

# MINARA RESOURCES LIMITED

ASX CODE: MRE  
ABN 23 060 370 783



## ASX ANNOUNCEMENT

Minara Resources Limited's Annual General Meeting will be held at Perth Convention Exhibition Centre, 21 Mounts Bay Road, Perth, Western Australia on Friday, 13 May 2011 commencing at 9.30am WST.

The Notice of Meeting, an Addendum and Proxy Form are being sent to shareholders today and follow this announcement.

The 2010 Annual Report is also being sent to shareholders and lodged with the ASX today.

Copies of all these documents are available on Minara's website at [www.minara.com.au](http://www.minara.com.au).

## Minara Resources Limited

11 April 2011

### Contact

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### Minara Resources Limited

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# Minara Resources Limited

ABN 23 060 370 783

## **Addendum to Notice of Annual General Meeting**

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This addendum accompanies and forms part of the Notice of Annual General Meeting of Minara Resources Limited ABN 23 060 370 783 (**Company**).

### **Withdrawal of Resolution 3 – Re-election of Mr Peter Coates AO**

On 8 April 2011 Mr Peter Coates AO tendered his resignation as a director of the Company. Notice of Mr Coates' resignation was received after printing of the accompanying Notice of Annual General Meeting and Proxy Form.

Accordingly proposed Resolution 3 stated in the accompanying Notice of Annual General Meeting for the re-election of Mr Coates as a director is withdrawn and will not be considered at the Meeting.

Shareholders should ignore Resolution 3 in the accompanying Proxy Form.

The Board takes this opportunity to thank Mr Coates for his services as a director.

**By Order of the Board of Directors**

**Cynthia Sargent**  
**Company Secretary**

11 April 2011

# NOTICE OF ANNUAL GENERAL MEETING AND EXPLANATORY MEMORANDUM

Annual General Meeting to be held at  
Perth Convention Exhibition Centre  
21 Mounts Bay Road, Perth WA  
on **Friday, 13 May 2011**  
commencing at 9.30am WST



MINARA RESOURCES LIMITED  
ABN 23 060 370 783

The Notice of Annual General Meeting, Explanatory Memorandum and Proxy Form should be read in their entirety. If you are in doubt as to how you should vote, you should seek advice from your accountant, solicitor or other professional adviser prior to voting.



# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 18th Annual General Meeting of Minara Resources Limited ABN 23 060 370 783 (**Minara** or **Company**) will be held at **Perth Convention Exhibition Centre, 21 Mounts Bay Road, Perth WA** on **Friday, 13 May 2011 at 9.30am WST**.

The Explanatory Memorandum, which accompanies and forms part of this Notice, describes the various matters to be considered.

Terms used in this Notice will, unless the context otherwise requires, have the same meaning given to them in the Glossary as set out in the Explanatory Memorandum.

## AGENDA

### FINANCIAL REPORT

To receive and consider the Financial Report of the Company and the Reports of the Directors and Auditor for the year ended 31 December 2010.

### RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

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

*“That the Remuneration Report contained in the Directors’ Report for the year ended 31 December 2010 be adopted by the Company.”*

In accordance with the Corporations Act, the vote on the resolution is advisory only and does not bind the Directors or the Company.

### RESOLUTION 2 – RE-ELECTION OF JOHN ANDREW MORRISON AS A DIRECTOR

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

*“That for the purposes of Listing Rule 14.4 and Article 6.3 of the Company’s Constitution, John Andrew Morrison, being a Director of the Company who retires by rotation, and being eligible offers himself for re-election, be elected as a Director of the Company.”*

### RESOLUTION 3 – RE-ELECTION OF PETER ROLAND COATES AO AS A DIRECTOR

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

*“That for the purposes of Listing Rule 14.4 and Article 6.3 of the Company’s Constitution, Peter Roland Coates AO, being a Director of the Company who retires by rotation, and being eligible offers himself for re-election, be elected as a Director of the Company.”*

### RESOLUTION 4 – AMENDMENT TO CONSTITUTION

To consider, and if thought fit, to pass, with or without amendment, the following resolution as a special resolution:

*“That with effect from the close of this meeting, the Constitution of the Company is amended as follows:*

1. *replace the heading at Article 10 with “DIVIDENDS AND CAPITALISATION OF PROFITS” with a corresponding change being made to the table of contents on page 3;*

2. *replace paragraphs (a) and (b) of Article 10.1 with the following and re-number the subsequent paragraphs accordingly:*

(a) *“Subject to any rights or restrictions attached to a class of Shares and the Applicable Law, the Company may pay Dividends on Shares as the Directors resolve. The Directors may determine and fix:*

- (i) *the amount of the Dividend;*
- (ii) *whether the Dividend is franked, the franking percentage and the franking class;*
- (iii) *the time for determining entitlements to the Dividend;*
- (iv) *the time for the payment of the Dividend; and*
- (v) *the method of payment of the Dividend.”;*

3. *replace Article 10.9(a)(i) with the following:*

(i) *“to receive a Dividend from the Company paid in whole or in part out of the assets or capital of the Company, a particular fund or reserve or out of profits derived from a particular source; or”; and*

4. *replace clause 2.5(b)(i) of Schedule 2 to the Constitution with the following:*

(i) *“a Dividend determined to be paid by the Company; or”.*

### RESOLUTION 5 – APPROVAL OF OFFTAKE ARRANGEMENTS

To consider, and if thought fit, to pass, with or without amendment, the following resolution as a special resolution:

*“That, for the purposes of Listing Rule 10.1 and for all other purposes, approval is given for extension and amendment of the existing arrangements for the sale of nickel and cobalt by Murrin Murrin Holdings Pty Ltd (a wholly-owned subsidiary of Minara Resources Limited) to Glencore International AG, on the terms and conditions described in the Explanatory Memorandum.”*

### Voting Exclusion Statement

In accordance with Listing Rules 10.10 and 14.11, the Company will disregard any votes cast on Resolution 5 by Glencore International AG and its Associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or is cast by the person chairing the Meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

### Snapshot Date

The Directors have determined that for the purposes of regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), the persons eligible to attend and vote at the meeting are those persons who were Shareholders at **9.30am (WST) on Wednesday, 11 May 2011**.

### By order of the Board of Directors



**Cynthia Sargent**  
Company Secretary

11 April 2011

# PROXY AND VOTING INSTRUCTIONS

## LODGEMENT OF A PROXY FORM

The Proxy Form (and any power of attorney or other authority, if any, under which it is signed) must be received at an address given below by **9.30am (WST) on Wednesday, 11 May 2011**, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled Annual General Meeting.

Proxy Forms may be lodged:

### By post to:

Computershare Investor Services Pty Limited  
GPO Box 242, Melbourne, Victoria 3001

or

### By hand to:

Minara Resources Limited  
Level 4, 30 The Esplanade, Perth, WA 6000  
(Business Days only)

or

### By fax:

1800 783 447 (within Australia)  
+61 3 9473 2555 (outside Australia)

or

### Online:

[www.investorvote.com.au](http://www.investorvote.com.au)

## ONLINE VOTING

Shareholders may submit their proxy instructions electronically to the Company's share registrar, Computershare Investor Services Pty Ltd, by visiting [www.investorvote.com.au](http://www.investorvote.com.au) and following the instructions given there. You will be taken to have signed your Proxy Form if you lodge it in accordance with the instructions given on the website.

## APPOINTMENT OF A PROXY

A member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy. The proxy may, but need not be, a security holder of the Company.

If you wish to appoint the Chairman of the Annual General Meeting as your proxy, mark the box. If the person you wish to appoint as your proxy is someone other than the Chairman of the Annual General Meeting please write the name of that person. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Annual General Meeting will be your proxy.

You are entitled to appoint up to two persons as proxies to attend the Annual General Meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy, write both names and the percentage of votes or number of securities for each on the Proxy Form.

Fractions of votes will be disregarded.

## VOTES ON RESOLUTION

You may direct your proxy how to vote by placing a mark in one of the boxes opposite the Resolutions. All your shareholding will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on the Resolutions by inserting the percentage or number of Shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the Resolutions, your proxy may vote as he or she chooses. If you mark more than one box on a Resolution your vote on the Resolutions will be invalid.

## VOTING ENTITLEMENT

For the purposes of determining voting entitlements at the Annual General Meeting, shares will be taken to be held by the persons who are registered as holding the shares at **9.30am (WST) on Wednesday, 11 May 2011**. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

## CORPORATE SHAREHOLDERS

Corporate Shareholders should comply with the execution requirements set out on the Proxy Form or otherwise with the provisions of section 127 of the Corporations Act. Section 127 of the Corporations Act provides that a company may execute a document without using its common seal if the document is signed by:

- directors of the company;
- a director and a company secretary of the company; or
- for a proprietary company that has a sole director who is also the sole company secretary – that director.

## CORPORATE REPRESENTATIVES

A corporation may elect to appoint an individual to act as its representative in accordance with section 250D of the Corporations Act, in which case the Company will require a certificate of appointment of the corporate representative executed in accordance with the Corporations Act. The certificate of appointment must be lodged with the Company and/or the Company's share registry before the Annual General Meeting or at the registration desk on the day of the Annual General Meeting.

## QUESTIONS FROM SHAREHOLDERS

At the Annual General Meeting, the Chairman will allow a reasonable opportunity for Shareholders to ask questions or make comments on the management of the Company and the Remuneration Report.

Mr Ross Jerrard of Deloitte Touche Tohmatsu, as the auditor responsible for preparing the auditor's report for the year ended 31 December 2010 (or his representative) will attend the Annual General Meeting.

The Chairman will also allow a reasonable opportunity for Shareholders to ask the auditor questions about:

- the conduct of the audit;
- the preparation and content of the auditor's report;
- the accounting policies adopted by the Company in relation to the preparation of financial statements; and
- the independence of the auditor in relation to the conduct of the audit.

To assist the Board and the auditor of the Company in responding to questions please submit any questions you may have in writing to the Company Secretary no later than 5.00pm on **Friday, 6 May 2011**:

**In person:** Registered Office – Level 4, 30 The Esplanade, Perth WA

**By mail:** Level 4, 30 The Esplanade, Perth WA 6000

**By fax:** +61 8 9212 8520

As required under section 250PA of the Corporations Act, at the Annual General Meeting, the Company will distribute a list setting out the questions directed to the auditor received in writing by **Friday, 6 May 2011**, being questions which the auditor considers relevant to the content of the auditor's report or the conduct of the audit of the financial report for the year ended 31 December 2010. The Chairman will allow reasonable opportunity to respond to the questions set out on this list.

# EXPLANATORY MEMORANDUM

## 1. INTRODUCTION

This Explanatory Memorandum has been prepared for the information of Shareholders in relation to the business to be conducted at the Company's Annual General Meeting.

The purpose of this Explanatory Memorandum is to provide Shareholders with all information known to the Company which is material to a decision on how to vote on the Resolutions in the accompanying Notice of Annual General Meeting.

This Explanatory Memorandum should be read in conjunction with the Notice of Annual General Meeting. Capitalised terms in this Explanatory Memorandum are defined in the Glossary. All amounts referred to in this Explanatory Memorandum are in Australian dollars unless specified otherwise.

## 2. ANNUAL FINANCIAL REPORT

The Corporations Act requires the Directors' Report, Auditor's Report and the Financial Statements of the Company for the year ended 31 December 2010 to be tabled at the Annual General Meeting.

Neither the Corporations Act nor the Company's Constitution requires a vote of Shareholders on the Reports or Financial Statements. However, Shareholders will be given reasonable opportunity to raise questions on the Reports and ask questions of the Company's auditor.

## 3. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

The Remuneration Report is set out in the Directors' Report in the Company's Annual Report.

The Corporations Act requires the Company to put a resolution to Shareholders that the Remuneration Report be adopted. Under section 250R(3) of the Corporations Act, the vote on the resolution is advisory only and does not bind the Directors or the Company.

## 4. RESOLUTION 2 – RE-ELECTION OF JOHN ANDREW MORRISON AS A DIRECTOR

In accordance with Listing Rule 14.4 and Article 6.3 of the Company's Constitution, at every Annual General Meeting, one third of the Directors for the time being must retire from office by rotation and are eligible for re-election. The Directors to retire are those who have been in office for three years since their appointment or last re-appointment or who have been longest in office since their appointment or last re-appointment or, if the Directors have been in office for an equal length of time, by agreement.

John Andrew Morrison retires at this meeting and, being eligible, offers himself for re-election.

A non-executive Director since December 1999, Mr Morrison is currently Chairman of the Audit Committee and a member of the Risk Management & Compliance Committee and the Nomination & Remuneration Committee.

Mr Morrison is an executive director of Grant Samuel, a leading independent investment bank. He has broad experience in the finance and natural resources industry and since 1990 has been involved in providing advice to corporations in mergers, acquisitions, valuations, restructurings, financing and capital management. Prior to this he worked in engineering and construction in Australia and in the United Kingdom.

Mr Morrison is also a non-executive director and Chairman of Signature Capital Investments Limited.

### Directors' recommendation

The Directors (apart from Mr Morrison) recommend that Shareholders vote in favour of the re-election of Mr Morrison.

## 5. RESOLUTION 3 – RE-ELECTION OF PETER ROLAND COATES AO AS A DIRECTOR

In accordance with Listing Rule 14.4 and Article 6.3 of the Company's Constitution, at every Annual General Meeting, one third of the Directors for the time being must retire from office by rotation and are eligible for re-election. The Directors to retire are those who have been in office for three years since their appointment or last re-appointment or who have been longest in office since their appointment or last re-appointment or, if the Directors have been in office for an equal length of time, by agreement.

Peter Roland Coates AO retires at this meeting and, being eligible, offers himself for re-election.

A non-executive Director since April 2008, Mr Coates was appointed Chairman on 9 May 2008. He is also Chairman of the Nomination & Remuneration Committee. Mr Coates is currently non-executive director and Chairman of Santos Limited and non-executive director of Amalgamated Holdings Limited.

Until December 2007, Mr Coates was the Chief Executive Officer of Xstrata Coal, Xstrata Plc's global coal business. He retired as Chairman of Xstrata Australia Ltd in June 2009.

Mr Coates is a past Chairman of the Minerals Council of Australia, the NSW Minerals Council and the Australia Coal Association. He was made an Officer of the Order of Australia in June 2009 and was recently awarded the Australasian Institute of Mining and Metallurgy Medal.

### Directors' recommendation

The Directors (apart from Mr Coates) recommend that Shareholders vote in favour of the re-election of Mr Coates.

## 6. RESOLUTION 4 – AMENDMENT TO CONSTITUTION

### 6.1 New laws in respect of dividends

In June 2010 the Corporations Act was amended to allow companies to pay dividends out of capital and assets, as well as out of profits. Prior to the amendment a company could only pay dividends out of profits.

The "profits test" for dividends has been replaced by a new three-tiered "net assets test" which provides that a company must not pay a dividend unless:

- (a) the company's net assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend;
- (b) it is fair and reasonable to the company's Shareholders as a whole; and
- (c) it does not materially prejudice the company's ability to pay its creditors (for example, the company would become insolvent as a result of paying the dividend).

### 6.2 Amendment of the Company's Constitution

Clause 10.1(a) of the Company's Constitution states that dividends may only be paid out of profits. This means that at present if the Company was to pay dividends it would have to comply with both the "profits test" under the Constitution and the new "net assets test" under the Corporations Act.

Whilst the Directors do not expect the Company to pay a dividend other than out of profits in the foreseeable future, they consider it would be prudent for the Company to amend its Constitution to allow for the payment of dividends in the manner now permitted by the Corporations Act should that be considered appropriate at a future time.

## 7. RESOLUTION 5 - APPROVAL OF OFFTAKE ARRANGEMENTS

### 7.1 Introduction

Minara's principal asset is its 60% interest in the Murrin Murrin Project, which produces nickel and cobalt. This interest is held through Minara's wholly-owned subsidiary, MMH. The remaining 40% interest is held by Glenmurrin Pty Ltd, a wholly-owned subsidiary of Glencore.

In November 2001, MMH, Glencore and Murrin Murrin Operations (then called Anaconda Operations Pty Limited) entered into the Murrin Murrin Offtake Agreement and the Cobalt Offtake Agreement, pursuant to which Glencore agreed to acquire all of MMH's share of the nickel and cobalt produced by the Murrin Murrin Project (**Existing Offtake Agreement**).

The term of the Existing Offtake Agreement expires on 1 December 2011.

### 7.2 Advantages and disadvantages of the Existing Offtake Agreement

In Minara's view, the Existing Offtake Agreement has been to Minara's commercial advantage. In particular:

- Glencore has:
  - never defaulted on a payment to MMH;
  - never refused to take product;
  - always paid on time; and
  - always paid the full amount rightfully due to MMH.

The lack of exposure to bad debts has meant a considerable saving to Minara.

- Glencore's reliable track record and the provisional payment structure of the current agreement provide additional tangible benefits to Minara that are not immediately obvious in the terms of the offtake agreement:
  - MMH receives a provisional payment representing 91% of product value upon delivery to the Kwinana Warehouse, whereas other metal producers typically receive payment when product crosses ship's rail;
  - it has offered Minara a sure market for all of MMH's production, and has meant that Minara has not needed to maintain a significant marketing function. This has represented a considerable saving to Minara;
  - the time lag between delivery to the Kwinana Warehouse and delivery on board the ship, which is estimated to vary from 30–60 days, represents an additional working capital burden for Minara if stock were required to be held for this additional period without payment;
  - the cost of all marketing is currently borne by Glencore. The cost benefit to Minara in having this service provided by Glencore, rather than establishing an in-house marketing capability, is considered significant;
  - in order to deliver product to customers on a "just in time" basis, Glencore now operates a number of intermediary warehouses in China, Europe and the United States. The cost benefit to Minara in not having to maintain a number of such warehouses is considered to be significant;

- Minara is not exposed to shipping costs and the administrative burden associated with the seaborne trade, as these costs are borne by Glencore.

Minara has considered whether the credit risk associated with selling to multiple offtake parties is worth taking to offset the dependence risk associated with having one offtake party. In Minara's view:

- this is difficult to assess, but in each case it is necessary to consider the balance sheet strength and history of the buyer. Minara has considered the dependence risk associated with selling to Glencore as a single offtake counterparty. Whilst Glencore is a private company, it carries independent investment-grade credit ratings from international ratings agencies Standard and Poor's (BBB-, stable) and Moody's (Baa2, negative). This, together with the level of financial capacity and support Glencore has demonstrated and provided to Minara in the last decade provides sufficient comfort to Minara that the dependence risk of dealing with Glencore as a sole offtake counterparty is commercially acceptable;
- Glencore has been a reliable counterparty over 10 years. For listed entities, such as other potential customers for Minara's nickel, financial information is publicly available and therefore the credit risk can be evaluated more easily. However, given Glencore's track record and financial strength, there are no other obvious counterparties that offer less credit risk than Glencore; and
- under the new offtake arrangements, MMH will be able to continue to sell all of its share of the nickel and cobalt produced at the Murrin Murrin Project to Glencore on improved commercial terms.

Because Minara has taken the view that these advantages outweigh the disadvantages of dealing with a single purchaser, the main one of which is the concentration of financial risk, it has sought to renegotiate and extend the offtake arrangements with Glencore.



### 7.3 Amended and Restated Offtake Agreement

MMH, Murrin Murrin Operations and Glencore entered into the Amended and Restated Offtake Agreement on 8 April 2011. The agreement requires Shareholder approval for it to become effective and binding.

The Amended and Restated Offtake Agreement takes effect as an amendment to and extension of the Existing Offtake Agreement which was approved by Shareholders at the Company's general meeting held on 9 January 2002.

The principal terms of the Amended and Restated Offtake Agreement are described in Schedule 1. They are essentially the same as the terms of the Existing Offtake Agreement, save for a reduction in the level of discount to the LME daily cash settlement price in calculating the nickel price - and the opportunity has been taken to update the arrangements and remove historical references.

The major differences are summarised in the table below:

	Existing Offtake Agreement	Amended and Restated Offtake Agreement
<b>Price for nickel</b>	The price payable by Glencore for nickel will be the official LME daily cash settlement price, less a 4.0% discount (subject to a minimum discount of US\$200 per metric tonne).	The price payable by Glencore for nickel will be the official LME daily cash settlement price, less a 3.5% discount (subject to a minimum discount of US\$300 per metric tonne).
<b>Quotational period for cobalt prices</b>	The price for cobalt is set during relevant "quotational periods", which are the calendar month of delivery for all cobalt delivered up to and including the 15th of the month, or the following month for all cobalt delivered on or after the 16th of the month.	The cobalt quotational period will be either the calendar month of delivery or the calendar month after the month of delivery, as Glencore elects at least two business days prior to the start of each month of delivery. If no such declaration is made, then the cobalt quotational period is the month of delivery.
<b>Term</b>	The Existing Offtake Agreement would, but for amendments effected by the Amended and Restated Offtake Agreement, terminate on 1 December 2011.	Under the Amended and Restated Offtake Agreement the term is extended for a further five years and one month, until 31 December 2016. There is an automatic extension for a further five years until 31 December 2021 unless either party elects to terminate the agreement on 31 December 2016.

### 7.4 Advantages of the proposed transaction

Minara believes the proposed transaction will enable it to continue to participate in the advantages of the Existing Offtake Agreement set out in paragraph 7.2 above for a minimum of a further five years, and possibly a further ten years, on the improved commercial terms outlined in the table in paragraph 7.3 above. In particular:

- (a) Minara will benefit from a substantial reduction in the nickel selling discount from 4.0% to 3.5%. This reduction in discount is estimated to benefit Minara by approximately US\$2 million per annum.
- (b) Minara will continue to benefit from the cost savings which have been achieved by streamlining sales of product through one customer and thereby removing the need for an internal marketing department.
- (c) Minara will retain the assurance that Glencore, an established reliable customer with a proven track record, will purchase all of its production on advantageous terms to Minara.
- (d) Minara will continue to enjoy the cash-flow advantages from the payment arrangements currently in place.

Minara believes that the only potential material disadvantage of the proposed transaction is the consequent concentration of financial risk. Under the Amended and Restated Offtake Agreement, all of MMH's share of the nickel and cobalt to be produced from the Murrin Murrin Project until 31 December 2016 (or possibly until 31 December 2021) will be sold to Glencore as is the case under the Existing Offtake Agreement. MMH, and therefore Minara, will be exposed to the ability of Glencore to pay for the product. However, Minara has not, during the term of the Existing Offtake Agreement, seen Glencore not meet a commitment, and has no reason to believe that Glencore will not continue to meet its commitments under the Amended and Restated Offtake Agreement.

### 7.5 Listing Rule 10.1

Listing Rule 10.1 provides that approval of holders of an entity's ordinary securities is required where an entity proposes to dispose of or agree to dispose of a substantial asset to a second entity that is a substantial shareholder, or an Associate of a substantial shareholder, of that entity.

For these purposes:

- (a) a person is a substantial holder if the person and the person's Associates have a relevant interest, or had a relevant interest at any time in the six months before the transaction, in at least 10% of the total votes attached to an entity's voting securities; and
- (b) an asset is a substantial asset if its value, or the value of the consideration for it, is 5% or more of the equity interests of the company as set out in the latest accounts of the company given to ASX under the Listing Rules.

Glencore is a substantial holder of Minara.

Minara's full year accounts for the period ending 31 December 2010 (as lodged with ASX on 18 February 2011) show that its equity interests were approximately \$816,983 million. The value of the asset (being the nickel and cobalt) would exceed 5% of the Company's equity interests as shown in its last consolidated financial statements.

Resolution 5 seeks the relevant approval, for the purposes of Listing Rule 10.1, to enable the Amended and Restated Offtake Agreement to become effective. If Resolution 5 is passed, the arrangements for the sale by MMH to Glencore of all of its share of the nickel and cobalt produced by the Murrin Murrin Project will continue, on the amended terms described in paragraph 7.3 above, for the period until 31 December 2016 and, unless either MMH or Glencore terminates the arrangements at that time, until 31 December 2021.

## **7.6 Listing Rule Requirements**

Under Listing Rule 10.10, the Notice of Meeting is required to contain a report on the transaction from an independent expert stating whether the transaction is fair and reasonable to holders of the Company's Shares whose votes are not to be disregarded.

The Independent Expert's Report is set out in Schedule 2 of this Explanatory Memorandum. The Independent Expert has concluded that the terms of the Deed of Amendment and Restatement and the Amended and Restated Offtake Agreement are fair and reasonable to Shareholders who are not associated with Glencore. Shareholders are advised to consider the Independent Expert's Report carefully before deciding how to vote on Resolution 5.

A voting exclusion statement in respect of Resolution 5 is set out in both the Notice and section 7.7 of this Explanatory Statement.

## **7.7 Voting Exclusion Statement**

In accordance with Listing Rules 10.10 and 14.11, the Company will disregard any votes cast on Resolution 5 by Glencore and its Associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

## **7.8 Corporations Act**

The Directors have considered whether any approval is required for the proposed transaction under the Corporations Act.

The Directors do not believe that such approval is required as the proposed transaction is on terms that would be reasonable in the circumstances if the Company and Glencore were dealing at arm's length or that the proposed terms of the transaction are less favourable to Glencore than such arm's length terms.

An independent consultant was commissioned by the Directors to assist with the deliberations of the terms and alternatives, and the proposed transaction (contemplated by the Amended and Restated Offtake Agreement) was considered to be the most favourable alternative to the Company in the circumstances.

## 8. GLOSSARY

In this Explanatory Memorandum, the following terms have the following meaning unless the context otherwise requires:

<b>Amended and Restated Offtake Agreement</b>	The Deed of Amendment and Restatement Murrin Murrin Offtake Agreement and the Amended and Restated Murrin Murrin Offtake Agreement between MMH (as principal and agent of Minara), Glencore and Murrin Murrin Operations, dated 8 April 2011.
<b>Annual General Meeting or Meeting</b>	Annual General Meeting of Shareholders of the Company or any meeting adjourned thereof, convened by the Notice.
<b>Annual Report</b>	The Company's annual report including the reports of the Directors and the Auditor and the Financial Statements of the Company for the year ended 31 December 2010, which can be downloaded from the Company's website at <a href="http://www.minara.com.au">www.minara.com.au</a>
<b>Associate</b>	Has the meaning given to that term in section 11 and sections 13 to 17 of the Corporations Act.
<b>ASX</b>	ASX Limited, trading as the Australian Securities Exchange.
<b>Board</b>	Board of Directors of the Company.
<b>Business Day</b>	A day (other than a Saturday or Sunday) on which trading banks in Perth are open for ordinary business.
<b>cobalt</b>	Metallic cobalt in the form of briquettes or chips produced by the Murrin Murrin Project consisting of cobalt content of minimum 99.8% purity or powder consisting of cobalt content of minimum 99.7% purity.
<b>Company or Minara</b>	Minara Resources Limited ABN 23 060 370 783.
<b>Constitution</b>	The constitution of the Company.
<b>Corporations Act</b>	<i>Corporations Act 2001</i> (Cth).
<b>Director</b>	A Director of the Company from time to time.
<b>Existing Offtake Agreement</b>	The Murrin Murrin Offtake Agreement between MMH, Glencore and Murrin Murrin Operations (then called Anaconda Nickel Operations Pty Limited), dated 9 November 2001 and the Cobalt Offtake Agreement between MMH and Glencore dated 9 November 2001, as amended to date.
<b>Explanatory Memorandum</b>	This explanatory memorandum which accompanies and forms part of the Notice of Annual General Meeting.
<b>Glencore</b>	Glencore International AG.
<b>Independent Expert</b>	Ernst & Young Transaction Advisory Services Limited.
<b>Independent Expert's Report</b>	The independent expert's report prepared by Ernst & Young and set out in Schedule 2 to this Explanatory Memorandum.
<b>Kwinana Warehouse</b>	The warehouse facility located at the port of Kwinana that MMH delivers nickel and cobalt to in accordance with the Existing Offtake Agreement.
<b>Listing Rules</b>	The official listing rules of ASX, as amended from time to time.
<b>LME</b>	Official London Metal Exchange.
<b>MMH</b>	Murrin Murrin Holdings Pty Limited ABN 83 073 405 562.
<b>Murrin Murrin Operations</b>	Murrin Murrin Operations Pty Limited ABN 43 076 717 505.
<b>Murrin Murrin Project</b>	The Murrin Murrin Nickel and Cobalt Project.
<b>nickel</b>	Metallic nickel in the form of briquettes of Murrin Murrin origin consisting of primary nickel of minimum 99.80% purity with chemical analysis conforming to the current ASTM specification.
<b>Notice and Notice of Meeting</b>	The notice of Annual General Meeting which accompanies this Explanatory Memorandum.
<b>Remuneration Report</b>	The remuneration report appearing in the Annual Report.
<b>Resolution</b>	A resolution set out in the Notice.
<b>Share</b>	Fully paid ordinary share in the capital of the Company.
<b>Shareholder</b>	A registered holder of a Share.
<b>WST</b>	Western standard time in Perth, Western Australia.



## **SCHEDULE 1 - KEY TERMS OF THE AMENDED AND RESTATED OFFTAKE AGREEMENT**

MMH (as principal and agent for Minara), Glencore and Murrin Murrin Operations executed the Deed of Amendment and Restatement Murrin Murrin Offtake Agreement and the Amended and Restated Murrin Murrin Offtake Agreement (together, the **Amended and Restated Offtake Agreement**) on 8 April 2011 in relation to the sale and purchase of nickel and cobalt produced by the Murrin Murrin Project.

The key terms of the Amended and Restated Offtake Agreement are as follows:

### **1. Variations to Existing Offtake Agreement**

The Deed of Amendment and Restatement Murrin Murrin Offtake Agreement restates the Existing Offtake Agreement to incorporate the agreement between MMH and Glencore to extend the term of the agreement and amend certain of its terms, and to consolidate into one document previous variations that have been agreed by:

- (a) a Deed Amending Murrin Murrin Offtake Agreement and Cobalt Offtake Agreement dated 12 February 2002;
- (b) an Amending Deed to amend Murrin Murrin Offtake Agreement dated 19 March 2002;
- (c) an Amendment to Murrin Murrin Offtake Agreement dated 25 February 2003;
- (d) an Amending Deed to amend Murrin Murrin Offtake Agreement dated 28 November 2003;
- (e) a letter agreement dated 30 November 2005; and
- (f) a Deed of Variation Murrin Murrin Offtake Agreement dated 3 September 2008.

### **2. Condition subsequent**

The Deed of Amendment and Restatement of the Offtake Agreement was signed on 8 April 2011, but will not become effective without shareholder approval. If no such approval is obtained by 13 June 2011, the agreement will not be amended and will terminate on 1 December 2011.

### **3. Sale of nickel and cobalt**

The Amended and Restated Offtake Agreement governs the sale to Glencore by MMH of all nickel and cobalt belonging to MMH, from the Murrin Murrin Project. Provisions in the Existing Offtake Agreement relating to the sale by MMH as agent for Minara of nickel delivered by MMH to Minara pursuant to forward sale arrangements between Minara and MMH have been removed as they no longer apply.

### **4. Price**

#### **4.1 Nickel:**

- (a) The price payable by Glencore for nickel is the official LME daily cash settlement price, less a 3.5% discount (subject to a minimum discount of US\$300 per metric tonne). Off-specification nickel will be subject to further discounts.
- (b) The price is set during relevant "quotational periods", which (at the option of Glencore) are generally either the calendar month of delivery or the third month after the month of delivery.

#### **4.2 Cobalt:**

- (a) The price payable by Glencore for cobalt is the London Metal Bulletin's low of the free market price for 99.3% cobalt less a discount of 3.5% (subject to a minimum discount US\$0.30 per pound material and a maximum discount of US\$0.50 per pound material). Off-specification cobalt will be subject to further discounts.
- (b) The price is set during relevant "quotational periods", which (at the option of Glencore) are generally either the calendar month of delivery or the calendar month after the month of delivery.

### **5. Delivery**

MMH's obligation is to deliver nickel and cobalt to the Glencore bonded area at the Kwinana Warehouse. MMH has a further obligation to ensure that the nickel and cobalt is delivered on board the ship at Fremantle, Western Australia, and will pay the delivery costs in doing so. MMH retains the risk in such metal until it is delivered on board the ship.

### **6. Payment**

MMH is to receive a provisional payment for delivered nickel and cobalt, being estimated at 91% of the then current value of the nickel and 95% of the then current value of the cobalt. After the final price of the nickel and cobalt is determined during the relevant quotational period, the difference is paid.

### **7. Term**

The initial term under the Amended and Restated Offtake Agreement will commence on 1 December 2011 and expire on 31 December 2016. Unless either party gives at least 12 months' prior written notice of its desire to terminate the Amended and Restated Offtake Agreement, the term will be automatically extended for a further term of five years until 31 December 2021.

### **8. Termination events**

An event of default occurs under the Amended and Restated Offtake Agreement if:

- (a) MMH defaults in the performance of any of its obligations under the agreement and fails to rectify that default within 14 days of a default notice;
- (b) Glencore fails to make payment of amounts due under the agreement within the time required by the agreement (and which are not genuinely disputed) within 14 days of a default notice. There is a mechanism for resolving disputes as to amounts payable. In the case of a dispute about metal prices, the LME regulations are applied to resolve it.

If an MMH event of default is not rectified, Glencore may terminate the agreement immediately.

If a Glencore event of default is not rectified, MMH may suspend deliveries. If it is not rectified within three months of its occurring, MMH may terminate the agreement.

**SCHEDULE 2  
INDEPENDENT EXPERT'S REPORT**



Independent Expert's Report and Financial  
Service Guide

Minara Resources Limited  
Amended and Restated Murrin Murrin Offtake Agreement

23 March 2011

## PART 1 - INDEPENDENT EXPERT'S REPORT

The Independent Directors  
Minara Resources Limited  
Level 4, 30 The Esplanade  
PERTH WA 6000

23 March 2011

Dear Sirs

### Amended and Restated Murrin Murrin Offtake Agreement

In November 2001, Minara Resources Limited ("Minara" or the "Company") via its wholly owned subsidiary, Murrin Murrin Holdings Pty Ltd ("MMH"), entered into offtake agreements with Glencore International AG ("Glencore") for the sale to Glencore of Minara's proportional share of the nickel and cobalt produced from the Murrin Murrin Nickel Cobalt operations (the "Murrin Murrin Project"). Minara, through MMH, has a 60% interest in the Murrin Murrin Project. On expiry of the original cobalt offtake agreement in December 2003, by amendment, the sale of cobalt to Glencore was incorporated into the original Murrin Murrin nickel offtake agreement (the "Existing Offtake Agreement").

The Existing Offtake Agreement had an initial term of five years with an automatic extension of a further five years. Having been extended in November 2006, the Existing Offtake Agreement is due to expire on 1 December 2011.

Outside of the Existing Offtake Agreement, Minara and Glencore have had a long association, with Glencore being a significant shareholder for approximately 15 years and at various times providing financial support to the Company through participating in equity raisings and the granting of loans and other financing facilities. In addition, Glencore, through its wholly owned subsidiary, Glenmurrin Pty Limited, holds the remaining 40% interest in the Murrin Murrin Project, having acquired it from the Company in 1996. At the date of this report, Glencore has a 70.5% interest in the issued shares of Minara.

With the Existing Offtake Agreement expiring on 1 December 2011, Minara formed a committee of non-executive Directors not associated with Glencore, to consider the options with respect to the Company's future offtake arrangements. As a consequence of this process, and in recognition of the benefits that the Existing Offtake Agreement had provided, discussions were entered into with Glencore. These discussions advanced to the point where new terms were negotiated and agreed between Minara and Glencore. The new terms are documented in the Deed of Amendment and Restatement and the Amended and Restated Offtake Agreement (together, the "Amended and Restated Offtake Agreement"). The principal terms of the Amended and Restated Offtake Agreement are essentially the same as the terms of the Existing Offtake Agreement, save for a reduction in the level of discount to the LME daily cash settlement price in calculating the nickel price.

Australian Securities Exchange ("ASX") Listing Rule 10.1 requires a listed entity to obtain shareholder approval prior to acquiring or disposing a substantial asset from or to a related party. An asset is "substantial" if its value, or the value of the consideration being paid, is 5% or more of the listed entity's equity as set out in the latest accounts lodged with the ASX. A "related party" includes an entity that controls the listed company.



On the basis that the Amended and Restated Offtake Agreement is considered "substantial" and that with a 70.5% interest Glencore is in a position to control Minara, ASX Listing Rule 10.1 is deemed to apply to the Amended and Restated Offtake Agreement. Accordingly, approval for the Company to enter into the Amended and Restated Offtake Agreement with Glencore is required from the Minara shareholders not associated with Glencore (the "Non-Associated Shareholders").

Under ASX Listing Rule 10.10.2, a notice of meeting containing a resolution being put to shareholders for the purposes of ASX Listing Rule 10.1 must be accompanied by an independent expert's report stating, in that person's opinion, whether or not the proposed transaction is fair and reasonable to the shareholders not associated with the transaction.

Consistent with this requirement, the independent Directors of Minara, being those not associated with Glencore, have engaged Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") as the independent expert. Accordingly, we have prepared this independent expert's report for the purpose of stating, in our opinion, whether or not the Amended and Restated Offtake Agreement is fair and reasonable to the Non-Associated Shareholders.

Neither the ASX Listing Rules nor the Corporations Act defines the term "fair and reasonable". In preparing our report we have had regard to the regulatory guides issued by the Australian Securities & Investments Commission. Of particular relevance is Regulatory Guide 111, *Content of expert reports* ("RG 111") which provides some guidance as to what matters an independent expert should consider when determining whether or not a particular transaction is fair and reasonable.

In determining whether or not the Amended and Restated Offtake Agreement is fair and reasonable to the Non-Associated Shareholders we have compared the likely advantages and disadvantages to the Non-Associated Shareholders if the Amended and Restated Offtake Agreement is implemented, with the advantages and disadvantages to those shareholders if it is not. In essence, the Amended and Restated Offtake Agreement will be fair and reasonable if the Non-Associated Shareholders are considered to be better off if the Amended and Restated Offtake Agreement is implemented, that is, the expected advantages to the Non-Associated Shareholders outweigh the disadvantages.

The Non-Associated Shareholders are to consider a resolution seeking the approval of the Amended and Restated Offtake Agreement at the Company's Annual General Meeting to be held on 13 May 2011 (the "Meeting"). Our report is being included in the Notice of Annual General Meeting and the Explanatory Memorandum being sent to the Non-Associated Shareholders in respect to the Meeting.

For the purposes of Chapter 2E of the Corporations Act, we have also been requested by the independent Directors to consider whether or not the Amended and Restated Offtake Agreement to be entered into between Minara and Glencore is at arm's length.

### **Summary of Opinion**

In forming its opinion as to whether or not the Amended and Restated Offtake Agreement is fair and reasonable, Ernst & Young Transaction Advisory Services has considered the following matters:

#### **Advantages**

- ▶ **Minimal change to the Existing Offtake Agreement:** Except for the reduction in price discount, the changes proposed within the Amended and Restated Offtake Agreement are minimal to the Existing Offtake Agreement that has been in place with Glencore and operating successfully since November 2001 and approved by shareholders in January 2002.
- ▶ **Price discount reduced:** The discount applicable to the price payable on nickel sold to Glencore under the Amended and Restated Offtake Agreement is to be reduced from the current level of 4.0% to 3.5%. At a constant nickel price of US\$22,180/t (being the average consensus estimated nickel price forecast over the next five years) and 18,070 tonnes per annum (being Minara's average share of production over the last five years), this reduction in discount equates to a saving to Minara of approximately US\$2.0 million per annum.

- ▶ **Nature and level of price discount:** While we were unable to obtain publicly available information on price discounts and/or commissions payable, we had discussion with an independent third party nickel producer that had recently negotiated a nickel offtake agreement with Glencore. While no specific details on the terms of this offtake agreement were provided because of confidentiality, the third party was able to confirm that the general structure of the price discount mechanism and the level of price discount contained in their offtake agreement were at levels not inconsistent with the Existing Offtake Agreement.
- ▶ **Provisional payment terms:** Glencore is required to remit a provisional payment to Minara based on 91% of the value of the nickel and 95% of the value of the cobalt at the time of delivery. Based on our review of both publicly available and confidential offtake agreements, the payment terms are considered favourable to Minara when benchmarked to other arrangements. The favourable level of provisional payments provides considerable cashflow benefits to Minara.
- ▶ **Payment terms:** Minara is entitled to provisional payments on delivery of product into the Glencore Bonded Area at the Kwinana Warehouse whereas offtake agreements typically require provisional payment once the product is loaded onto the ship. We estimate that the 'early' receipt of provisional payments by Minara has a positive working capital impact of around US\$39.5 million. The financial benefit to Minara of not having to fund this working capital is represented by the cost of capital that would be incurred in funding that amount, or if Minara has surplus cash, the interest that otherwise would have been earned.
- ▶ **Quotational Period:** The price of nickel payable by Glencore is set during the Quotational Period, which at Glencore's option, is either the average LME daily cash settlement price, less the price discount, for month of delivery or the average LME daily cash settlement price, less the price discount, for the third month after the month of delivery. Across the term of the Existing Offtake Agreement, nickel has been priced based on the third month after delivery. This is expected to continue under the Amended and Restated Offtake Agreement. Across a period where nickel prices are increasing, a longer Quotational Period is to the benefit of Minara as the final value of a shipment will be proportionally greater than the value at the time of the provisional payment.
- ▶ **No exposure to freight costs:** With Glencore being responsible for all freight costs once the product is onboard, Minara is not exposed to the variability of shipping rates, availability of vessels and other administrative costs involved with product delivery.
- ▶ **Single offtake partner:** While the sale of Minara's entire share of nickel and cobalt to Glencore increases the risk of dependence on a single offtake party, given Glencore's financial strength and its long standing history as a reliable counterparty, the level of dependence risk is considered minimal. The key advantages of selling to Glencore as a single offtake partner may include reduced credit risk, simplified logistics and elimination of penalties for any shortfall in deliveries.
- ▶ **Benefits of the relationship between Minara and Glencore:** Outside of the Existing Offtake Agreement, Glencore has had a long involvement with Minara and the Murrin Murrin Project and at different times has provided significant financial support to the Company through the provision of debt facilities and participation in equity raisings. Under the Existing Offtake Agreement, Glencore has never defaulted on payment, has paid the full amount rightfully due to the Company on time and has never refused to accept product from Minara regardless of market conditions. The Existing Offtake Agreement has allowed Minara to generate significant profits at times. Assuming there are no significant unforeseen costs, capital or operating, and nickel and cobalt prices are maintained at reasonable levels, there is no reason to believe that Minara will be any less profitable under the Amended and Restated Offtake Agreement. Glencore's involvement with Minara has benefitted the minority shareholders of Minara.

### **Disadvantages**

- ▶ **Minimum discount increased:** The minimum discount applicable to the price payable on nickel sold to Glencore has been increased from US\$200/t to US\$300/t. On the basis that the nickel price would need to fall below US\$8,571/t (the last time it did so was in July 2003) before the minimum discount would apply, the increase is not expected to have a significant financial impact on Minara.
- ▶ **Quotational Period:** Across the term of the Existing Offtake Agreement, the nickel price payable by Glencore has been based on the average price over the third month after delivery. This is expected to continue under the Amended and Restated Offtake Agreement. In an environment where commodity prices are decreasing, a longer Quotational Period may be to the detriment of Minara as provisional payments received from Glencore may end up being greater than the final value. In these circumstances the Company is required to repay Glencore for the overpayment. The level of detriment to Minara is dependent on its ability to repay the amount owing to Glencore.
- ▶ **Single offtake partner:** The sale of Minara's entire share of nickel and cobalt to Glencore increases the risk of dependence on a single offtake party; however, given Glencore's financial strength and its long standing history as a reliable counterparty, the level of dependence risk is considered minimal.

### **Other Matters**

- ▶ **Product premium:** Customers in some markets have been known to offer a premium to the LME prices for nickel briquette product. While it is not known if Glencore has been able to achieve a premium for product sourced from Minara under the Existing Offtake Agreement there is no provision under this agreement or the Amended and Restated Offtake Agreement for the sharing of this premium between Glencore and Minara. While there is some uncertainty around the nature and extent of this premium, in negotiations with Glencore, it was Glencore's view that if there was a sharing of any premium, the 0.5% reduction in price discount on nickel from 4.0% to 3.5% would not be available. Given the uncertainties attached to the level of premium that may be available compared to the certainty of the price discount reduction, Minara management and the non-executive independent Directors were of the view that accepting the reduction in price discount was the best outcome for the Company.
- ▶ **Minara's alternatives:** As an alternative to entering into the Amended and Restated Offtake Agreement with Glencore, Minara could return to marketing its own nickel and cobalt products with assistance from a third party agent, such as SOGEM. Prior to entering into the Existing Offtake Agreement, Minara ran its own internal marketing division at a cost at that time of approximately \$9 million per annum. Given the unique expertise required for such a role, identifying and securing the right people may not be easy. In addition, setting up its own marketing department would put Minara in direct competition with Glencore with respect to the offer for sale of nickel and cobalt from the Murrin Murrin Project. With the strong relationships that Glencore has with customers it is expected that Minara's ability to compete on any aspect other than price would be difficult. Another alternative would be for Minara to run an open market tender to determine whether there is another party willing to offer more attractive offtake terms than Glencore. Given the perceived benefits of the relationship with Glencore, the likelihood of Minara being able to secure more attractive offtake terms with another party is considered unlikely in the current environment.

Having had consideration to these factors and the matters detailed in our independent expert's report, the Amended and Restated Offtake Agreement is, in our opinion, fair and reasonable to the Non-Associated Shareholders. On this basis, it is also our opinion that the Amended and Restated Offtake Agreement to be entered into between Minara and Glencore is at arm's length.

While individual shareholders may interpret these factors differently depending on their own individual circumstances, in Ernst & Young Transaction Advisory Services' opinion the potential advantages outweigh the potential disadvantages to the shareholders as a whole and as such, the Non-Associated Shareholders are likely to be better off if the Amended and Restated Offtake Agreement is implemented.

### **Other Matters**

This independent expert's report has been prepared specifically for the Non-Associated Shareholders of Minara. Neither Ernst & Young Transaction Advisory Services, Ernst & Young nor any employee thereof undertakes responsibility to any person, other than the Non-Associated Shareholders, in respect of this report, including any errors or omissions howsoever caused.

This independent expert's report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the Non-Associated Shareholders. The decision as to whether to approve or not approve the Amended and Restated Offtake Agreement is a matter for individual Minara shareholders. The Non-Associated Shareholders should have regard to the Notice of Annual General Meeting and Explanatory Memorandum prepared by the independent Directors and management of Minara. Non-Associated Shareholders who are in doubt as to the action they should take in relation to their consideration of the Amended and Restated Offtake Agreement should consult their own professional adviser.

Our opinion is made as at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full independent expert's report as attached.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.

Yours faithfully  
Ernst & Young Transaction Advisory Services Limited



Brenda J Moore  
Representative



Ken Pendergast  
Director and Representative

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### Part 2 - Financial Services Guide

## 1. Overview of the Murrin Murrin Offtake Agreements

### 1.1 The Existing Offtake Agreement

In November 2001, Minara Resources Limited (under its previous name of “Anaconda Nickel Limited”) (“Minara” or the “Company”) via its wholly owned subsidiary, Murrin Murrin Holdings Pty Ltd (“MMH”), entered into offtake agreements with Glencore International AG (“Glencore”) for the sale to Glencore of Minara’s proportional share of the nickel and cobalt produced from the Murrin Murrin Nickel Cobalt operations (“Murrin Murrin Project”). Minara, through MMH, has a 60% interest in the Murrin Murrin Project. Where appropriate, reference in this report to Minara includes MMH.

Murrin Murrin is a laterite nickel and cobalt project that was developed by Minara in the late-1990’s, with mining commencing from an open pit in early 1998 and production of nickel briquettes and cobalt commencing in mid 1999. The project is located in the Eastern Goldfields region of Western Australia, approximately 200 kilometres north of Kalgoorlie. Glencore, through its wholly owned subsidiary, Glenmurrin Pty Limited (“Glenmurrin”), holds the remaining 40% interest in the Murrin Murrin Project, having acquired it from the Company in 1996. Where appropriate, reference in this report to Glencore includes Glenmurrin.

The nickel offtake agreement (the “Nickel Offtake Agreement”) and the cobalt offtake agreement (the “Cobalt Offtake Agreement”) replaced the marketing arrangements that Minara had with Belgian based company, S.A. SOGEM NV (“SOGEM”), who under a Memorandum of Understanding entered into in December 2000, was required to use its ‘best endeavours’ to promote and facilitate the sale of the Company’s share of nickel and cobalt produced from the Murrin Murrin Project to third party customers.

At the time, Minara operated its own internal marketing department which worked with SOGEM and with customers. Streamlining sales through a single customer in Glencore enabled the Company to close its internal marketing department, achieving an estimated cost saving of around \$9 million per annum.

Minara shareholders approved the terms of the Nickel and Cobalt Offtake Agreements in January 2002. At that time, in addition to owning 40% of the Murrin Murrin Project, Glencore was a major shareholder of the Company with a 33.8% interest. Glencore had also agreed to provide loan facilities to Minara of up to US\$55.8 million to meet obligations at that time and to provide ongoing working capital in an environment of historically low metal prices.

On expiry of the original Cobalt Offtake Agreement in December 2003, by amendment, the sale of cobalt to Glencore was incorporated into the original Nickel Offtake Agreement under essentially the same terms and conditions so that the one agreement covered both the sale of nickel and the sale of cobalt (herein referred to as the “Existing Offtake Agreement”).

The key terms of the Existing Offtake Agreement are summarised as follows:

- ▶ Glencore agreed to purchase Minara’s 60% proportional entitlement of the first 40,000 tonnes (being 24,000 tonnes) of nickel and off-specification nickel produced by the Murrin Murrin Project each year and all of the cobalt produced by the Murrin Murrin Project;
- ▶ for the sale of nickel (99.80% pure briquettes), Minara receives the London Metals Exchange (“LME”) daily cash settlement price in US\$’s per tonne (“/t”) averaged over a “quotational period”, less a discount of 4% of the LME daily cash settlement price or a minimum discount of US\$200/t (whichever is higher);
- ▶ the price of nickel is set during a relevant quotational period (the “Quotational Period”), which at the option of Glencore is either the calendar month of delivery or the third month after the month of delivery;

- ▶ Glencore must elect the Quotational Period, with each election lasting six months. Glencore must declare its election at least five days before the start of each six month period;
- ▶ Minara is obligated to deliver nickel to the Glencore bonded area (the "Glencore Bonded Area") at the Kwinana warehouse (the "Kwinana Warehouse") and is required to arrange for the delivery of nickel to Fremantle port for loading onto the relevant ship at its cost;
- ▶ Glencore must remit 91% of the value of the nickel as a provisional payment within 30 days of the date of each delivery into the Glencore Bonded Area, with the payment being based on the LME cash settlement price on the day prior to delivery, with the remainder/true-up being paid within three days of the end of the relevant Quotational Period;
- ▶ various discounts are applied to the sale of off-specification nickel;
- ▶ the agreement does not apply to nickel produced in excess of 40,000 tonnes per year attributable to a mill feed rate in excess of 4 million tonnes per year. Any surplus may be offered to a third party; however, Glencore has the right to match the price offered by the third party;
- ▶ for the sale of cobalt (99.3% cobalt), Minara receives the London Metal Bulletin's ("LMB") low of the free market price averaged over a cobalt quotational period (the "Cobalt Quotational Period"), less a discount of 3.5% of the sale price, subject to a minimum discount of US\$0.30 per pound and a maximum discount of US\$0.50 per pound;
- ▶ cobalt powder meeting specification is priced in the same manner except the minimum and maximum discount amounts are subject to a premium of US\$0.20 per pound;
- ▶ cobalt chips meeting specification is priced in the same manner however they are subject to a commission of 4.5% and a minimum discount of US\$0.38 per pound and a maximum discount of US\$0.64 per pound;
- ▶ various discounts are applied to the sale of off-specification cobalt;
- ▶ Glencore must make weekly payments in respect of cobalt purchased, based on cobalt delivered into Kwinana in the previous week and calculated at 95% of the LMB 99.3% low cobalt price per pound of cobalt on the first day of the week of payment less the applicable discount or plus the applicable premium, with the remainder/true-up being paid within three days of the end of the relevant Cobalt Quotational Period;
- ▶ the Cobalt Quotational Period is a period of one month, being the month of delivery for deliveries on or before the 15<sup>th</sup> of the month, and the month after delivery for deliveries on or after the 16<sup>th</sup> of the month;
- ▶ the agreement had a term of five years with an automatic extension for a further five years, unless either party terminates the agreement by giving 12 months notice;
- ▶ title passes to Glencore upon delivery of the product to the Glencore Bonded Area at the Kwinana Warehouse; and
- ▶ Glencore assumes the risk in relation to the nickel or cobalt as the metal is loaded onto the relevant ship.

Having an initial term of five years, in November 2006 the Existing Offtake Agreement was automatically extended for a further five years and is due to expire on 1 December 2011.

As total volumes have been less than 40,000 tonnes per annum, almost all of Minara's share of the nickel and cobalt produced by the Murrin Murrin Project since November 2001 has been sold to Glencore. Occasionally and with Glencore's approval the Company has sold some product to other parties however these volumes have been minimal.

In regards to the Quotational Period used to price nickel sales, Glencore has always used the average for the third month after the month of delivery.

## 1.2 Amended and Restated Offtake Agreement

With the Existing Offtake Agreement expiring on 1 December 2011, Minara formed a committee of non-executive Directors not associated with Glencore to consider the options with respect to the Company's future offtake arrangements. An independent consultant was commissioned by the committee to assist with the deliberation of the terms and alternatives.

As a consequence of this process, and in recognition of the benefits that the Existing Offtake Agreement had provided, discussions were entered into with Glencore. These discussions advanced to the point where new terms were negotiated and agreed between Minara and Glencore. The new terms are documented in the Deed of Amendment and Restatement (the "Deed") and the Amended and Restated Murrin Murrin Offtake Agreement (the "Amended and Restated Offtake Agreement").

Because there are relatively few changes to the Existing Offtake Agreement, the revised terms have been accepted as amendments to the Existing Offtake Agreement rather than requiring the drafting of a completely new agreement.

The key amendments incorporated into the Amended and Restated Offtake Agreement are summarised as follows:

- ▶ for the sale of nickel (99.80% pure briquettes), Minara receives the LME daily cash settlement price in US\$'s per tonne averaged over the Quotational Period, less a discount of 3.5% (previously 4.0%) of the LME daily cash settlement price or a minimum discount of US\$300/t (previously US\$200/t) (whichever is higher);
- ▶ the Cobalt Quotational Period will be either the month of delivery or the following month as declared by Glencore in writing at least two business days prior to the start of each month of delivery. If no such declaration is made the Cobalt Quotational Period will be the month of delivery; and
- ▶ the agreement will have an initial term of five years and one month, beginning 1 December 2011, with an automatic extension for a further five years to 31 December 2021, unless either party terminates the agreement by giving 12 months notice.

For other material matters, the Amended and Restated Offtake Agreement is the same as the Existing Offtake Agreement.

The Amended and Restated Offtake Agreement is subject to approval of Minara's shareholders that are not associated with Glencore (the "Non-Associated Shareholders"). The terms of the Amended and Restated Offtake Agreement have been approved by the independent Directors and they have recommended the Non-Associated Shareholders approve the agreement.

The Non-Associated Shareholders are to consider a resolution seeking the approval of the Amended and Restated Offtake Agreement at the Company's Annual General Meeting to be held on 13 May 2011 (the "Meeting").



## 2. Scope of the Report

### 2.1 Purpose of the Report

Australian Securities Exchange (“ASX”) Listing Rule 10.1 requires a listed entity to obtain shareholder approval prior to acquiring or disposing a substantial asset from or to a related party. An asset is “substantial” if its value, or the value of the consideration being paid, is 5% or more of the listed entity’s equity as set out in the latest accounts lodged with the ASX. A “related party” includes an entity that controls the listed company.

On the basis that the Amended and Restated Offtake Agreement is considered “substantial” and that with a 70.5% interest Glencore is in a position to control Minara, ASX Listing Rule 10.1 is deemed to apply to the Amended and Restated Offtake Agreement. Accordingly, approval for the Company to enter into the Amended and Restated Offtake Agreement with Glencore is required from the Non-Associated Shareholders of Minara.

Under ASX Listing Rule 10.10.2, a notice of meeting containing a resolution being put to shareholders for the purposes of ASX Listing Rule 10.1 must be accompanied by an independent expert’s report stating, in that person’s opinion, whether or not the proposed transaction is fair and reasonable to the shareholders not associated with the transaction.

Consistent with this requirement, the independent Directors of Minara have appointed Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services”) as independent expert to prepare an independent expert’s report, the purpose of which is to provide an opinion as to whether or not the Amended and Restated Offtake Agreement is fair and reasonable to the Non-Associated Shareholders.

For the purposes of Chapter 2E of the Corporations Act, we have also been requested by the independent Directors to consider whether or not the Amended and Restated Offtake Agreement to be entered into between Minara and Glencore is at arm’s length.

Our report is to be included in the Notice of Annual General Meeting and Explanatory Memorandum that is to be sent to Minara shareholders in respect to the Meeting.

### 2.2 Basis of assessment

The ASX Listing Rules do not define the term ‘fair and reasonable’ and provides no guidance on what should be considered when assessing whether or not a particular transaction is fair and reasonable. While the Corporations Act does not define ‘fair and reasonable’, Australian Securities and Investment Commission (“ASIC”) Regulatory Guide 111: *Content of expert reports* (“RG 111”) provides some guidance as to what matters an independent expert should consider and how ‘fair and reasonable’ should be interpreted in a range of circumstances.

Consistent with the guidance contained in RG 111, in assessing whether or not the Amended and Restated Offtake Agreement is fair and reasonable to the Non-Associated Shareholders we compared the likely advantages and disadvantages to the Non-Associated Shareholders if the Amended and Restated Offtake Agreement is implemented, with the advantages and disadvantages to those shareholders if it is not. In this regard, matters we have considered include:

- ▶ the underlying terms of the Amended and Restated Offtake Agreement;
- ▶ comparison of those terms with the Existing and Restated Offtake Agreement and any financial benefit expected because of the amended terms;
- ▶ general industry practice as to offtake and sale arrangements for nickel, cobalt and other commodities;
- ▶ consideration of Glencore’s performance under the Existing Offtake Agreement and the impact on Minara’s financial position;

- ▶ whether the Amended and Restated Offtake Agreement contains any particularly onerous provisions or clauses that may be detrimental to Minara;
- ▶ consideration of the relationship between Minara and Glencore;
- ▶ the outlook for nickel and market conditions generally;
- ▶ the alternatives available to Minara with respect to the marketing of its nickel and cobalt; and
- ▶ any other significant matters.

In essence, the Amended and Restated Offtake Agreement will be fair and reasonable if the Non-Associated Shareholders are considered to be better off if the Amended and Restated Offtake Agreement is implemented, that is, the expected advantages to the Non-Associated Shareholders outweigh the disadvantages.

With respect to considering whether or not the Amended and Restated Offtake Agreement is at 'arm's length', if, in our opinion, it is fair and reasonable, it will also be at arm's length.

Our assessment of the Amended and Restated Offtake Agreement is based on the economic, political, social, market and other conditions prevailing at the date of this report.

All amounts in this report are expressed in Australian dollars unless otherwise stated. A glossary detailing the abbreviations we have used in this report is contained in Appendix C.

## 2.3 Shareholders' decisions

This independent expert's report has been prepared specifically for the Non-Associated Shareholders of Minara at the request of the independent Directors of the Company with respect to the Amended and Restated Offtake Agreement. As such, Ernst & Young Transaction Advisory Services, Ernst & Young and any member or employee thereof, take no responsibility to any entity other than the Non-Associated Shareholders, in respect of this report, including any errors or omissions howsoever caused.

This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the shareholders. The decision to approve or not approve the Amended and Restated Offtake Agreement is a matter for individual shareholders. Shareholders should consider the advice in the context of their own circumstances, preferences and risk profiles. Minara shareholders should have regard to the Notice of Annual General Meeting and Explanatory Memorandum prepared by the Directors and management of the Company. Minara shareholders who are in doubt as to the action they should take in relation to the Amended and Restated Offtake Agreement should consult their own professional adviser.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.

## 2.4 Limitations and reliance on information

In the preparation of this independent expert's report, Ernst & Young Transaction Advisory Services was provided with information in respect of Minara and obtained additional information from public sources, as set out in Appendix B.

We have had discussions with management of Minara in relation to the operations, financial position, operating results, future outlook and the Existing Offtake Agreement and the Amended and Restated Offtake Agreement.

Ernst & Young Transaction Advisory Services' opinion is based on economic, market and other external conditions prevailing at the date of this report. These conditions can change significantly over relatively short periods of time.

This independent expert's report is also based upon financial and other information provided by Minara in relation to the Amended and Restated Offtake Agreement. Ernst & Young Transaction Advisory Services has considered and relied upon this information. The information provided to Ernst & Young Transaction Advisory Services has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the Amended and Restated Offtake Agreement is fair and reasonable to the Non-Associated Shareholders. However, Ernst & Young Transaction Advisory Services does not warrant that its enquiries have identified all of the matters that an audit, an extensive examination or 'due diligence' and/or tax investigation might disclose.

Preparation of this report does not imply that we have, in any way, audited the accounts or records of Minara. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles including the Australian equivalents to International Financial Reporting Standards and International Financial Reporting Standards, as applicable.

In forming our opinion we have also assumed that:

- ▶ matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- ▶ the information set out in the Notice of Annual General Meeting and the Explanatory Memorandum to be sent by Minara to shareholders is complete, accurate and fairly presented in all material respects; and
- ▶ the publicly available information relied upon by Ernst & Young Transaction Advisory Services in its analysis was accurate and not misleading.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue.

The statements and opinions given in this independent expert's report are given in good faith and in the belief that such statements and opinions are not false or misleading.

Ernst & Young Transaction Advisory Services provided draft copies of this report to the Directors and management of Minara for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Amendments made to this report as a result of this review have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

This report should be read in the context of the full qualifications, limitations and consents set out in Appendix A of this report.

This report has been prepared in accordance with APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board Limited in July 2008.

## 3. Overview of Minara

### 3.1 Company Background

Minara was incorporated in 1993 as “Anaconda Nickel Limited”, to acquire the Anaconda tenements and an option over the Central Bore tenement (subsequently called Murrin Murrin South and North tenements), both located in the Mt Margaret Mineral Field of Western Australia, approximately 200 kilometres north of Kalgoorlie. On raising \$6 million through an initial public offering, Minara listed on the ASX in March 1994. As a laterite nickel and cobalt explorer, the Company’s immediate focus was on the development of the Murrin Murrin Project.

To assist with funding the development of the Murrin Murrin Project, in 1996 Minara sold 40% of the project to Glencore for US\$240 million. Operated as a joint venture, Minara’s 60% interest in the Murrin Murrin Project is held through MMH. Glencore’s 40% interest is held through its wholly owned subsidiary, Glenmurrin. Construction of the processing plant at Murrin Murrin was completed in December 1999. Minara’s wholly owned subsidiary, Murrin Murrin Operations Pty Ltd, is the operator of the Murrin Murrin Project.

Following extracting lateritic ore from an open pit the Murrin Murrin Project employs a complex hydrometallurgical process that involves high pressure acid leaching, mixed sulphide precipitation and separate nickel and cobalt refining. While the use of these technologies and processes have enabled Minara to develop capabilities beyond those of other nickel producers, in the early years of operation the Murrin Murrin plant was faced with a number of technical issues which impacted production levels across a prolonged period.

Rectifying the technical issues coupled with low commodity prices, placed substantial financial pressure on Minara as it struggled to manage debt obligations and ongoing working capital requirements. During the 2003 financial year the Company successfully undertook a financial restructure and recapitalisation. Reflecting this new era, the Company’s name was changed to ‘Minara’.

Since that time, Minara has concentrated on improving the integrity and efficiency of the Murrin Murrin plant at consistent production levels while at the same time reducing the costs. High nickel and cobalt prices leading up to the global financial crisis (“GFC”) assisted in the process and the success of the Murrin Murrin Project. The Company investigated increasing production through an expansion of its heap leach facilities.

With the onset of the GFC through the 2008 calendar year, nickel prices decreased from levels of around US\$28,000/t in May 2008 to around US\$16,000/t by the end of September 2008. Cobalt prices reduced from US\$46.50 per pound (“/lb”) to US\$33.50/lb across the same period. Nickel prices reached a low of around US\$8,999/t in December 2008, while cobalt prices closed at US\$10.50/lb at the end of that month. With falling commodity prices the Australian dollar fell from levels of around A\$1.00:US\$0.95 in May 2008 to A\$1.00:US\$0.65 by October 2008.

World financial markets became increasingly volatile and problems across global economies began to emerge with recessionary conditions being felt throughout Europe, the USA and Asia. While Australia fared better than many countries, the slowdown in economic activity had a pronounced effect on the operations of most companies.

In response to a worsening financial position brought about by the low nickel and cobalt prices and higher than anticipated costs, in October 2008 Minara announced that it was to undertake a renounceable rights issue to raise approximately \$210 million (the “Rights Issue”), the proceeds of which were to be used for:

- ▶ repayment of approximately \$73 million outstanding under a short term funding arrangement with Glencore;

- ▶ approximately \$23 million of committed capital expenditure;
- ▶ approximately \$8 million of underwriting fees and other costs associated with the rights issue; and
- ▶ approximately \$106 million for working capital and funding of ongoing operations.

The debt with Glencore was primarily caused by the falling nickel price over 2008. This meant that on the true-up for nickel sales Minara was left owing money to Glencore. Instead of demanding repayment, Glencore agreed to provide the Company with a short term funding arrangement to cover these amounts.

The Rights Issue was fully underwritten by Glencore. As a result of having to take up the shortfall, Glencore's interest in Minara increased from 56.1% to 70.6%. Glencore's shareholding has since been reduced to 70.5% due to the issue of additional shares by Minara.

Over 2009 and into 2010, the nickel price steadily recovered to reach a two year high in April 2010 of just over US\$27,000/t. By July 2010 the price drifted back to around US\$18,000/t and then increased to levels of just under US\$25,000/t in December 2010. The higher prices reflected a more positive outlook as world economies recovered from the GFC.

Included in the table below is a summary of production from the Murrin Murrin Project over the past five years, Minara's share of that production and a summary of Minara's trading performance:

<b>Minara - Summary of Production and Trading Performance</b>					
	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>
<b>Murrin Murrin Production (100%):</b>					
- Nickel (tonnes packaged)	31,524	27,585	30,514	32,977	28,378
- Cobalt (tonnes packaged)	2,096	1,884	2,018	2,350	1,976
<b>Minara's Share (60%):</b>					
- Nickel (tonnes packaged)	18,914	16,551	18,308	19,786	17,027
- Cobalt (tonnes packaged)	1,258	1,130	1,211	1,410	1,186
<b>Minara's Trading Performance (\$m's)</b>					
- Revenue	751.9	783.4	425.4	446.1	464.8
- Net profit/(loss) after tax	338.7	270.5	(19.8)	48.5	58.4

*Source: Minara's Annual Reports*

Minara's trading performance in 2006 and 2007 reflected the strong commodity prices with the price of nickel increasing to a historical high of approximately US\$55,000 in June 2007.

The improved trading conditions experienced through 2009 and into 2010 assisted Minara recover from the financial issues it faced prior to the Rights Issue. By 30 June 2010 the Company had built cash reserves to \$363 million. In September 2010 Minara returned approximately \$111 million of cash to shareholders by way of a capital return of 9.5 cents per share. At 31 December 2010, the Company had a cash balance of \$224.3 million and was debt free. In more recent times, Minara's trading performance has been adversely impacted by the high Australian dollar.

Included in the tables below is a summary of the reserves and resources of the Murrin Murrin Project as at 31 December 2010. The long term assumptions adopted in determining reserves are US\$16,000 per tonne of nickel, US\$10.00 per pound of cobalt and an exchange rate of A\$1.00/ US\$0.70:

<b>Murrin Murrin Ore Reserves</b>				
<b>As at 31 December 2010</b>	<b>Tonnage (Mt)</b>	<b>Ni Grade %</b>	<b>Co Grade %</b>	<b>Cut off Grade Ni</b>
Proven	93	1.06	0.082	n/a
Probable	65	1.04	0.079	n/a
Scats	1	1.01	0.073	n/a
Stockpiles	37	1.02	0.068	n/a
<b>Total</b>	<b>196</b>	<b>1.05</b>	<b>0.078</b>	

*Source: Minara announcements 2010 results summary*

<b>Murrin Murrin Mineral Resources</b>				
<b>As at 31 December 2010</b>	<b>Tonnage (Mt)</b>	<b>Ni Grade %</b>	<b>Co Grade %</b>	<b>Cut off Grade Ni</b>
Measured	114	1.03	0.076	0.8%
Indicated	106	0.99	0.076	0.8%
Inferred	10	0.94	0.058	0.8%
Scats	1	1.01	0.073	n/a
Stockpiles (Measured)	37	1.02	0.068	n/a
<b>Total</b>	<b>268</b>	<b>1.01</b>	<b>0.074</b>	

*Source: Minara announcements 2010 results summary*

With broker forecasts indicating that the nickel price is expected to be maintained at levels of around US\$20,000/t through to 2015 the medium term future of Minara appears positive.

### 3.2 Glencore and Glencore's Involvement with Minara

Glencore is a Switzerland based global integrated producer and marketer of commodities, involved in the production, sourcing, processing, refining, transportation, storage, financing and supply of metals, energy products and agricultural products worldwide. Founded in 1974, Glencore was initially involved in the physical marketing of ferrous and non-ferrous metals, minerals and crude oil and eventually expanded its operations into oil products. Glencore's agricultural business was established in the early 1980's through its Dutch grain trading company and the company's participation in the coal industry began shortly thereafter.

A transition from solely marketing commodities to having a direct investment in mining, smelting, refining and processing assets began in 1987 when Glencore acquired a 27% interest in the Mt Holly aluminium smelter in the United States. Since then Glencore has secured significant interests in a number of publically listed minerals and resource companies worldwide, including its interest in Minara. Glencore's main shareholding is its 34.5% interest in major global diversified mining group, Xstrata plc ("Xstrata"), a company with a market capitalisation of in excess of US\$65 billion.

For the 2010 financial year Glencore's revenues totalled approximately US\$145 billion and generated earnings before interest, tax, depreciation and amortisation of US\$6.2 billion. Total assets at 31 December 2010 were approximately US\$80 billion, with net assets being approximately US\$20 billion.

Outside of the Existing Offtake Agreement, Minara and Glencore have had a long association, with Glencore first becoming involved with the Company through the provision of a US\$3.7 million funding facility in July 1995. By September 1996 Glencore had become Minara's largest shareholder with a 17.4% interest. Glencore acquired its 40% interest in the Murrin Murrin Project in December 1996. A representative of Glencore was first appointed to the Minara's Board of Directors around the same time.

Across the period when Minara was rectifying the technical matters of the Murrin Murrin Project, Glencore provided substantial financial support to the Company through the granting of loans and other financing facilities and participating in equity raisings, including the financial restructure and recapitalisation that occurred in 2003.

The recent demonstration of Glencore's continued support of Minara was the provision of a short term funding facility in 2008 when the fall in nickel and cobalt prices meant that on the true-up of provisional payments Minara needed to repay amounts previously paid by Glencore. Instead of demanding immediate payment, which Glencore was entitled to do, it provided Minara with the funding facility.

Glencore's underwriting of the Rights Issue at a time when there was significant uncertainty in world financial markets brought about by the GFC is further evidence of this support. The shortfall that Glencore met under the Rights Issue totalled \$50.9 million; this is in addition to the \$117.9 million paid by Glencore to take up its entitlement. As a consequence of the shares taken up under the Rights Issue, Glencore's interest in Minara increased from 56.1% to 70.6%.

## 4. Evaluation of the Amended and Restated Offtake Agreement

### 4.1 Financial Implications of the Amended Terms

As set out in section 1.2, the key amendments to the terms of the Existing Offtake Agreement in the Amended and Restated Offtake Agreement are summarised as follows:

- ▶ the discount applicable to the price payable on nickel sold to Glencore has been reduced from 4.0% to 3.5%;
- ▶ the minimum discount applicable to the price payable on nickel sold to Glencore has been increased from US\$200/t to US\$300/t; and
- ▶ instead of being the month of delivery for deliveries on or before the 15<sup>th</sup> of the month, and the month after delivery for deliveries on or after the 16<sup>th</sup> of the month, the Cobalt Quotational Period has been revised to be either the month of delivery or the month after delivery.

With respect to the minimum discount, for the US\$300/t to apply the price of nickel would need to fall below US\$8,571/t (i.e. \$US300 grossed up by the 3.5% discount). This compares to US\$5,000/t price for the \$US200/t discount to apply (being the US\$200 grossed up by the 4.0%). We note that the nickel price over the last five year period has not declined to US\$8,571/t (the last time it did so was in July 2003) and based on analyst consensus nickel price forecasts, is not expected to decline to this level in the foreseeable future. As such the amendment to the terms of the minimum discount is not expected to have a significant financial impact on Minara.

The removal of the requirement to record deliveries pre and post the 15<sup>th</sup> of the month in the Cobalt Quotational Period is not expected to have a material impact on cobalt revenues generated by Minara.

The reduction of the price discount on nickel sales from 4.0% to 3.5% is an obvious benefit to Minara when comparing the Existing Offtake Agreement with the Amended and Restated Offtake Agreement.

To illustrate the financial impact of the proposed reduction in the nickel price discount we have considered the differential on a historical basis over the five year period from 1 January 2006 to 31 December 2010 and on a forecast basis over the five year period from 1 January 2011 to 31 December 2015.

The calculation of the financial impact on a historical basis is presented in the table below.

Minara - Cumulative Net Financial Benefit of Proposed Price Discount - Historical

	Nickel Invoiced tonnes	Weighted Average Price US\$/t	Gross Value Invoiced US\$000's	Existing Price Discount %	Existing Price Discount US\$000's	Proposed Price Discount %	Proposed Price Discount US\$000's	Net Financial Impact US\$000's
2006	18,680	31,370	585,990	4.0%	23,440	3.5%	20,510	2,930
2007	16,493	34,208	564,191	4.0%	22,568	3.5%	19,747	2,821
2008	18,318	16,782	307,400	4.0%	12,296	3.5%	10,759	1,537
2009	19,873	17,162	341,062	4.0%	13,642	3.5%	11,937	1,705
2010	16,986	22,753	386,489	4.0%	15,460	3.5%	13,527	1,932
	<b>90,349</b>		<b>2,185,132</b>		<b>87,405</b>		<b>76,480</b>	<b>10,926</b>

Source: Minara management and EY analysis



The following observations are made in relation to the above table:

- ▶ ‘Nickel Invoiced’ represents the total quantity of nickel invoiced to Glencore by Minara each year. It differs to tonnes produced in that in any given financial year the Murrin Murrin Project production volume may not be split exactly 60/40 between Minara and Glencore due to packing number sequencing at the start and end of each year; and because packaged product may be in transit to Kwinana. The Nickel Invoiced for 2006 includes 744 tonnes sold to parties other than Glencore;
- ▶ ‘Gross Value Invoiced’ is the total US\$ invoiced values prior to any discounts. In the case of 2010, the final Quotational Period for the later months was not known so a price of US\$25,000/t has been assumed. For earlier years, the Quotational Period for the later months has been retrospectively updated to the actual price which would not have been known at the time of reporting that year’s results. A consequence of this is that the reported gross nickel revenues for each year will not exactly match the Gross Value Invoiced for that year.
- ▶ The ‘Weighted Average Price’ is a calculation of the Gross Value Invoiced divided by the Nickel Invoiced tonnes;
- ▶ The ‘Existing Price Discount’ is the US\$ discount based on the Gross Value Invoiced multiplied by the existing 4.0% price discount rate;
- ▶ The ‘Proposed Price Discount’ is the US\$ discount based on the Gross Value Invoiced multiplied by the amended 3.5% price discount rate;
- ▶ The ‘Net Financial Impact’ amount reflects the difference between the Existing Price Discount and the Proposed Price Discount with a positive value reflecting a net financial benefit to Minara.

The above analysis calculates the positive financial impact of the reduced price discount on a historical basis over the five year period from 1 January 2006 to 31 December 2010 to be US\$10.926 million.

The calculation of the financial impact of the change in price discount on a forecast basis for the initial five years of the Amended and Restated Offtake Agreement is presented in the table below.

Minara - Cumulative Net Financial Benefit of Proposed Price Discount - Forecast								
	Average Historical tonnes	Forecast Price US\$/t	Gross Value Invoiced US\$000's	Existing Price Discount %	Existing Price Discount US\$000's	Proposed Price Discount %	Proposed Price Discount US\$000's	Net Financial Impact US\$000's
2011	18,070	23,200	419,221	4.0%	16,769	3.5%	14,673	2,096
2012	18,070	22,600	408,379	4.0%	16,335	3.5%	14,293	2,042
2013	18,070	22,000	397,537	4.0%	15,901	3.5%	13,914	1,988
2014	18,070	21,800	393,923	4.0%	15,757	3.5%	13,787	1,970
2015	18,070	21,300	384,888	4.0%	15,396	3.5%	13,471	1,924
	<b>90,349</b>		<b>2,003,947</b>		<b>80,158</b>		<b>70,138</b>	<b>10,020</b>

Source: Minara management and EY analysis

- ▶ ‘Average Historical’ represents the average nickel tonnes sold to Glencore over the last five years (i.e. 2006 to 2010). We have used the average as a proxy for forecasting the Murrin Murrin Project’s production and Minara’s sales for the next five years;
- ▶ The ‘Forecast Price’ represents our assessment of forecast nickel prices based on consensus analyst forecasts;

- ▶ ‘Gross Value Invoiced’ is the calculation of forecast Nickel Invoiced by the Weighted Average Price;
- ▶ The ‘Existing Price Discount’ is the US\$ discount based on the Gross Value Invoiced multiplied by the existing 4.0% price discount rate;
- ▶ The ‘Proposed Price Discount’ is the US\$ discount based on the Gross Value Invoiced multiplied by the amended 3.5% price discount rate;
- ▶ The ‘Net Financial Impact’ amount reflects the difference between the Existing Price Discount and the Proposed Price Discount with a positive value reflecting the net forecast financial benefit to Minara.

The above analysis calculates the positive financial impact of the reduced price discount on a forecast basis over the five year period from 1 January 2011 to 31 December 2015 to be US\$10.020 million or approximately US\$2.0 million per annum.

If production at the Murrin Murrin Project increases or decreases, or nickel prices are higher or lower than those included in the analysis, then the financial impact would be different from that calculated. Regardless of actual production or actual nickel price, the reduction of the price discount from 4.0% to 3.5% will always be to the benefit of Minara.

The following table summarises the difference in the price discount at various nickel prices:

<b>Saving Due to Reduction in Price Discount</b>					
<b>LME Nickel Price</b> US\$/t	<b>Discount at 4.0%</b> US\$/t	<b>Discount at 3.5%</b> US\$/t	<b>Saving</b> US\$/t	<b>Average Historical</b> tonnes	<b>Total Saving</b> US\$'s
10,000	400	350	50	18,070	903,500
15,000	600	525	75	18,070	1,355,250
20,000	800	700	100	18,070	1,807,000
25,000	1,000	875	125	18,070	2,258,750
30,000	1,200	1,050	150	18,070	2,710,500

Source: EY analysis

This analysis shows that at nickel prices of US\$10,000/t, the saving due to the reduction in price discount is US\$50/t and at a US\$30,000/t the saving is US\$150/t. At the prices noted, the annual saving based on Minara’s historical average annual share of production over the last five years of 18,070 tonnes ranges from US\$903,500 to US\$2.71 million.

Any financial benefit derived from the amended terms of the Amended and Restated Offtake Agreement is an advantage to the Non-Associated Shareholders.

## 4.2 Financial Implications of the Existing Terms

In addition to our consideration of the financial impact of the amended terms proposed in the Amended and Restated Offtake Agreement, we have also had regard to the financial implications of the terms of the Existing Offtake Agreement. We have done this with reference to general industry practice as to offtake and sale arrangements for nickel and other commodities.

It is important to note that the terms of offtake and sales arrangements for commodities are considered to be commercially sensitive and are generally not publicly available. Our research has included a review of limited publicly available offtake agreements as well as confidential discussions with metal producers. Our benchmarking included a high level discussion with an independent third party nickel producer who recently negotiated a nickel offtake agreement with Glencore.

With nickel being sold in different forms it is often difficult to directly compare offtake agreement terms. Nickel produced from the Murrin Murrin Project is in nickel briquette form at LME registered quality. There are few nickel producers in Australia who sell nickel product in this form, with the majority of nickel miners producing and selling a nickel concentrate. Comparison between offtake agreements from different products is difficult. The third party nickel producer does not produce nickel briquettes.

The key terms in the Existing Offtake Agreement and our observations as to the financial implications of the terms based on a benchmark to current market practice are summarised below.

#### ***Price Discount***

While we considered the comparative financial implications of the reduction in the price discount from 4.0% of LME to 3.5% of LME in section 4.1, to determine whether or not a discount of 3.5% is reasonable we have endeavoured to benchmark the price discount and the price discount structure against other offtake arrangements in the market.

While we were unable to obtain publicly available information on price discounts and/or commissions payable, we have had a discussion with an independent third party nickel producer who recently negotiated a nickel offtake agreement with Glencore. While no specific details on the terms of this offtake agreement were provided because of confidentiality, the third party was able to confirm that the general structure of the price discount mechanism and the level of price discount contained in their offtake agreement were at levels not inconsistent with the Existing Offtake Agreement. It is important to note that the third party confirmed that the offtake agreement was entered into with Glencore in a competitive open market process.

Based on this discussion the application of a price discount and the price discount proposed under the Amended and Restated Offtake Agreement appears reasonable.

#### ***Provisional Payment***

Under the Existing Offtake Agreement, Glencore is required to remit a provisional payment to Minara based on 91% of the value of the nickel and 95% of the value of the cobalt at the time of delivery.

Based on our review of both publicly available and confidential offtake agreements, the payment terms are considered favourable to Minara when benchmarked to other arrangements. The favourable level of provisional payments provides considerable cashflow benefits to Minara.

We note however that the receipt of relatively high percentage of value as a provisional payment amount in a market of falling commodity prices can be disadvantageous. In these circumstances, provisional payment values can finish up being significantly in excess of final values with the producer needing to repay the purchaser. This happened to Minara in 2008 (and a number of other base metal producers) when falling commodity prices resulted in the Company owing a substantial amount to Glencore.

### **Payment Terms**

Minara is entitled to provisional payments on delivery of product into the Glencore Bonded Area at the Kwinana Warehouse. Offtake agreements more often require provisional payment when the product is placed on board the ship.

In considering the financial impact on the Company for provisional payment terms on delivery to the Kwinana Warehouse compared to placed on board the relevant ship, we have estimated the working capital impact to Minara of not having to hold nickel product as inventory for the period it is in the warehouse, as detailed in the following table:

<b>Minara - Working Capital Impact of Payment on Delivery to Warehouse vs Placed on Ship</b>	
Estimated time between delivery to warehouse and date shipped (months)	1.5
Average provisional payment (based on 2008 - 2010) (US\$/t)	17,200
Average tonnes of product per month (based on 2008 - 2010) (t)	1,533
Working capital benefit (US\$000's)	<u>39,543</u>

*Source: EY analysis*

Based on this analysis, we have estimated an average working capital impact of receiving provisional payments based on delivery to warehouse compared to placed on board the relevant ship to be around US\$39.5 million.

The financial benefit to Minara of not having to fund this working capital is represented by the cost of capital that would be incurred in funding that amount, or if Minara has surplus cash, the interest that otherwise would have been earned.

### **Quotation Period**

The price of nickel payable by Glencore is set during the Quotational Period, which at Glencore's option, is either the average LME daily cash settlement price, less the price discount, for month of delivery or the average LME daily cash settlement price, less the price discount, for the third month after the month of delivery.

Glencore must elect the Quotational Period, with each election lasting six months, with election being made at least five days before the start of each six month period.

Across the term of the Existing Offtake Agreement, nickel has been priced based on the third month after delivery.

With provisional payments for nickel being based on the average price for the month of delivery, in periods when nickel prices are decreasing, the longer the Quotational Period the higher probability that on the determination of the final price, Minara will need to repay Glencore for over payment. This may be to the detriment of Minara, depending on whether the Company has the ability to repay the amount owing.

Conversely, across a period where nickel prices are increasing, a longer Quotational Period is to the benefit of Minara.

### **Product Premium**

The Murrin Murrin Project produces a LME grade nickel briquette product. Because of the advanced stage of processing and the quality of nickel briquette, customers in some markets offer a premium to the LME cash settlement price to secure supply. The terms of the Existing Offtake Agreement exclude any consideration of the product premium which may be achieved on the sale of the Murrin Murrin Project product. The Amended and Restated Offtake Agreement is also silent on the sharing of any premium. On this basis, any premium attributable to Minara's nickel briquette product is credited solely to Glencore.

In considering the nickel briquette premium which may be available in respect to Minara's product and any financial implications of excluding the terms of this premium in the Amended and Restated Offtake Agreement, we make the following observations:

- ▶ while the LMB provides price indication of the premiums attributed to 99.8% nickel briquettes, we understand that unlike price indicators available for other commodities, the data available in respect of the briquette premium does not undergo a verification process and represents what is considered to be an illiquid market;
- ▶ industry research indicates that not all markets for nickel briquettes recognise a premium to the LME cash settlement price;
- ▶ the ability for the Murrin Murrin Project product to attract the full nickel briquettes premium is uncertain;
- ▶ the premium attributed to the nickel briquette product does not incorporate direct expenses in relation to sales and marketing expenses; and
- ▶ we have not been able to source any other offtake agreements which set out pricing terms in relation to a sharing of the product premium between parties to the offtake agreement.

We understand from discussion with Minara management that during the negotiations of the Amended and Restated Offtake Agreement with Glencore the matter of the nickel briquette premium was raised. Management confirmed that it was Glencore's view that if there was a sharing of any premium, the 0.5% reduction in price discount on nickel from 4.0% to 3.5% would not be available. Given the uncertainties attached to the level of premium that may be available compared to the certainty of the price discount reduction, Minara management and the non-executive independent Directors were of the view that accepting the reduction in price discount was the best outcome for the Company.

It is evident from our analysis that quantifying the premium that may be available for the sale of nickel briquette is difficult and is dependent on a number of factors, including what market the briquettes are sold into. On this basis the view taken by Minara management and the non-executive independent Directors is not unreasonable.

#### ***Other Considerations***

##### ***Freight costs***

Under the Existing Offtake Agreement and the Amended and Restated Offtake Agreement, Glencore is responsible for all freight costs once the product is onboard. As a result, Minara is not exposed to the variability of shipping rates, availability of vessels and other administrative costs involved with product delivery.

##### ***Single Offtake Partner***

Under the terms of the Existing Offtake Agreement Glencore purchases Minara's 60% proportional entitlement of the first 40,000 tonnes of nickel produced and all of the cobalt produced each year. As the total Murrin Murrin Project volumes have been less than 40,000 tonnes per annum since 2001, 100% of Minara's entitlement to nickel and cobalt has been sold to Glencore. The sale of Minara's entire share of nickel and cobalt to Glencore increases the risk of dependence on a single offtake party. Given Glencore's financial strength and its long standing history as a reliable counterparty the level of dependence risk is considered minimal. The key advantages of selling to Glencore as a single party may include reduced credit risk, simplified logistics and elimination of penalties for any shortfall in deliveries.

### 4.3 The Relationship Between Minara and Glencore

As detailed in section 3.2, Glencore has had a long involvement with Minara and the Murrin Murrin Project and at different times has provided significant financial support to the Company through the provision of debt facilities and participation in equity raisings.

The most recent example was the provision of a short term debt facility to Minara instead of demanding repayment from the Company of the overpayment of provisional payments caused by the fall in nickel and cobalt prices across 2008 and the subsequent underwriting of the Rights Issue to raise \$210 million.

The Existing Offtake Agreement was approved by shareholders in January 2001. Since then Glencore has never defaulted on payment to Minara and has paid the full amount rightfully due to the Company on time. The absence of any bad or doubtful debt in relation to payments arising from the Existing Offtake Agreement represents a tangible financial benefit to Minara.

We further note that Glencore has never refused to accept product from Minara regardless of market conditions. The intangible benefits accruing to Minara of Glencore's commitment to its contractual obligations under the Existing Offtake Agreement during uncertain market conditions, was evidenced by the problems some other mineral producers experienced in 2008 where certain offtake partners refused to take delivery of product, resulting in costly legal action and the subsequent renegotiation of offtake arrangements.

Across the nine full years that the Existing Offtake Agreement has been operating, the Company has generated a net profit after tax in six of those years, with two of the three years where Minara incurred losses being the 2002 and 2003 financial years when operations were impacted by technical issues within the Murrin Murrin plant. Assuming there are no significant unforeseen costs, capital or operating, and nickel and cobalt prices are maintained at reasonable levels, there is no reason to believe that Minara will be any less profitable under the Amended and Restated Offtake Agreement.

With Glencore having been Minara's largest shareholder for most of the last 15 years and having a 40% interest in the Murrin Murrin Project, it could be considered that by supporting the Company, Glencore is looking after its own interests. Regardless of this, having Glencore as the largest shareholder and sole purchaser of its product has benefitted the other shareholders of Minara across that period. While Glencore has not stated its intentions in regards to the future of its shareholding in Minara, there is nothing to suggest that it will not continue to support the Company. As long as this continues, the minority shareholders should benefit.

### 4.4 Glencore's Offtake Agreements with Xstrata

In addition to having a 34.5% interest in Xstrata, Glencore is the sole distributor of Xstrata's nickel, cobalt and ferronickel production, has offtake agreements for some of Xstrata's copper concentrate and copper cathode production and is the marketing agent for much of Xstrata's ferrochrome and vanadium. The relationship between Xstrata and Glencore is regulated by a relationship agreement which sets out how the two parties will deal with each other with respect to Xstrata's ongoing operations. A key component of the agreement is that all transactions between the two companies are at arm's length and on normal commercial terms.

The nickel, cobalt and ferronickel offtake agreements between Xstrata and Glencore were entered into in March 2007 for a period of five years with an automatic renewal for a further three years (compared to five plus five years for the Existing and the Amended and Restated Offtake Agreement).

We cannot find any publicly available information which provides any indication of the prices at which Glencore purchases nickel and cobalt from Xstrata, other than a note in Xstrata's 2009 annual report stating that, "All sales terms and conditions are set on an arm's length basis".

In stating this the quotational period for nickel and cobalt is "the month following the month of delivery" and Glencore prepays Xstrata monthly "in two equal instalments 100% of the value of the month's planned production". This compares to the Quotation Period under the Existing and the Amended and Restated Offtake Agreement of the month of delivery or the third month after delivery, and a provisional payment of 91% for nickel delivered and 95% for cobalt delivered. The prepayment for metal based on expected production while at arm's length could be considered unusual.

While any comparison between offtake agreements that Glencore has with Minara and Xstrata is difficult given the unknown pricing terms of the Xstrata arrangements, the different products, the different locations each company operates in and their distance to market, it would be expected that Glencore would approach dealing with Minara in a similar fashion to the manner it deals with Xstrata. The statement by Xstrata that its nickel and cobalt offtake agreements with Glencore are on "an arm's length basis" does provide some additional support to the arm's length nature of the Existing and Amended and Restated Offtake Agreements.

## 4.5 Alternatives Available to Minara

In considering the Amended and Restated Offtake Agreement we have had regard to the alternatives available to Minara with respect to the sale of its share of nickel and cobalt from the Murrin Murrin Project.

Prior to entering into the Existing Offtake Agreement in November 2001 Minara had its own marketing department which worked with outside agent, SOGEM, to market the Company's nickel and cobalt to customers. The internal marketing department operated at a cost at that time of approximately \$9 million per annum. SOGEM received an agency fee of 1.5% on nickel sales and 1.25% on cobalt sales, with Minara being responsible for delivering product to Fremantle or to Rotterdam.

An alternative to the Amended and Restated Offtake Agreement, Minara could return to marketing its own nickel and cobalt products with assistance from a third party such as SOGEM. Under such an arrangement the Company would need to re-establish at its own cost a marketing team with strong knowledge, experience and relationships within the nickel and cobalt sector. Given the unique expertise required for such a role, identifying and securing the right people may not be easy. In addition, setting up its own marketing department would put Minara in direct competition with Glencore with respect to the offer for sale of nickel and cobalt from the Murrin Murrin Project. With the strong relationships that Glencore has with customers it is expected that Minara's ability to compete on any aspect other than price would be difficult.

On this basis, the alternative for Minara to re-establish its own marketing department is considered costly and with significant risk.

Another alternative would be for Minara to run an open market tender to determine whether there was another party willing to offer more attractive offtake terms. In our view, given:

- ▶ the financial benefits provided to Minara through the Existing Offtake Agreement;
- ▶ the benchmarking of the terms of the Existing and Amended and Restated Offtake Agreements to other offtake arrangements;
- ▶ Glencore's long standing financial support of Minara;
- ▶ Glencore's direct and indirect interests in the Murrin Murrin Project; and
- ▶ Glencore's strong financial position, reputation, experience and success as a global commodity marketer with direct experience in marketing the Murrin Murrin Project's nickel and cobalt;

the likelihood of Minara being able to secure more attractive offtake terms with a party other than Glencore, is considered unlikely in the current environment.



## 5. Summary and Conclusion

In assessing whether or not the Amended and Restated Offtake Agreement is fair and reasonable to the Non-Associated Shareholders of Minara we have considered the likely advantages and disadvantages to the Non-Associated Shareholders if the Amended and Restated Offtake Agreement is implemented, with the advantages and disadvantages to those shareholders if it is not. In this regard we have taken into account the following matters:

### **Advantages**

- ▶ **Minimal change to the Existing Offtake Agreement:** Except for the reduction in price discount, the changes proposed within the Amended and Restated Offtake Agreement are minimal to the Existing Offtake Agreement that has been in place with Glencore and operating successfully since November 2001 and approved by shareholders in January 2002.
- ▶ **Price discount reduced:** The discount applicable to the price payable on nickel sold to Glencore under the Amended and Restated Offtake Agreement is to be reduced from the current level of 4.0% to 3.5%. At a constant nickel price of US\$22,180/t (being the average consensus estimated nickel price forecast over the next five years) and 18,070 tonnes per annum (being Minara's average share of production over the last five years), this reduction in discount equates to a saving to Minara of approximately US\$2.0 million per annum.
- ▶ **Nature and level of price discount:** While we were unable to obtain publicly available information on price discounts and/or commissions payable, we had discussion with an independent third party nickel producer that had recently negotiated a nickel offtake agreement with Glencore. While no specific details on the terms of this offtake agreement were provided because of confidentiality, the third party was able to confirm that the general structure of the price discount mechanism and the level of price discount contained in their offtake agreement were at levels not inconsistent with the Existing Offtake Agreement.
- ▶ **Provisional payment terms:** Glencore is required to remit a provisional payment to Minara based on 91% of the value of the nickel and 95% of the value of the cobalt at the time of delivery. Based on our review of both publicly available and confidential offtake agreements, the payment terms are considered favourable to Minara when benchmarked to other arrangements. The favourable level of provisional payments provides considerable cashflow benefits to Minara.
- ▶ **Payment terms:** Minara is entitled to provisional payments on delivery of product into the Glencore Bonded Area at the Kwinana Warehouse whereas offtake agreements typically require provisional payment once the product is loaded onto the ship. We estimate that the 'early' receipt of provisional payments by Minara has a positive working capital impact of around US\$39.5 million. The financial benefit to Minara of not having to fund this working capital is represented by the cost of capital that would be incurred in funding that amount, or if Minara has surplus cash, the interest that otherwise would have been earned.

- ▶ **Quotational Period:** The price of nickel payable by Glencore is set during the Quotational Period, which at Glencore's option, is either the average LME daily cash settlement price, less the price discount, for month of delivery or the average LME daily cash settlement price, less the price discount, for the third month after the month of delivery. Across the term of the Existing Offtake Agreement, nickel has been priced based on the third month after delivery. This is expected to continue under the Amended and Restated Offtake Agreement. Across a period where nickel prices are increasing, a longer Quotational Period is to the benefit of Minara as the final value of a shipment will be proportionally greater than the value at the time of the provisional payment.
- ▶ **No exposure to freight costs:** With Glencore being responsible for all freight costs once the product is onboard, Minara is not exposed to the variability of shipping rates, availability of vessels and other administrative costs involved with product delivery.
- ▶ **Single offtake partner:** While the sale of Minara's entire share of nickel and cobalt to Glencore increases the risk of dependence on a single offtake party, given Glencore's financial strength and its long standing history as a reliable counterparty, the level of dependence risk is considered minimal. The key advantages of selling to Glencore as a single offtake partner may include reduced credit risk, simplified logistics and elimination of penalties for any shortfall in deliveries.
- ▶ **Benefits of the relationship between Minara and Glencore:** Outside of the Existing Offtake Agreement, Glencore has had a long involvement with Minara and the Murrin Murrin Project and at different times has provided significant financial support to the Company through the provision of debt facilities and participation in equity raisings. Under the Existing Offtake Agreement, Glencore has never defaulted on payment, has paid the full amount rightfully due to the Company on time and has never refused to accept product from Minara regardless of market conditions. The Existing Offtake Agreement has allowed Minara to generate significant profits at times. Assuming there are no significant unforeseen costs, capital or operating, and nickel and cobalt prices are maintained at reasonable levels, there is no reason to believe that Minara will be any less profitable under the Amended and Restated Offtake Agreement. Glencore's involvement with Minara has benefitted the minority shareholders of Minara.

#### **Disadvantages**

- ▶ **Minimum discount increased:** The minimum discount applicable to the price payable on nickel sold to Glencore has been increased from US\$200/t to US\$300/t. On the basis that the nickel price would need to fall below US\$8,571/t (the last time it did so was in July 2003) before the minimum discount would apply, the increase is not expected to have a significant financial impact on Minara.
- ▶ **Quotational Period:** Across the term of the Existing Offtake Agreement, the nickel price payable by Glencore has been based on the average price over the third month after delivery. This is expected to continue under the Amended and Restated Offtake Agreement. In an environment where commodity prices are decreasing, a longer Quotational Period may be to the detriment of Minara as provisional payments received from Glencore may end up being greater than the final value. In these circumstances the Company is required to repay Glencore for the overpayment. The level of detriment to Minara is dependent on its ability to repay the amount owing to Glencore.
- ▶ **Single offtake partner:** The sale of Minara's entire share of nickel and cobalt to Glencore increases the risk of dependence on a single offtake party; however, given Glencore's financial strength and its long standing history as a reliable counterparty, the level of dependence risk is considered minimal.

**Other Matters**

- ▶ **Product premium:** Customers in some markets have been known to offer a premium to the LME prices for nickel briquette product. While it is not known if Glencore has been able to achieve a premium for product sourced from Minara under the Existing Offtake Agreement there is no provision under this agreement or the Amended and Restated Offtake Agreement for the sharing of this premium between Glencore and Minara. While there is some uncertainty around the nature and extent of this premium, in negotiations with Glencore, it was Glencore's view that if there was a sharing of any premium, the 0.5% reduction in price discount on nickel from 4.0% to 3.5% would not be available. Given the uncertainties attached to the level of premium that may be available compared to the certainty of the price discount reduction, Minara management and the non-executive independent Directors were of the view that accepting the reduction in price discount was the best outcome for the Company.
  
- ▶ **Minara's alternatives:** As an alternative to entering into the Amended and Restated Offtake Agreement with Glencore, Minara could return to marketing its own nickel and cobalt products with assistance from a third party agent, such as SOGEM. Prior to entering into the Existing Offtake Agreement, Minara ran its own internal marketing division at a cost at that time of approximately \$9 million per annum. Given the unique expertise required for such a role, identifying and securing the right people may not be easy. In addition, setting up its own marketing department would put Minara in direct competition with Glencore with respect to the offer for sale of nickel and cobalt from the Murrin Murrin Project. With the strong relationships that Glencore has with customers it is expected that Minara's ability to compete on any aspect other than price would be difficult. Another alternative would be for Minara to run an open market tender to determine whether there is another party willing to offer more attractive offtake terms than Glencore. Given the perceived benefits of the relationship with Glencore, the likelihood of Minara being able to secure more attractive offtake terms with another party is considered unlikely in the current environment.

Based on our consideration of these factors and the matters detailed throughout the report, in our opinion, the Amended and Restated Offtake Agreement is fair and reasonable to the Non-Associated Shareholders of Minara. On this basis, it is also our opinion that the Amended and Restated Offtake Agreement to be entered into between Minara and Glencore is at arm's length.

## Appendix A Statement of qualifications and declarations

Ernst & Young Transaction Advisory Services, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its representatives are qualified to provide this report. The directors of Ernst & Young Transaction Advisory Services responsible for this report have not provided financial advice to Minara.

Prior to accepting this engagement, Ernst & Young Transaction Advisory Services considered its independence with respect to Minara with reference to Regulatory Guide 112, *Independence of experts*.

This report has been prepared specifically for the Non-Associated Shareholders of Minara in relation to the Amended and Restated Offtake Agreement. Neither Ernst & Young Transaction Advisory Services, Ernst & Young and any employee thereof undertakes responsibility to any person, other than the Non-Associated Shareholders, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report Ernst & Young Transaction Advisory Services has relied upon and considered information believed after due inquiry to be reliable and accurate. Ernst & Young Transaction Advisory Services has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. Ernst & Young Transaction Advisory Services has evaluated the information provided to it by Minara, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base its report. Ernst & Young Transaction Advisory Services does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose.

The information relied upon in the preparation of this report is set out in Appendix B to this report.

Minara has provided an indemnity to Ernst & Young Transaction Advisory Services for any claims arising out of any mis-statement or omission in any material or information provided to it in the preparation of this report.

Ernst & Young Transaction Advisory Services provided draft copies of this report to the independent directors of Minara for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Changes made to this report as a result of this review by the directors and management have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

Ernst & Young Transaction Advisory Services will receive a professional fee based on time spent in the preparation of this report estimated at approximately \$30,000 (exclusive of GST). Ernst & Young Transaction Advisory Services will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

Ms Brenda Moore, a representative of Ernst & Young Transaction Advisory Services and an executive director of Ernst & Young and Mr Ken Pendergast, a director and representative of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young have assumed overall responsibility for this report. Both have the necessary experience and professional qualifications appropriate to the advice being offered. Other Ernst & Young Transaction Advisory Services staff have been consulted in the preparation of this report where appropriate.

It is not intended that the report should be used for any other purpose other than to be included in the Notice of Annual General Meeting and Explanatory Memorandum to be sent to Minara shareholders with respect to the Amended and Restated Offtake Agreement. In particular, it is not intended that this report should be used for any other purpose other than as an expression of its opinion as to whether or not the Amended and Restated Offtake Agreement is fair and reasonable to the Non-Associated Shareholders.

Ernst & Young Transaction Advisory Services consents to the issue of this report in the form and context in which it is included in the Notice of Annual General Meeting and Explanatory Memorandum.

## Appendix B Sources of information

In preparing this report, Ernst & Young Transaction Advisory Services had regard to the following sources of information:

- ▶ the Murrin Murrin Offtake Agreement dated 9 November 2001;
- ▶ Amending Deeds to the Murrin Murrin Offtake Agreement dated 12 February 2002, 19 March 2002, 5 February 2003 and 28 November 2003;
- ▶ the Deed of Variation to the Murrin Murrin Offtake Agreement dated 3 September 2008;
- ▶ final draft Amended and Restated Murrin Murrin Offtake Agreement;
- ▶ final draft Deed of Amendment and Restatement Murrin Murrin Offtake Agreement;
- ▶ final draft Notice of Annual General Meeting and Explanatory Memorandum prepared by Minara for the Meeting;
- ▶ discussions with Minara management;
- ▶ confidential discussions with other metal producers;
- ▶ various public disclosure documents lodged by Minara with the ASX, including Minara's annual reports for 1995 to 2009, the Preliminary Final Report for 2010 and quarterly reports;
- ▶ Notice of Meeting and Explanatory Memorandum and Independent Expert's Report prepared by Minara for the meeting held 9 January 2002;
- ▶ management information regarding tonnes of nickel invoiced and gross value of nickel invoiced for FY06 to FY10;
- ▶ the Minara Nickel Producer brochure;
- ▶ information from Minara's website, <http://www.minara.com.au>;
- ▶ information from Glencore's website, <http://www.glencore.com>;
- ▶ ASIC Regulatory Guides;
- ▶ various broker and analyst reports prepared in regards to Minara;
- ▶ various broker and analyst reports outlining nickel price forecasts beyond FY10;
- ▶ Thompson Research;
- ▶ the Act and Regulations;
- ▶ DatAnalysis; and
- ▶ other publicly available information.

## Appendix C Glossary

Abbreviation	Full Title / Description
A\$	Australian dollars
Act	The Corporations Act
Amended and Restated Offtake Agreement	The Deed of Amendment and Restatement Murrin Murrin Offtake Agreement and the Amended and Restated Murrin Murrin Offtake Agreement between MMH (as principal and agent of Minara), Glencore and Murrin Murrin Operations
ASIC	Australian Securities and Investment Commission
ASX	Australian Securities Exchange
Cobalt Offtake Agreement	The cobalt offtake agreement entered into with Glencore in November 2001 and expired in December 2003
Cobalt Quotational Period	Cobalt quotational period
Company	Minara Resources Limited
Ernst & Young Transaction Advisory Services	Ernst & Young Transaction Advisory Services Limited
Existing Offtake Agreement	The original Murrin Murrin nickel offtake agreement amended to include the sale of cobalt to Glencore
FSG	Financial Services Guide
FYxx	Financial year ended 31 December 20xx
GFC	Global financial crisis
Glencore	Glencore International AG
Glencore Bonded Area	The Glencore bonded area representing the area delineated and segregated in the Kwinana Warehouse for the purposes of storing nickel metal delivered under the Existing Offtake Agreement
Glenmurrin	Glenmurrin Pty Limited, Glencore's wholly owned subsidiary
Kwinana Warehouse	The warehouse facility located at the port of Kwinana that Minara delivers nickel and cobalt to in accordance with the Existing Offtake Agreement
LMB	London Metal Bulletin
LME	London Metals Exchange
Meeting	The Company's Annual General Meeting to be held on 13 May 2011
Minara	Minara Resources Limited
MMH	Murrin Murrin Holdings Pty Ltd, Minara's wholly owned subsidiary
Mt	Million tonnes
Mtpa	Million tonnes per annum
Murrin Murrin Project	Murrin Murrin Nickel Cobalt operations
Nickel Offtake Agreement	The nickel offtake agreement entered into with Glencore in November 2001
Non-Associated Shareholders	Minara shareholders not associated with Glencore
Quotational Period	Nickel quotational period
Report	Independent Expert's Report
RG 111	Regulatory Guide 111, <i>Content of expert reports</i>
Rights Issue	The renounceable rights issue announced in October 2008
SOGEM	S.A. SOGEM NV
US\$	United States dollars
Xstrata	Xstrata plc
/lb	Per pound
/t	Per tonne

**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE  
INDEPENDENT EXPERT'S REPORT**

23 March 2011

## **PART 2 - FINANCIAL SERVICES GUIDE**

### **1. Ernst & Young Transaction Advisory Services**

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

### **2. Financial Services Guide**

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

### **3. Financial services we offer**

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- ▶ Financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- ▶ Arranging to deal in securities.

### **4. General financial product advice**

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

### **5. Remuneration for our services**

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.



Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

**6. Associations with product issuers**

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

**7. Responsibility**

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

**8. Complaints process**

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

**9. Compensation Arrangements**


The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.


<b>Contacting Ernst &amp; Young Transaction Advisory Services</b> AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000  Telephone: (02) 9248 5555	<b>Contacting the Independent Dispute Resolution Scheme:</b> Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08
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This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

[www.minara.com.au](http://www.minara.com.au)

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www.investorvote.com.au

 **By Mail:**  
Computershare Investor Services Pty Limited  
GPO Box 242 Melbourne  
Victoria 3001 Australia

Alternatively you can fax your form to  
(within Australia) 1800 783 447  
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only  
(custodians) www.intermediaryonline.com

**For all enquiries call:**  
(within Australia) 1300 733 707  
(outside Australia) +61 3 9415 4820

## Proxy Form



Vote online or view the annual report, 24 hours a day, 7 days a week:

**www.investorvote.com.au**

- Cast your proxy vote**
- Access the annual report**
- Review and update your securityholding**

*Your secure access information is:*

**Control Number:**

**SRN/HIN:**



**PLEASE NOTE:** For security reasons it is important that you keep your SRN/HIN confidential.

 **For your vote to be effective it must be received by 9.30am (WST) Wednesday 11 May 2011**

### How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

#### Appointment of Proxy

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

**A proxy need not be a securityholder of the Company.**

### Signing Instructions for Postal Forms

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged 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, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

### Attending the Meeting

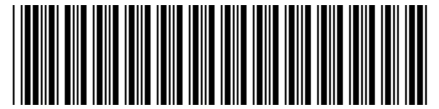
Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,  
or turn over to complete the form** ➔



**Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



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I ND

# Proxy Form

Please mark  to indicate your directions

## STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Minara Resources Limited hereby appoint

 the Chairman of the meeting OR 

**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting of Minara Resources Limited to be held at Perth Convention Exhibition Centre, 21 Mounts Bay Road, Perth WA on Friday, 13 May 2011 at 9.30am (WST) and at any adjournment of that meeting.

## STEP 2 Items of Business

**PLEASE NOTE:** If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

	For	Against	Abstain
Resolution 1 Adoption of Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 Re-election of John Andrew Morrison as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 Re-election of Peter Roland Coates AO as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 Amendment to Constitution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5 Approval of Offtake Arrangements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

## SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name \_\_\_\_\_

Contact Daytime Telephone \_\_\_\_\_

Date / /