is progressing these discussions for access in accordance with the requirements of the Department of Mines and Petroleum.

Hannans and Errawarra are unable to make a definitive statement as to when the native title access discussions will be finalised as the process of consultation and negotiation is still in progress. The native title access process has been completed in relation to the remaining Tenements.

### **4.7 Indicative Timetable**

Subject to the ASX Listing Rules and Corporations Act requirements, the Company anticipates completion of the Proposal in accordance with the following timetable (which is subject to change by the Company):

Company announces the Proposal	27 June 2011
Cut off for lodging proxy form for Annual General Meeting	28 January 2012
Snapshot date for eligibility to vote at the Annual General Meeting	29 January 2012
Annual General Meeting to approve the in-specie distribution of NewCo Shares	31 January 2012
ASX informed of Shareholder approvals	31 January 2012
Last day for trading in pre-organised securities	1 February 2012
Trading in the re-organised securities on an "ex return of capital" basis	2 February 2012
Record Date	8 February 2012
In specie distribution to Shareholders of Errawarra Shares	9 February 2012
Company issues holding statements to Shareholders	9 February 2012
Despatch Date	13 February 2012

\*These dates are indicative only and may change

### **4.8 Material Contracts**

#### **(a) Mineral Rights Agreement**

Following receipt of Shareholder approval pursuant to Resolution 4 of this Notice, NewCo, Errawarra and Hannans (or its nominee) will enter into the Mineral Rights Agreement pursuant to which Errawarra will transfer 100% ownership of non-manganese rights on the Errawarra Tenements to Hannans (or its nominee) and Hannans will transfer manganese and iron rights on the Hannans Tenements to Errawarra

**(Other Minerals Rights)**. The following are the proposed material terms of the Mineral Rights Agreement:

- (i) **(Consideration)**: There will be nominal consideration for the transfer of the Other Minerals Rights as it has been determined that they have no value.
- (ii) **(Rents and Rates)**: Hannans will be responsible for payment of 50% of the rents and rate expenditure payable by NewCo on the Tenements for the period from execution until Hannans relinquishes its title to the Tenements;
- (iii) **(Annual Expenditure Commitments)**: Hannans will be responsible for payment of 50% of the annual expenditure commitments payable by NewCo on the Tenements for the period from execution until Hannans relinquishes its title to the Tenements;
- (iv) **(Representations and Warranties)**: the Mineral Rights Agreement will contain representations and warranties standard for an agreement of its type.
- (v) **(Indemnity)**: Errawarra will indemnify and keep indemnified Hannans (or its nominee) against all loss, damage and costs suffered by the Company by reason of the representations or warranties to be included in the Mineral Rights Agreement proving to be incorrect.
- (vi) **(Co-existence Rights)**: as the manganese and iron rights owned by Errawarra and the residual minerals rights will be held concurrently. NewCo, Errawarra and Hannans will confer with one another in relation to the exercise of those rights and, acting reasonably, will agree upon the manner of their exercise in order to minimise interference with one another's operations. Where a negotiated outcome cannot be reached by the parties acting in good faith and with best endeavours, then the exploration and mining activities and operations of Errawarra will take priority over the activities by Hannans.
- (vii) **(Future Acts)**: All tenements applied for or registered in the name of Errawarra or NewCo prior to 30 June 2013 within a 500km radius of the Jigalong Aboriginal Community will reserve all non-manganese and non-iron rights for the benefit of Hannans (or its nominee) unless there is a change of control in Hannans or the relevant nominee. All tenements applied for or registered in the name of Hannans (or any of its wholly owned subsidiaries) prior to 30 June 2013 within a 500km radius of the Jigalong Aboriginal Community will reserve all manganese and iron rights for the benefit of NewCo and or Errawarra unless there is a change of control in either NewCo or Errawarra.

(b) Share Sale Agreement

Following receipt of Shareholder approval pursuant to Resolution 4 of this Notice, Hannans will enter into a Share Sale Agreement under which it will sell 100% of the issued share capital in Errawarra to NewCo. The following are the proposed material terms of the Share Sale Agreement:

- (i) (**Consideration**): The consideration payable by NewCo for the acquisition will be the issue of 131,648,715 NewCo Shares to the Company.
- (ii) (**Settlement**): Settlement of the Sale Agreement will take place 5 Business Days after the last of the conditions precedent is satisfied or waived by the parties (**Settlement Date**).
- (iii) (**Warranties**): Hannans will provide warranties to NewCo which are standard in such agreements relating to the Assets, including that the Assets will be free from encumbrances (other than as previously advised to NewCo) and the Tenements the subject of the Proposal will be in good standing and will not liable be to forfeiture.
- (iv) (**Indemnity**): Hannans will indemnify NewCo against any loss suffered or incurred by NewCo in connection with a breach of the warranties.
- (v) (**Representations and Warranties**): the Share Sale Agreement will contain representations and warranties standard for such an agreement.

#### 4.9 Pro-Forma Statement of Financial Position

Set out in Schedule 1 is a statement of financial position of the Company as at 30 November 2011, together with the pro-forma statement of financial position following completion of the Proposal (and following the transfer of the Assets).

Set out in Schedule 6 is a statement of financial position of NewCo as at 30 November 2011, together with the pro-forma statement of financial position following completion of the Proposal (and following the transfer of the Assets).

#### 4.10 Disclosure to ASX

Hannans, as a company whose Shares are quoted on the stock market of ASX, is a disclosing entity and, as such, is subject to regular reporting and disclosure obligations. Copies of documents lodged in relation to Hannans may be obtained for a fee from, or inspected at, an office of the ASIC.

#### 4.11 Risk factors

On successful completion of the Proposal, Shareholders will become shareholders in NewCo and should be aware of the general and specific risk factors which may affect NewCo and the value of its securities. These risk factors are outlined below.

The risk factors have been reviewed by each of the boards of directors of the Company and NewCo and are considered applicable.

- (a) Specific Risk Factors

##### ***Future Capital Needs and Funding***

Further funding will be required by NewCo to support its future activities and operations. Initial funding will be provided by repayment of the Loan by the Company and provision of the Convertible Note (detailed above). NewCo's ability to raise further capital (equity or debt) within

an acceptable time, of sufficient quantum and on terms acceptable to NewCo will vary according to a number of factors, including:

- (i) prospectively of new projects;
- (ii) the results of exploration and subsequent feasibility studies;
- (iii) sharemarket and industry conditions; and
- (iv) the price of the relevant commodities.

There can be no assurance that such funding will be available on satisfactory terms or at all.

Any inability to obtain finance will adversely affect business and financial condition of NewCo and, consequently, its performance. Any additional equity financing, joint venture arrangements or sale of Assets may have the following effects:

- (i) dilution of NewCo Shareholders shareholding via equity financing;
- (ii) potential change in control via equity financing or joint venture arrangement;
- (iii) diminished value for NewCo Shareholders upon the basis of decreased revenue flowing from a joint venture arrangement; and
- (iv) loss of highly prospective exploration Assets upon the basis of the NewCo selling some or all of its interests in the Tenements.

However, as set out in sections 4.1 and 4.2 above, NewCo currently has funding in-excess of its proposed expenditure requirements for the 2012 period.

#### ***Native Title and Title Risks***

Interests in tenements in Australia are governed by the respective State legislation and are evidenced by the granting of licences or leases. Each licence or lease is for a specific term and carries with it an annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, NewCo could lose its interest in tenements if licence conditions are not met by the holder of the tenement.

It is also possible that, in relation to tenements in which NewCo has an interest or will in the future acquire such an interest, there may be areas over which legitimate common law native title rights of Aboriginal Australians exist. If native title rights to exist, the ability of NewCo to gain access to tenements (through obtaining the consent of the relevant land owner), or to progress from the exploration phase to the development and mining phases of operations may be affected.

As stated in section 4.6 above, tenements E52/2397 and E45/3747 are the subject of on-going native title access agreements. These discussions are currently in progress. There is a risk that the Company may not be able to reach agreement with the respective native title claimants. Failure to reach agreement may result in the Company

being precluded from undertaking exploration and mining activities on the relevant Tenements. This will have the effect of devaluing the Assets and restricting the Company's proposed exploration activities.

#### ***Failure of NewCo to list on an appropriate stock exchange***

There is a risk that NewCo may not be able to list on an appropriate stock exchange or the Directors may deem it is inappropriate for NewCo to seek listing. The current downturn in international equity markets and general instability and uncertainty in the global economic environment means that equity funding may be difficult to obtain and the Directors may form the view that any fundraising activities should be deferred until the global economic environment stabilises. Further, the Directors may deem that listing NewCo may not be appropriate and that other forms of funding should be sought. Refer to section 4.1 for further details of this risk.

#### ***Hannans not retaining manganese assets***

Under the Proposal, Hannans, or its subsidiaries, will be transferring all of the manganese and iron rights they currently hold on the Tenements, to NewCo. Accordingly, Shareholders need to be aware that any investment made in Hannans upon the basis of manganese and iron rights holdings on the Tenements should be undertaken in the knowledge that Hannans, or its subsidiaries, will not be holding those assets. However, investors in Hannans who hold Shares on the Record Date will receive an equivalent share in NewCo.

#### ***Coexistence risk***

Upon the basis of the proposed terms and conditions of the Mineral Rights Agreement (section 4.8(a) above), the Company will have contractual rights and obligations in relation to the co-existence, exploration and potentially mining on the Tenements. The Company will be required to confer with Errawarra regarding its proposed exploration programmes on the Tenements to ensure that they do not conflict.

In the event that the parties wish to conduct activities on the same target area, the prospective exploration and mining activities and operations of Errawarra will take priority over the prospective exploration and mining activities by the Company.

There is a risk that the Company may not be able to complete all of its preferred exploration programmes in its preferred timetable or at all, as a result of a conflict with the exploration activities of Errawarra.

#### ***Currently No Market***

There is currently no public market for the NewCo Shares, the price of NewCo Shares will be subject to uncertainty and there can be no assurance that an active market for the NewCo Shares will develop or continue following the Proposal.

#### (b) General Risk Factors

The following risk factors are general and apply similarly to both the Company and NewCo.



### ***Exploration Success***

Shareholders should understand that mineral exploration and development are speculative undertakings.

There can be no assurance that NewCo's exploration on the Tenements or any other exploration properties that may be acquired, will result in the discovery of economic mineral deposits. Even if an apparently viable mineralisation is identified, there is no guarantee that it can be economically exploited.

### ***Development and Operating Risks***

Development of any mineral deposit will require obtaining the necessary licences or clearances from the necessary authorities which may require conditions to be satisfied and/or the exercise of discretion by such authorities. It may or may not be possible for such conditions to be satisfied.

The operations of NewCo may be affected by various factors, including without limitation, failure to locate or identify mineral deposits, failure to achieve predicted grades in exploration and mining, difficulties in commissioning and operating plant and equipment, mechanical failure or plant breakdown, unanticipated metallurgical problems which may affect extraction costs, adverse weather conditions, industrial and environmental accidents, industrial disputes and unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment.

NewCo does not have any operating history, although it should be noted that NewCo's directors have among them significant corporate experience. No assurances can be given that NewCo will achieve commercial viability through the successful exploration and/or mining of the tenements.

### ***Reserves and Resource Estimates***

Reserve and resource estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource and reserve estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. As further information becomes available through additional exploration and development of NewCo, the estimates may change. This may result in alterations to development and production plans which may, in turn, adversely affect NewCo's operations.

### ***Commodity Price Volatility and Exchange Rate Risks***

To the extent that NewCo is involved in mineral production, the revenue derived through the sale of commodities may expose the potential income of NewCo to commodity price and exchange rate risks. Commodity prices fluctuate and are affected by many factors beyond the control of NewCo. Such factors include supply and demand fluctuations for precious and base metals, technological advancements, forward selling activities and other macro-economic factors.

Furthermore, international prices of various commodities including manganese is denominated in United States dollars, whereas the income and expenditure of NewCo are and will be taken to account in Australian currency, exposing NewCo to the fluctuations and volatility of the rate of exchange between the United States dollar and the Australian dollar as determined in international markets.

### ***Environmental Risks***

The operations and proposed activities of NewCo are subject to State and Federal laws and regulations concerning the environment. As with most exploration projects and production projects and mining operations, NewCo's activities are expected to have an impact on the environment, particularly if advanced exploration or mine development proceeds. It is NewCo's intention to conduct its activities to the highest standard of environmental obligation, including compliance with all environmental laws. Nevertheless, there are certain risks inherent in NewCo's activities which could subject NewCo to extensive liability.

### ***Share Market Conditions and Security Investment***

The market price of shares can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities and in particular resource stocks. Neither NewCo nor the directors of NewCo warrant the future performance of NewCo or any return on investment in NewCo.

Applicants should be aware that there are risks associated with any securities investment. Securities listed on the stock market, and in particular securities of mining and exploration companies have experience extreme price and volume fluctuations and that have often been unrelated to the operating performance of such companies. These factors may materially affect the market price of the shares regardless of the company's performance.

Mineral exploration and mining are speculative operations that may be hampered by circumstances beyond the control of NewCo. Profitability depends on successful exploration and/or acquisition of reserves, design and construction of efficient processing facilities, competent operation and management and proficient financial management.

Exploration by itself is a speculative endeavour, while mining operations can be hampered by force majeure circumstances and cost overruns for unforeseen events.

### ***Competition***

NewCo will be competing with other companies in the resource sector many of which will have access to greater resources than NewCo and may be in a better position to compete for future business opportunities. There can be no assurance that NewCo can compete effectively with these companies.

### ***Economic Risks***

There is a risk that the price of NewCo Shares and returns to shareholders may be affected by changes in:

- (i) local and world economic conditions;

- (ii) interest rates;
- (iii) levels of tax, taxation law and accounting practice;
- (iv) government legislation or intervention; and
- (v) inflation or inflationary expectations.

#### ***Insurance***

Insurance against all risks associated with mineral exploration production is not always available or affordable. NewCo will maintain insurance where it is considered appropriate for its needs however it will not be insured against all risks either because appropriate cover is not available or because the directors consider the required premiums to be excessive having regard to the benefits that would accrue.

#### ***Reliance on Key Personnel***

The loss of any one or more of the directors could have adverse impact on the performance and prospects of NewCo.

### **4.12 Information on Hannans following completion of the Proposal**

On completion of the equal reduction of capital, the Company will focus on its remaining projects, a summary of which is as follows:

#### ***Forrestania Project***

The Company's Forrestania Project, comprising ground in joint venture and wholly owned tenements, is located within the world-renowned Forrestania nickel belt and adjoins ground owned by major mining companies Western Areas NL and Kagara Ltd.

Since 2009, the Company has significantly increased its tenement holding over the northern extension of the prospective stratigraphy which is host to the Flying Fox and Spotted Quoll deposits owned by Western Areas NL. The Company has divided the project into the three different prospects, being Stormbreaker (180km<sup>2</sup>), Skeleton Rocks (820km<sup>2</sup>) and Lucy Rocks (155km<sup>2</sup>).

The Stormbreaker, Lucy Rocks and Skeleton Rocks are all at different stages in the exploration lifecycle. Stormbreaker is the most advanced in terms of the geochemical and geophysical data sets that have been collected and the Company's resulting understanding of the geology. Stormbreaker is also immediately along strike from existing high grade nickel sulphide mines and therefore the focus of the Company's efforts have been in this corridor. The Lucy Rocks prospect contains the conceptual target referred to as Beautiful Sunday West. The aim of the current exploration activities is to determine whether the unit hosting Western Area NL's Beautiful Sunday nickel deposit folds to the west and continues in a southern direction through the Lucy Rocks prospect. The Skeleton Rocks prospect trends north north-west towards the Edna May gold project. This may be important because the gold project is known to have nickel sulphide mineralisation in the ultramafic units proximal to the gold.

The commissioning of the Spotted Quoll nickel deposit and the discovery of extensions to the Flying Fox and New Morning nickel deposit by Western Areas NL highlights the opportunity that remains for the discovery of high grade nickel sulphide deposits within the Forrestania region.

Exploration conducted during the year has confirmed that the northern extensions of the Forresteria greenstone belt include a number of ultramafic units which have the potential to host nickel sulphides. The exploration activities have primarily involved ground based geophysical surveys (fixed loop and moving loop TEM), soil sampling and reverse circulation drilling. These activities have advanced the geological understanding in the area and have helped to resolve a number of technical challenges encountered as part of the exploration process. This primarily involves exploring for nickel sulphides within a highly conductive sequence of rock types.

The Forresteria Project also has prospectivity for iron mineralisation. As released to ASX on 30 September 2011, Hannans has advanced exploration for hematite rich iron mineralisation within the Forresteria Project (Stormbreaker prospect). Rock chip sampling and XRF analysis of surface samples has identified a corridor of hematite rich iron material which covers a strike extent of ~5.4 km's. The Stormbreaker prospect includes two sub parallel BIF units with hematite rich material on top of the units. The hematite rich iron horizons will be drill tested later in 2012. The iron prospect at Stormbreaker is very similar in mineralisation style and geological setting to the Cazaly Resources – Parker Range Iron project to the north (total mineral resource of 35.1 Mt @ 55.9% Fe)<sup>1</sup>.

### ***Lake Johnston Project***

The Lake Johnston Project is located approximately 25km south-east of Russian mining giant Norilsk's Maggie Hays and Emily Ann nickel sulphide mines. Tenement applications granted in 2010 have significantly extended the strike extent of prospective stratigraphy for both gold and nickel sulphides.

The Company views the Lake Johnston project as a very exciting gold exploration project.

There are no historical high grade gold operations in the Lake Johnston belt however there is significant gold in drilling. One reason for this lack of development is the fragmented nature of ownership historically and the focus on nickel sulphide exploration in the belt. The Company has consolidated the ground position most prospective for gold mineralisation and has taken forward systematic exploration programs to generate sizeable gold targets.

Exploration activities and a data review completed by Hannans have identified gold in soil anomalies over a strike extent of 15 km's. High grade gold mineralisation has been identified in rock chip sampling at the Ernest Prospect, in RC percussion drilling at the Hardcore Prospect and in RAB drilling at the Richard Prospect.

Future exploration activities for gold will be focused within the eastern corridor and will include additional geochemical sampling, gravity surveys, RAB drilling and RC percussion drilling. RC drilling at the Hardcore Prospect recommenced in October 2010.

The aim of the current exploration activities is to identify the structure that potentially links these three prospects through the use of gravity surveys, geochemical sampling and deep drilling. If the Company is successful in achieving this aim and proving the existence of gold mineralisation along this 15km the project will become extremely significant.

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<sup>1</sup> The total mineral resource consists of a measured mineral resource of 24.4 Mt @ 56% Fe; an indicated mineral resource of 7.7 Mt @ 56.6% Fe; and an inferred mineral resource of 3.1 Mt @ 54% Fe.

Nickel sulphide exploration will continue along the southern extension of the stratigraphy which is host to the Maggie Hayes and Emily Anne deposits. Initial exploration will include surface TEM surveys, follow up drilling will be carried out over any anomalies that are generated from the surveys.

### ***Queen Victoria Rocks Project***

Historically nearly all of the nickel exploration completed by the Company has focused on the small area (less than 5km<sup>2</sup>) known as the Spargos Prospect.

Hannans previously completed a large helicopter borne geophysical survey (VTEM) that generated a number of anomalies that still require validation and follow up exploration. Thereafter Vale Exploration Australia completed a surface TEM survey, three RC percussion holes and three diamond holes north of the Spargos prospect area as part of a joint venture agreement with the Company. Vale has since returned the project to the Company who have maintained 100% equity in the project.

The Company has subsequently completed surface TEM surveys at the Benari Prospect, RC drill testing of the Benari targets, processing and interpretation of the surface geochemical data for the entire project, additional surface TEM surveys within the Spargos prospect area, detailed airborne geophysical surveys over the Spargos Prospect and is now preparing to test deep targets within Spargos in 2012.

#### **4.13 Effect of Proposed Equal Capital Reduction on the Company**

A pro-forma statement of financial position of the Company is contained in Schedule 1 which shows the financial impact of the capital reduction on the Company and the financial impact of the Proposal (the subject of Resolution 4) on the Company.

#### **4.14 Effect of Proposed Equal Reduction on Shareholders in the Company**

Subject to:

- (a) Shareholders approving the equal reduction of capital and the in specie distribution pursuant to Resolution 4; and
- (b) completion of the Share Sale Agreement and Mineral Rights Agreement,

Hannans will then undertake the pro-rata in specie distribution of its shareholding in NewCo to Shareholders. Shareholders will be entitled to receive 1 NewCo Share for every 1 Share held on the Record Date (rounded up to the nearest whole number) pursuant to the equal reduction of capital.

In the event Shareholder approval of Resolution 4 is not obtained or the Share Sale Agreement or Mineral Rights Agreement, is not completed within a reasonable time for whatever reason, the transaction will not proceed and the distribution of NewCo Shares to Shareholders will not occur.

The proposed timetable for the transaction is set out in Section 4.7 of this Explanatory Statement.

### ***What will you receive?***

If the Proposal is implemented, eligible Shareholders (being Shareholders whose address in Hannans' share register as shown on the Record Date is in Australia or

New Zealand) will receive approximately 1 NewCo Share for every 1 Share in the Company held at the Record Date.

The ratio of NewCo Shares distributed may be affected by the Company's Options being converted between now and the Record Date. This will have the effect of lowering the number of NewCo Shares distributed for each Share held in the Company.

Shareholders are not required to contribute any payment for the NewCo Shares which they are entitled to receive under the Proposal.

***What is the impact on your shareholding in the Company?***

The number of Shares in Hannans that you hold will not change as a result of the Proposal.

If the Proposal is implemented, the value of your Shares in the Company may be less than the value of Company's Shares held prior to the Proposal being implemented. The size of any decrease cannot be predicted and will be dependent on the value the ascribed to the Assets, which is presently zero.

***Do you have to do anything to receive your NewCo Shares?***

If the Proposal proceeds, you will automatically receive the NewCo Shares you are entitled to receive (unless you are an ineligible overseas Shareholder, in which case you will receive the proceeds), even if you vote against the Proposal or do not vote at all.

***Will I be able to trade my NewCo Shares?***

If the Proposal is approved by Shareholders and is implemented, a holder of NewCo Shares will be able to sell their NewCo Shares in the future.

However, there may be a limited liquid market for the NewCo Shares as these Shares will not initially be listed on ASX. Please refer to Section 4.19 for further details on this risk.

***What are the taxation implications of the Proposal?***

A general guide to the taxation implications of the Proposal is set out in Section 4.22 of this document. The description is expressed in terms of the Proposal and is not intended to provide taxation advice in respect of particular circumstances of any Shareholder. Shareholders should obtain professional advice as to the taxation consequences of the Proposal in their specific circumstances.

**4.15 NewCo Board**

Subject to Resolution 4 being passed by Shareholders, the initial NewCo Board of Directors will comprise:

**DAMIAN HICKS**  
**Director**

Mr Hicks was a co-founder of Hannans Reward in 2002 and was appointed to the position of Managing Director on 5 April 2007 prior to which he held the positions of Executive Director and Company Secretary.

Mr Hicks holds a Bachelor of Commerce (Accounting and Finance) from the University of Western Australia, is admitted as a Barrister and Solicitor of the Supreme Court of Western Australia, holds a Graduate Diploma in Applied Finance & Investment from FINSIA, a Graduate Diploma in Company Secretarial Practice from Chartered Secretaries Australia and is a Graduate Member of the Australian Institute of Company Directors.

During the past 3 years Mr Hicks has been a Director of Hannans and Scandinavian Resources Ltd, which listed on the ASX in April 2010.

#### **JONATHAN MURRAY**

##### **Director**

Mr Murray is a partner at law firm Steinepreis Paganin, based in Perth, Western Australia. Since joining the firm in 1997, he has gained significant experience in advising on initial public offers and secondary market capital raisings, all forms of commercial acquisitions and divestments and providing general corporate and strategic advice.

Mr Murray graduated from Murdoch University in 1996 with a Bachelor of Laws and Commerce (majoring in Accounting). He is also a member of FINSIA (formerly the Securities Institute of Australia).

During the last 3 years, Mr Murray has been a Director of the following ASX listed companies, Hannans Reward Limited, US Nickel Ltd and Laguna Resources Ltd.

#### **MARKUS BACHMANN**

##### **Director**

Mr Bachmann graduated with Honours ("cum laude") from the University of Berne, Switzerland and began his corporate finance career in 1993.

In 2001, Mr Bachmann was Senior Portfolio Manager with Coronation Fund Managers in Cape Town when it was awarded the Standard & Poor's Award for Manager of the Best Performing Large Cap Equity Unit Trust in South Africa.

In 2003, Mr Bachmann was founding partner of Craton Capital and is the Chief Executive Officer. Craton Capital was awarded Fund Manager of the Year at the Mining Journal's "Outstanding Achievement Awards" announced in London during December 2010 for the Craton Capital Precious Metal Fund. The award is the most prestigious fund award in the mining industry.

Craton Capital has offices in Johannesburg, South Africa and in Zurich, Switzerland.

Mr. Bachmann brings an extensive network of contacts in Europe and Africa to the Board which will assist with rapidly growing the Company's minerals portfolio including its flagship Kiruna Iron Project.

During the past 3 years Mr Bachmann has been a Director of ASX listed Scandinavian Resources Ltd.

#### **4.16 Additional important information for Shareholders**

- (a) The Company's capital structure

The capital structure of Hannans as at the date of this Notice is:

Number of Shares	Number of Options <sup>1</sup>
131,648,715	5,000,000

<sup>1</sup>The Company has the following Options on issue:

Number	Class
1,000,000	Options exercisable at \$0.80 each on or before 30 June 2012
100,000	Options exercisable at \$0.40 each on or before 30 June 2012
1,000,000	Options exercisable at \$0.80 each on or before 30 June 2013
300,000	Options exercisable at \$0.20 each on or before 20 July 2013
300,000	Options exercisable at \$0.75 each on or before 20 July 2013
300,000	Options exercisable at \$1.00 each on or before 20 July 2013
2,000,000	Options exercisable at \$0.20 each on or before 30 June 2013

(b) NewCo capital structure

The proposed capital structure of NewCo will be:

Number of NewCo Shares	Number of NewCo Options
131,648,715	Nil

- (c) The Record Date will be 5.00pm WST on that date which is 6 business days after Shareholder approval is obtained.
- (d) The return shares will be that number of NewCo Shares to be distributed on a pro-rata basis to all holders of ordinary shares in the capital of the Company on the Record Date (**Return Shares**) by applying the formula of 1 NewCo Share for every 1 Share held (rounded up to the nearest whole number).
- (e) The return of capital will be effected by a pro-rata distribution of the Return Shares in specie proportionately to all of the Company's Shareholders:
  - (i) registered as such as at 5.00pm WST on the Record Date; or



- (ii) entitled to be registered as a Shareholder in the Company by virtue of a transfer of Shares executed before 5.00pm WST on the Record Date and lodged with the Company at that time.
- (f) Furthermore, the Company, being an ASX listed entity, is subject to the continuous disclosure requirements set out in Chapter 3 of the ASX Listing Rules. As such, the Company is required to lodge quarterly accounts detailing the Company's current financial position. Any use of funds by the Company will be detailed in these quarterly reports and any significant transactions will be disclosed to Shareholders.

#### **4.17 Section 256C of the Corporations Act**

The proposed reduction of capital by way of an in specie distribution to Shareholders is an equal capital reduction. Under Section 256C of the Corporations Act, this must be approved by an ordinary resolution passed at a general meeting of the Company.

Under Section 256B of the Corporations Act, the Company may only reduce its capital if it:

- (a) is fair and reasonable to Shareholders as a whole;
- (b) does not materially prejudice the Company's ability to pay its creditors; and
- (c) is approved by Shareholders in accordance with Section 256C of the Corporations Act.

The Directors believe that the capital reduction is fair and reasonable to Shareholders for the reasons set out throughout this Explanatory Statement and that the capital reduction will not prejudice the Company's ability to pay its creditors.

#### ***Offers to issue or sell securities that require disclosure under a prospectus and secondary trading***

The Corporations Act restricts:

- (a) the Company from disposing of the NewCo Shares to its Shareholders by way of an in-specie distribution, without issuing a prospectus; and
- (b) the Company's Shareholders from on-selling their NewCo Shares within the first 12 months after receiving them under an in-specie distribution.

In accordance with ASIC's Regulatory Guide 188 entitled *Disclosure in Reconstructions*, ASIC has granted relief from these restrictions.

The effect of the relief granted by ASIC is that:

- (a) the Company is able to dispose of some or all of its shareholding in NewCo by way of an in-specie distribution to its Shareholders without the need for a prospectus; and
- (b) if the in-specie distribution occurs, the Company's Shareholders will not be restricted from selling their NewCo Shares within the first 12 months after receiving them.

#### **4.18 Information on NewCo**

NewCo will be incorporated following receipt of Shareholder approval pursuant to Resolution 4 and will be a subsidiary of Hannans (until completion of the specie distribution). It will be an unlisted public company.

NewCo presently has no business operations other than by virtue of the proposed acquisition of the Assets from the Company.

The board of directors of NewCo is as described in Section 4.15.

#### **4.19 Information concerning NewCo Shares**

As NewCo has yet to be incorporated, NewCo Shares are not currently listed for quotation on any stock exchange. As outlined in section 4.1 above there is no guarantee that NewCo will seek listing on any stock exchange and the board of NewCo may deem that other means of capital raising may be more appropriate at the time funding decisions are made.

A summary of the more significant rights that will attach to the NewCo Shares is set out below. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of the NewCo Shareholders.

Full details of the rights attaching to the NewCo Shares are set out in NewCo's constitution, a copy of which is available on request following incorporation.

##### **Voting Rights**

Subject to any rights or restrictions for the time being attached to any class or classes of NewCo Shares (at present there are none), at meetings of shareholders of NewCo:

- (a) each shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- (b) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a Shareholder has one vote; and
- (c) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the share, but in respect of partly paid Shares, shall have such number of votes as bears the same proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited).

##### **Rights on Winding Up**

Subject to the rights of holders of shares with special rights in a winding up (at present there are none), on a winding up of NewCo all assets that may be legally distributed among members will be distributed in proportion to the number of fully paid shares held by them (and a partly paid share is counted as a fraction of a fully paid share equal to the amount paid on it, divided by the total issue price of the share).

##### **Transfer of Shares**

Subject to the Constitution of the Company, the Corporations Act 2001, and any other laws and ASX Settlement Operating Rules and ASX Listing Rules, shares are

freely transferable. Shareholders should note that the NewCo Shares distributed to Shareholders will be subject to a 2 month escrow restriction from the date of issue. This means that Shareholders will not be permitted to sell their NewCo Shares for a period of 2 months from the time of issue.

### **Future Increases in Capital**

The allotment and issue of any shares is under the control of the Directors. Subject to restrictions on the allotment of shares to Directors or their associates, the ASX Listing Rules, the Constitution of the Company and the Corporations Act 2001, the Directors may allot or otherwise dispose of shares on such terms and conditions as they see fit.

### **Variation of Rights**

Under the Corporations Act 2001, NewCo may, with the sanction of a special resolution passed at a meeting of shareholders vary or abrogate the rights attaching to shares. If at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of the issue of the shares of that class), whether or not NewCo is being wound up may be varied or abrogated with the consent in writing of the holders of three quarters of the issued shares of that class, or if authorised by a special resolution passed at a separate meeting of the holders of the shares of that class.

### **Dividend Rights**

Subject to the rights of holders of shares issued with special, preferential or qualified rights (at present there are none), the profits of NewCo which the Directors determine to distribute by way of dividend are divisible among the holders of ordinary shares in proportion to the number of shares held by them.

## **4.20 Information on Hannans post completion of the Proposal**

On completion of the equal capital reduction, the focus of the Company will be on its Forrestania, Lake Johnston and Queen Victoria Rocks projects. Refer to Section 4.9 for further details.

The details of the Proposal and other relevant information are set out in section 4.1.

## **4.21 Information concerning Hannans Shares**

The rights attaching to the Shares in Hannans will not alter.

For the information of Shareholders, the highest and lowest recorded sale prices of the Company's Shares as traded on ASX during the 12 months immediately preceding the date of this Explanatory Statement, and the respective dates of those sales were:

<b>Date</b>	<b>Highest Price</b>	<b>Date</b>	<b>Lowest Price</b>
08/02/2011	\$0.28	01/11/2011	\$0.11

The latest available closing price of the Shares on ASX prior to the date of this Notice was \$0.12 on 7 December 2011.

## 4.22 Taxation

The following comments are based on the application of Australian taxation laws in force at the date of this Explanatory Statement.

The views expressed in this summary are not intended as specific advice to Shareholders. The application of tax legislation may vary according to the individual circumstances of Shareholders. In this regard, the comments below are only relevant to those Shareholders who hold their Shares on capital account (i.e. have not been held for the purpose of resale or as trading stock). It should be emphasised that these comments are general in nature, may not be applicable to your individual circumstances and cannot be relied upon for accuracy or completeness.

**You should therefore seek and rely on your own taxation advice in relation to the taxation consequences of the distribution. Neither the Company nor any of its officers, or its advisers accept liability or responsibility with respect to such consequences.**

### **Application of Capital Gains Tax provisions under the 1997 Act**

Generally, the mere receipt of the NewCo Shares should not give rise to any immediate taxable capital gain to any Shareholder, although, depending on individual circumstances, a net capital gain may arise where the value of the NewCo Shares received exceeds the cost base of the Shares in the Company held (discussed in detail below). However, all Shareholders should note that for Capital Gains Tax (**CGT**) purposes and subsequent CGT calculations, the cost base of the NewCo Shares will be equal to its market value at the time they are transferred to you.

Should a capital gain arise to a Shareholder, the Shareholder may defer any capital gain realised under Capital Gains Tax Demerger Roll-over Relief (**Demerger Relief**) pursuant to Division 125 of the Income Tax Assessment Act 1997 (**the 1997 Act**) if the conditions of Demerger Relief are satisfied. As previously discussed above, a capital gain should only arise to the Shareholder if the value of the NewCo Shares received exceeds the cost base of the Shares in the Company.

The Company will not be applying for a Class Ruling in relation to the Demerger Relief pursuant to the 1997 Act and the nonapplication of the integrity rule in section 45B of the Income Tax Assessment Act 1936 (Cth). The onus will be on each Shareholder to obtain independent advice as to the applicability of Demerger Relief to their respective circumstances in terms of Division 125 of the 1997 Act.

Each shareholder who is eligible for Demerger Relief is required to recalculate the cost base of their Hannans and NewCo shares for CGT purposes. This is done by apportioning the total cost base of Hannans shares held by the shareholder just before the In-specie distribution between the Hannans shares held by that shareholder just after the in-specie distribution and NewCo shares distributed to the shareholder.

The Income Tax Assessment Act, 1997 requires that the apportionment must be done on a reasonable basis, based on the market values of Hannans shares and NewCo shares just after the in-specie distribution, or a reasonable approximation of those market values. These adjustments apply separately to all Shareholders who are eligible for demerger roll-over, regardless of whether Demerger Relief is chosen or not.

Further information in relation to the apportionment of tax cost bases will be provided by Hannans to Shareholders after the in-specie distribution occurs.

Without the Demerger Relief the in-specie distribution could result in a capital gain to Shareholders in Hannans and/or an assessable dividend to Shareholders. Specifically, Demerger Relief will be available if:

- (a) you own an ownership interest in a company (your original interest); and
- (b) the company is the head entity of a demerger group; and
- (c) a demerger happens to the demerger group; and
- (d) under the demerger, a CGT event happens to your original interest and you acquire a new or replacement interest (your new interest) in the demerged entity.

The Australian tax consequences pertaining to Shares in the Company and associated with the return of capital may, in general terms, be summarised as follows:

- (a) The return of capital is to be made from the Company's share capital account. Generally, a return of capital does not give rise to the receipt of an assessable dividend. However, in some instances, a return of capital in the context of a demerger, may constitute a deemed unfranked dividend if the Commissioner of Taxation forms the opinion that Sections 45B and 45BA of the Income Tax Assessment Act 1936 (**the Capital Streaming Rules**) should apply to the transaction. This is discussed in further detail below;
- (b) Whenever a company undertakes a return of capital to its shareholders, it is necessary to consider the application of the Capital Streaming Rules. Broadly, the Capital Streaming Rules will apply where shareholders are being provided capital benefits in substitution for dividends. The Capital Streaming Rules will apply if:
  - (i) there is a scheme under which a person is provided with a demerger benefit or capital benefit by the company;
  - (ii) under the scheme a taxpayer, who may or may not be the person provided with the demerger benefit or capital benefit, obtains a tax benefit; and
  - (iii) having regard to the relevant circumstances of the scheme, it would be concluded that the person, or one of the persons, who entered into or carried out the scheme or any part of the scheme did so for a purpose (whether or not the dominant purpose but not including an incidental purpose) of enabling a taxpayer to obtain a tax benefit.

### **CGT Relief**

Assuming that the return of capital does not trigger the operation of the Capital Streaming Rules, and you are an individual or trustee, and Demerger Relief is not chosen or not available we note that the consideration received on the return of capital will be treated as a reduction in the cost base or reduced cost base of your shares in the Company and, in the event that the value of the NewCo Shares exceeds that cost base, a taxable capital gain that is subject to a 50% discount is likely to be available.

Complying superannuation funds and other similar complying funds are able to take advantage of the discount outlined above but with a one third discount rather than a 50% discount.

Assuming that the return of capital does not trigger the operation of the Capital Streaming Rules, and Demerger Relief is not chosen or not available you have the following options:

- (a) if you are an individual, trust or complying superannuation fund then the abovementioned discounts may be available, providing you have held the shares for more than 12 months prior to the return of capital;
- (b) if you have held your shares in the Company for less than 12 months prior to the return of capital or are a shareholder that is a company, then the consideration received on the return of capital will be treated as a reduction in the cost base or reduced cost base of your shares in the Company and, in the event that the value of the NewCo Shares exceeds that cost base, a taxable capital gain will arise;
- (c) if you are a non-resident of Australia for taxation purposes you will not be subject to CGT unless your Hannans shareholding represents Taxable Australian Property for the purposes of Division 855 of the 1997 Act. This should only be the case where:
  - (i) you (or you and your associates together) held 10% or more interest in Hannans at:
    - (A) the time of the return of capital; or
    - (B) throughout the 12 month period that began no earlier than 24 months before the time of the return of capital and ended no later than that time; and
    - (C) the principal underlying value (i.e. more than 50%) of Hannans is derived from Australian real property.

It is noted that Shares in Hannans will also be considered Taxable Australian Property if the Shares are owned through an Australian Permanent Establishment of the non-Australian resident shareholder.

Shareholders may be able to obtain relief from Australian CGT via the application of any relevant double taxation agreement.

We recommend that non-Australian resident Shareholders seek specific advice by reference to their own circumstances so as to determine their Australian CGT position.

The taxation consequences to Hannans Shareholders (resident and non-resident) who may hold Shares in the Company on revenue account or through a company or superannuation fund will depend on their specific circumstances and, accordingly, Shareholders such as banks, insurance companies, share traders and professional investors should seek their own specific advice.

The in specie distribution of the NewCo Shares will result in a CGT event to the Hannans tax consolidated group. However, under the Demerger Relief provisions of Subdivision 125-C of the 1997 Act any capital gain or capital loss that is made by the Hannan's group will be disregarded.

#### 4.23 Directors' Interests and Recommendations

Set out below is a table which indicates the securities in which the Directors have an interest prior to the capital reduction and the number of NewCo Shares they are likely to have an interest in if Resolution 4 is passed and implemented:

Director	Hannans Shares	Hannans Options	Number of NewCo Shares each Director is likely to receive if Resolution 4 is passed
Richard Scallan	Nil	Nil	Nil
Damian Hicks	4,165,310	3,000,000	4,165,310
William Hicks	12,063,086	75,860	12,063,086
Jonathan Murray	391,775	Nil	391,775

After considering all relevant factors, the Directors recommend the Company's Shareholders vote in favour of Resolution 4 for the following reasons:

- (a) after a full and proper assessment of all available information they believe that the proposed transaction is in the best interests of the Company's Shareholders; and
- (b) in the opinion of the Directors, the benefits of the proposed transaction outweigh its disadvantages as referred to in Section 5.2.

#### 4.24 Pro-Forma Statement of Financial Position

Set out in Schedule 1 is a statement of financial position of the Company as at 30 November 2011, together with the pro-forma statement of financial position following completion of the Proposal (and following the transfer of the Assets).

#### 4.25 Lodgement with the Australian Securities and Investments Commission

The Company has lodged with the ASIC a copy of this Notice and the Explanatory Statement in accordance with Section 256C(5) of the Corporations Act. If Resolution 4 is passed the reduction of capital is required to take effect in accordance with the timetable set out in Appendix 7A of the ASX Listing Rules.

The ASIC and its officers take no responsibility for the contents of this Notice or the merits of the transaction to which this Notice relates.

#### 4.26 Disclosure to ASX

Hannans, as a company whose Shares are quoted on the stock market of ASX, is a disclosing entity and, as such, is subject to regular reporting and disclosure obligations. Copies of documents lodged in relation to Hannans may be obtained for a fee from, or inspected at, an office of the ASIC.

#### **4.27 Other material information**

There is no information material to the making of a decision by a Shareholder in the Company whether or not to approve Resolution 4 (being information that is known to any of the Directors and which has not been previously disclosed to Shareholders in the Company) other than as disclosed in this Explanatory Statement and all relevant annexures.

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#### **5. ENQUIRIES**

Shareholders are requested to contact Damian Hicks on (+ 61 8) 9324 3388 if they have any queries in respect of the matters set out in these documents.



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## GLOSSARY

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**\$** means Australian dollars.

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

**Assets** has the meaning given to that term in Section 4.1(d).

**ASX** means ASX Limited.

**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.

**Company** means Hannans Reward Limited (ACN 099 862 129).

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

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

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

**Errawarra** means Errawarra Pty Ltd (ACN 110 772 597).

**Errawarra's Tenements** means those tenements listed in Schedule 4.

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

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

**Hannans Tenements** means those tenements listed in Schedule 5.

**Jigalong Tenements** means E52/1812-I, E52/1813-I, E52/1819-I, E52/2060-I, E52/2150-I, E52/2218-I, E52/2235-I, EL46/780 and E52/2397.

**Mineral Rights Agreement** means the mineral rights agreement entered into between the Company and Errawarra pursuant to which Errawarra will transfer 100% ownership of non-manganese rights on the Errawarra Tenements to Hannans (or its nominee) and Hannans will transfer manganese and iron rights on the Hannans Tenements to Errawarra.

**NewCo** means a public unlisted company to be incorporated in Australia following shareholder approval of Resolution 4.

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

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

**NewCo Shareholders** means a holder of a NewCo Share.

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

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

**Proposal** means the disposition of the Assets to NewCo as set out in section 4.1 of this Notice of Meeting.

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

**Resolutions** means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

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

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

**State Revenue** means the Office of State Revenue, Perth.

**Tenements** mean the Errawarra Tenements and the Hannans Tenements.

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

**SCHEDULE 1 – PRO-FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION -  
HANNANS**

	30 November 2011 Consolidated (prior to demerger of NewCo & Errawarra Pty Ltd) (Un-audited)	30 November 2011 Pro-forma Consolidated (following demerger of NewCo & Errawarra Pty Ltd) (Un-audited)
<b>Current assets</b>		
Cash and cash equivalents	388,192	372,981
Trade and other receivables	301,214	268,570
Other financial assets	16,656,152	16,656,152
<b>Total current assets</b>	<b>17,345,558</b>	<b>17,297,703</b>
<b>Non-current assets</b>		
Other receivables	212,225	149,135
Property, plant and equipment	169,401	166,925
Other financial assets <sup>1</sup>	4,225,643	4,225,643
<b>Total non-current assets</b>	<b>4,607,269</b>	<b>4,541,703</b>
<b>TOTAL ASSETS</b>	<b>21,952,827</b>	<b>21,839,406</b>
<b>Current liabilities</b>		
Trade and other payables	1,087,802	774,702
Provisions	99,164	99,164
Loan– Errawarra Pty Ltd (1)	-	1,175,826
Loan - Other	1,026,486	1,026,486
Other financial liabilities	11,911	11,911
<b>Total current liabilities</b>	<b>2,225,363</b>	<b>3,088,089</b>
<b>Non-current liabilities</b>		
Deferred tax liability	3,280,989	3,280,989
Other financial liabilities	76,340	76,340
<b>Total non-current liabilities</b>	<b>3,357,329</b>	<b>3,357,329</b>
<b>TOTAL LIABILITIES</b>	<b>5,582,692</b>	<b>6,445,418</b>
<b>NET ASSETS</b>	<b>16,370,135</b>	<b>15,393,988</b>
<b>Equity</b>		
Issued capital	20,135,891	20,135,841
Reserves	7,140,653	7,140,653
Accumulated losses	(10,906,409)	(11,882,506)
<b>TOTAL EQUITY</b>	<b>16,370,135</b>	<b>15,393,988</b>

1. Other Financial Assets consists of: Loans to Kiruna Iron AB - \$3,719,871 (refer to the Company's 2011 Annual Report, page 66, note 10(i) and page 75, note 27)c). In relation to the \$2.5m loan referred to in note 10(i), the Company is preparing to roll forward the principal repayment date to 1 February 2012 on similar terms. The interest component of the loan has been paid by Kiruna Iron AB); Mr Damian Hicks - \$490,286; and Resources and Rewards Pty Ltd - \$15,484; and Shareholdings in Equity and Royalty Investments Ltd - \$1; and Resources and Rewards Pty Ltd - \$1.

**SCHEDULE 2 – TERMS OF NEWCO CONVERTIBLE NOTE FACILITY**

<b>Principal</b>	Hannans Reward (or nominee) agrees to subscribe for 2,500,000 convertible notes in NewCo with a face value of \$1 each, equating to a total face value of \$2,500,000 convertible into fully paid ordinary shares in the capital of NewCo.
<b>Conversion formula</b>	On conversion, every one Convertible Note will convert into ordinary shares at the rate of \$1 divided by any future Initial Public Offering share price less 35%.
<b>Limit on Convertible Notes and Shares on Conversion of Convertible Notes</b>	The Noteholder is prohibited from being issued Shares on conversion of the Convertible Note with the effect that the Noteholder (and its associates) would hold a relevant interest exceeding 20% or more in the issued share capital of the Company, unless the issue of Shares to the Noteholders satisfy any of the exemptions in Section 611 of the Corporations Act.
<b>Repayment Date</b>	The first to occur of: <ul style="list-style-type: none"> <li>(a) the date a Convertible Note is converted into Shares (and free attaching Options);</li> <li>(b) a date to be determined by the board when the Convertible Note Deed is entered into; and</li> <li>(c) any earlier date on which the Company is required to repay the Convertible Note under the terms of the Convertible Notes.</li> </ul>
<b>Interest Rate</b>	Interest is payable at the rate of 12.5% per annum.
<b>Conversion rights</b>	At any time prior to the repayment date, subject to shareholder approval (if required).
<b>Ranking on Conversion</b>	Each Share issued on conversion of Convertible Notes, will rank equally with all existing Shares then on issue, except that they will not be entitled to any dividend that has been declared or determined but not paid as at the conversion date.
<b>Participation rights</b>	Before conversion, Noteholders are not entitled to participate in rights issues, any return of capital, bonus issue or capital reconstruction. However, the conversion ratio will be adjusted in a manner that is consistent with the ASX Listing Rules.
<b>Voting rights</b>	Noteholders are not entitled to vote at general meetings unless provided for by the ASX Listing Rules or the Corporations Act.
<b>Security and subordination</b>	The Convertible Notes will be secured against the Errawarra Tenements and the Assets.
<b>Listing on ASX</b>	The Convertible Notes will not be listed.
<b>Conditions</b>	The issue of the Convertible Notes will be subject to receipt of Shareholder approval and any other regulatory or third party approvals required by the Company or the proposed Noteholder.

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**SCHEDULE 3 – CALCULATION OF ZERO MARKET VALUATION**

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**Hannans Reward Ltd Project Valuation**

As of 30 November 2011

**Market Capitalisation of Hannans Reward Ltd**

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	<b>Number of shares</b>	<b>Share Price</b>	<b>\$</b>
	131,648,715	0.12	15,797,845

**Value of Non Exploration Assets/Liabilities of Hannans Reward**

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	<b>Number of shares</b>	<b>Share Price</b>	<b>\$</b>
<b>Assets</b>			
Value of ASX listed securities			
Atlas Iron Limited	4,300,000	2.87	12,341,000
Scandinavian Resources Limited	19,505,235	0.22	4,291,152
Brighton Mining Group Limited	20,000	0.075	1,500
Lithex Resources Limited	20,000	0.12	2,400
Naracoota Resources Limited	125,000	0.16	20,000
Cash			792,267
Loans			4,619,870
<b>Liabilities</b>			
Loan			(1,000,000)
Other			(500,000)
Net assets of Hannans Group			<u>20,568,189</u>
<b>Value attributed to Exploration portfolio</b>			
Market Capitalisation less Net Assets			<u><b>(4,770,343)</b></u>

As this value is negative the value attributed by the market to the project portfolio is said to be **zero**.

**SCHEDULE 4 – ERRAWARRA TENEMENTS**

Tenement Number	Registered Holders & Interest	Date Granted	Date Expiry	Status	Blocks	Annual Expenditure	Annual Rent	Annual Rates	Warwick Mineral Rights Agreement	NNTT	Bonds
E52/1812-I	Errawarra Pty Ltd (100%)	07-Jun-06	06-Jun-13	LIVE	70	\$105,000.00	\$17,902.50	\$3,147.53	✓		\$33,000.00
E52/1813-I	Errawarra Pty Ltd (100%)	07-Jun-06	06-Jun-13	LIVE	56	\$84,000.00	\$14,322.00	\$2,390.35	✓		\$34,000.00
E52/1819-I	Errawarra Pty Ltd (100%)	07-Jun-06	06-Jun-13	LIVE	70	\$105,000.00	\$17,902.50	\$3,571.04	✓		\$16,000.00
E52/2060-I	Errawarra Pty Ltd (100%)	06-Oct-08	05-Oct-13	LIVE	57	\$57,000.00	\$10,060.50	\$2,420.72	✓		
E52/2150-I	Errawarra Pty Ltd (100%)	24-Feb-10	23-Feb-15	LIVE	64	\$64,000.00	\$7,751.04	\$3,334.59	✓		
E52/2218-I	Errawarra Pty Ltd (100%)	09-Nov-09	08-Nov-14	LIVE	51	\$51,000.00	\$5,788.50	\$2,420.29	✓		
E69-2235-I	Errawarra Pty Ltd (100%)	03-Sep-09	02-Sep-14	LIVE	55	\$55,000.00	\$6,242.50	\$2,398.00	✓		
E46/780	Errawarra Pty Ltd (100%)	09-Feb-10	08-Feb-15	LIVE	129	\$129,000.00	\$15,612.19	\$5,408.42	✓		
E52/2397	Errawarra Pty Ltd (100%)			PENDING	161	\$161,000.00	\$19,091.38		✓	WC2005/006 & WC1996/078	
E45/3747	Errawarra Pty Ltd (100%)			PENDING	103	\$103,000.00	\$12,474.33			W2005/006	
E45/3990	Errawarra Pty Ltd (100%)			PENDING	45	\$45,000.00	\$5,107.50			WC1996/078	
E45/3991	Errawarra Pty Ltd (100%)			PENDING	200	\$200,000.00	\$22,700.00			WC1996/078	

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**SCHEDULE 5 – HANNANS TENEMENTS**

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Tenement Number	Registered Holders & Interests	Date Granted	Date Expiry	Status	Blocks	Annual Expenditure	Annual Rent	Annual Rates	Warwick Mineral Rights Agreement	NNTT	Bonds
E52/2695	Hannans Reward Ltd (100%)			PENDING	122	\$122,000.00	\$14,775.42			WC2005/006	
E52/2516	Hannans Reward Ltd (100%)	20-Oct-10	19-Oct-15	LIVE	9	\$20,000.00	\$1,021.50	\$792.38			

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**SCHEDULE 6 – PRO-FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION ON  
DEMERGER - NEWCO**

	30-November-2011	30-November-2011
	Errawarra Pty Ltd	Pro-forma Consolidated (NewCo & Errawarra Pty Ltd) on demerger
	(Un-audited)	(Un-audited)
	\$	\$
<b>Current assets</b>		
Cash and cash equivalents	15,301	15,253
Trade and other receivables	95,644	95,644
<b>Total current assets</b>	<b>110,945</b>	<b>110,897</b>
<b>Non-current assets</b>		
Property, plant and equipment	2,476	2,476
Loan – Hannans Reward Ltd	1,175,826	1,175,826
<b>Total non-current assets</b>	<b>1,178,302</b>	<b>1,178,302</b>
<b>TOTAL ASSETS</b>	<b>1,289,247</b>	<b>1,289,199</b>
<b>Current liabilities</b>		
Trade and other payables	303,601	303,601
<b>Total current liabilities</b>	<b>303,601</b>	<b>303,601</b>
<b>TOTAL LIABILITIES</b>	<b>303,601</b>	<b>303,601</b>
<b>NET ASSETS</b>	<b>985,646</b>	<b>985,598</b>
<b>Equity</b>		
Issued capital	50	2
Reserves	2,093,272	2,093,272
Accumulated losses	(1,107,676)	(1,107,676)
<b>TOTAL EQUITY</b>	<b>985,646</b>	<b>985,598</b>

## PROXY FORM

APPOINTMENT OF PROXY  
HANNANS REWARD LIMITED  
ACN 099 862 129

### ANNUAL GENERAL MEETING

I/We

of

being a member of Hannans Reward Limited entitled to attend and vote at the Annual General Meeting, hereby

Appoint

Name of proxy

OR

the Chair of the Annual General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the Annual General Meeting, 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 Annual General Meeting to be held at 12:00pm (WST), on 31 January 2012 at The Park Centre 45 Ventnor Avenue West Perth WA, and at any adjournment thereof.

#### Comment

Important for Resolution 1: If the Chair of the Meeting or any member of the Key Management Personnel of the Company whose remuneration details are included in the Remuneration Report or a Closely Related Party of that member is your proxy and you have not directed the proxy to vote on Resolution 1, the proxy will be prevented from casting your votes on Resolution 1. If the Chair, another member of the Key Management Personnel of the Company whose remuneration details are included in the Remuneration Report or Closely Related Party of that member is your proxy, in order for your votes to be counted on Resolution 1, you must direct your proxy how to vote on Resolution 1.

If the Chair of the Annual General Meeting is appointed as your proxy, or may be appointed by default, and you do **not** wish to direct your proxy how to vote as your proxy in respect of **Resolution 4** please place a mark in this box.

By marking this box, you acknowledge that the Chair of the Annual General Meeting may exercise your proxy even if he has an interest in the outcome of Resolution 4 and that votes cast by the Chair of the Annual General Meeting for Resolution 4 other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on Resolution 4 and your votes will not be counted in calculating the required majority if a poll is called on Resolution 4.

If no directions are given, the Chair will vote in favour of all the Resolutions in which the Chair is entitled to vote undirected proxies.

*OR*

#### Voting on Business of the Annual General Meeting

	FOR	AGAINST	ABSTAIN
Resolution 1 – Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 – Re-Election of Director – Richard Scallan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 – Re-Election of Director – Jonathan Murray	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 – Approval for an Equal Reduction of Capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**Please note:** If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not to be counted in computing the required majority

\_\_\_\_\_ %



on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is

**Signature of Member(s):**

**Date:**

\_\_\_\_\_

**Individual or Member 1**

**Member 2**

**Member 3**

Sole Director/Company  
Secretary

Director

Director/Company Secretary

Contact Name: \_\_\_\_\_ Contact Ph (daytime): \_\_\_\_\_

**HANNANS REWARD LIMITED**  
**ACN 099 862 129**

**Instructions for Completing 'Appointment of Proxy' Form**

1. **(Appointing a Proxy):** A member entitled to attend and vote at an Annual General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.
2. **(Direction to Vote):** A member may direct a proxy how to vote by marking one of the boxes opposite each item of business. Where a box is not marked the proxy may vote as they choose. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing Instructions):**
  - **(Individual):** Where the holding is in one name, the member must sign.
  - **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.
  - **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach 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, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the Annual General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the Annual General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the Annual General Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
  - (a) post to Hannans Reward Limited, PO Box 1227, West Perth, WA 6872; or
  - (b) facsimile to the Company on facsimile number +61 8 9324 3366; or
  - (c) email to the Company at michaelc@hannansreward.com,so that it is received not less than 48 hours prior to commencement of the Meeting.

**Proxy forms received later than this time will be invalid.**