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## SCANDINAVIAN RESOURCES LTD

ACN 132 035 842

### NOTICE OF GENERAL MEETING

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**TIME:** 10.00am (WST)

**DATE:** 27 October 2011

**PLACE:** The Park Business Centre  
45 Ventnor Avenue,  
West Perth, Western Australia

***This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.***

***Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on (+61 8) 9324 1153.***

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

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**VENUE**

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The general meeting of the Shareholders to which this Notice of Meeting relates will be held at 10.00am (WST) on 27 October 2011 at:

Park Business Centre, 45 Ventnor Avenue, West Perth, Western Australia

**YOUR VOTE IS IMPORTANT**

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

**VOTING IN PERSON**

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

**VOTING BY PROXY**

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

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## NOTICE OF GENERAL MEETING

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Notice is given that the general meeting of Shareholders will be held at 10.00am (WST) on 27 October 2011 at Park Business Centre, 45 Ventnor Avenue, West Perth, Western Australia.

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

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the General Meeting are those who are registered Shareholders of the Company at 5.00pm WST on 25 October 2011.

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

### AGENDA

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#### 1. RESOLUTION 1 – ISSUE OF SECURITIES TO A RELATED PARTY

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

*“That, subject to and conditional upon Shareholders approving Resolution 2, for the purposes of ASX Listing Rule 10.11 and Section 208 of the Corporations Act and for all other purposes, Shareholders approve the issue of:*

- (a) *5,000,000 Shares; and*
- (b) *the issue of 5,000,000 Options,*

*to ERI as deferred consideration for the acquisition of Hannans Scandinavia AB (**Deferred Consideration**) in the event that the Company’s market capitalisation reaches \$50,000,000 for 15 consecutive ASX trading days within 2 years of the Company listing on ASX and otherwise on the terms and conditions set out in the Explanatory Statement.”*

**Expert’s Report:** Shareholders should carefully consider the Independent Expert’s Report prepared by the Independent Expert for the purposes of the Shareholder approval required under Section 611 (Item 7) of the Corporations Act in relation to Resolution 2. The Independent Expert’s Report comments on the fairness and reasonableness of the transaction the subject of Resolution 1 and Resolution 2 to the non-associated Shareholders in the Company.

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by Equity and Royalty Investments Ltd or any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, and any associates of those persons, if the resolution is passed. The Company will also disregard any votes cast on this Resolution by any person who is to receive securities in relation to the entity. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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#### 2. RESOLUTION 2 – ISSUE OF SECURITIES AND INCREASE IN VOTING POWER – EQUITY AND ROYALTY INVESTMENTS LTD AND ITS ASSOCIATES

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

*“That, subject to and conditional upon Shareholders approving Resolution 1, for the purposes of Section 611 (item 7) of the Corporations Act and for all other purposes, Shareholders approve a potential increase in Equity and Royalty Investments Ltd’s (ERI) and its associate’s voting power in the Company from 29.02% to 48.80% (assuming the Deferred Consideration is issued, and that ERI converts the 25,000,000 Options it will hold post-issue of the Deferred Consideration, and without taking into effect the issue of Securities the subject of any other Resolution), on the terms and conditions set out in the Explanatory Statement.”*

**Expert’s Report:** Shareholders should carefully consider the Independent Expert’s Report prepared by the Independent Expert for the purposes of the Shareholder approval required under Section 611 (Item 7) of the Corporations Act in relation to Resolution 2. The Independent Expert’s Report comments on the fairness and reasonableness of the transaction the subject of Resolution 1 and Resolution 2 to the non-associated Shareholders in the Company.

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by Equity and Royalty Investments Ltd or any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, and any associates of those persons, if the resolution is passed. The Company will also disregard any votes cast on this Resolution by any person who is to receive securities in relation to the entity. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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### **3. RESOLUTION 3 – CONVERSION OF CONVERTIBLE LOAN/ OPTIONS AND INCREASE IN VOTING POWER - OM HOLDINGS LTD**

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

*“That, for the purpose of Section 611 Item 7 of the Corporations Act and for all other purposes, Shareholders approve:*

- (a) the issue of:
  - (i) *13,227,218 Shares to OM Holdings Ltd upon conversion of Options; and*
  - (ii) *7,590,007 Shares to OM Holdings Ltd upon conversion of the Convertible Loan; and*
- (b) *an increase in OM Holdings Ltd’s voting power in the Company from 15.64% to 33.39% as a result of the issue of the above Shares (without taking into effect the issue of Securities the subject any other Resolution),*

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

**Expert’s Report:** Shareholders should carefully consider the Independent Expert’s Report prepared by the Independent Expert for the purposes of the Shareholder approval required under Section 611 (Item 7) of the Corporations Act. The Independent Expert’s Report comments on the fairness and reasonableness of the transaction the subject of Resolution 3 to the non-associated Shareholders in the Company.

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by OM Holdings Ltd or any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, and any associates of those persons, if the resolution is passed. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast

by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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#### 4. RESOLUTION 4 – SHARE ISSUE

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

*“That, for the purpose of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Directors to allot and issue Shares to raise a total of US\$1,500,000 on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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#### 5. RESOLUTION 5 – SHARE ISSUE

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

*“That, for the purpose of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Directors to allot and issue Shares to raise a total of US\$3,000,000 on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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#### 6. RESOLUTION 6 – ADOPTION OF EMPLOYEE PERFORMANCE RIGHTS PLAN

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 7.2 (Exception 9) and for all other purposes, approval is given for the Company to:*

- (a) establish and maintain Scandinavian Resources Ltd Performance Rights Plan - Employees (**Employee PRP**) on the terms and conditions summarised in the accompanying Explanatory Memorandum; and*
- (b) grant Performance Rights from time to time under the Employee PRP.”*

**Voting Exclusion:** The Company will disregard any votes cast on this resolution by a Director (except one who is ineligible to participate in any employee incentive scheme in relation to the Company) and any associates of those persons. However, the

Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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**7. RESOLUTION 7 – PLACEMENT – SHARES**

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

*“That, for the purpose of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Directors to allot and issue up to 10,000,000 Shares on the terms and conditions set out in the Explanatory Statement.”*

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

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**DATED: 23 SEPTEMBER 2011**

**BY ORDER OF THE BOARD**

A handwritten signature in black ink, appearing to read 'I.E. Gregory', with a large, stylized flourish below the name.

**IAN GREGORY  
COMPANY SECRETARY**

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## EXPLANATORY STATEMENT

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This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the General Meeting to be held at 10.00am (WST) on 27 October 2011 at Park Business Centre, 45 Ventnor Avenue, West Perth, Western Australia.

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

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## 2. RESOLUTIONS 1 AND 2 – ISSUE OF SECURITIES TO A RELATED PARTY AND INCREASE IN VOTING POWER – EQUITY AND ROYALTY INVESTMENTS LTD AND ITS ASSOCIATES

### 2.1 General

As set out in the Company's initial public offer replacement prospectus dated 6 November 2009, the Company agreed to acquire 100% of the fully paid ordinary share capital in HSAB (**Acquisition**) from Equity and Royalty Investments Ltd (formerly Scandinavian Shield Ltd) (**ERI**) by an agreement dated on or about 18 July 2008 and varied on or about 26 August 2009 (**Agreement**).

Under the Agreement, and in consideration of the Acquisition, the Company agreed to:

- (a) pay ERI the sum of \$17,259;
- (b) allot and issue to ERI (or its nominee) 20,000,000 fully paid ordinary shares in the capital of the Company (**Shares**);
- (c) allot and issue to ERI (or its nominee) 20,000,000 options each to acquire a Share exercisable at \$0.20 each on or before 31 October 2012;
- (d) pay to ERI a 1% royalty from future production from mineral assets owned or controlled by the Company and or its subsidiaries in either Sweden, Norway or Finland;
- (e) accept an assignment of the rights under all loan agreements entered into by HSAB and assume the obligations set out therein; and
- (f) in the event that the Company's market capitalisation exceeds \$50,000,000 for 15 consecutive ASX trading days within 2 years of listing on the ASX (**Milestone**), allot and issue a further:
  - (i) 5,000,000 Shares; and
  - (ii) 5,000,000 Options exercisable at \$0.20 each on or before 31 October 2012,

(together **Deferred Consideration**).

The payment of the Deferred Consideration is the only outstanding obligation of the Company in relation to the payment of the consideration for the Acquisition (the payment of which is subject to the occurrence of the Milestone within the timeframe required).

Resolution 1 seeks Shareholder approval for the purposes of Chapter 2E of the Corporations Act and ASX Listing Rule 10.11 for the allotment and issue of the Deferred Consideration to ERI upon the Milestone occurring.

Resolution 2 seeks Shareholder approval for the purposes of Section 611 – Item 7 of the Corporations Act for a potential increase in ERI and its associates' voting power in the Company from 29.02% to 48.80% as a result of, and assuming, the issue of the Deferred Consideration to ERI occurs and assuming ERI exercises the 20,000,000 Options that it holds and the 5,000,000 Deferred Consideration Options (without taking into effect the issue of Securities the subject of any other Resolution).

## **2.2 Resolution 1 - Chapter 2E of the Corporations Act and ASX Listing Rule 10.11**

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in Sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in Sections 210 to 216 of the Corporations Act.

In addition, ASX Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

ERI is likely to be considered a related party of the Company as it is controlled by three Directors of the Company, namely Messrs Damian Hicks, Ian Gregory and Olof Forslund. Messrs Damian Hicks, Ian Gregory and Olof Forslund are related parties of the Company by virtue of their being Directors of the Company, pursuant to Section 228(2) of the Corporations Act. Section 228(4) states that an entity controlled by a related party is also to be considered a related party of the company. Being Directors of ERI, it is likely that Messrs Damian Hicks, Ian Gregory and Olof Forslund would be considered able to determine the outcome of decisions about ERI's financial and operating capabilities and thus be able to control ERI. Accordingly, ERI is deemed to be a related party of the Company.

It is the view of the Directors that the exceptions set out in Sections 210 to 216 of the Corporations Act and ASX Listing Rule 10.12 may not apply in the current circumstances. Accordingly, Shareholder approval is sought for the issue of the Deferred Consideration to ERI.

Pursuant to and in accordance with the requirements of Sections 217 to 227 of the Corporations Act and ASX Listing Rule 10.13, the following information is provided in relation to the proposed issue of the Deferred Consideration Securities:

- (a) ERI is a related party of the Company as it is controlled by three Directors of the Company, namely Directors Messrs Damian Hicks, Ian Gregory and Olof Forslund;
- (b) the maximum number of Securities (being the nature of the financial benefit being provided) to be issued is:
  - (i) 5,000,000 Shares; and
  - (ii) 5,000,000 Options exercisable at \$0.20 per Option on or before 31 October 2012;



- (c) ASX Listing Rule 10.13.3 provides that the Deferred Consideration must be granted with 1 month of the date of the General Meeting. The Company applied for and has been granted a waiver of this requirement. Accordingly, the Deferred Consideration will be issued no later than 21 April 2012 in accordance with the waiver grant;
- (d) the Deferred Consideration will be issued for nil cash consideration, as it will be issued as the deferred consideration under the Agreement in relation to the Acquisition;
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (f) the terms and conditions of the Deferred Consideration Options are set out in Schedule 1;
- (g) in relation to the value of the Deferred Consideration Shares the independent expert BDO used multiple valuation methods which resulted in different valuations. For further details, please refer to Section 9 of the Independent Expert's Report prepared in relation to Resolution 2;
- (h) the value of the Deferred Consideration Options and the pricing methodology is set out in Schedule 2;
- (i) the relevant interest of ERI in securities of the Company as at the date of this Notice of Meeting is set out below:

<b>Related Party</b>	<b>Shares</b>	<b>Options</b>
ERI	20,000,001	20,000,000 <sup>1</sup>

<sup>1</sup> Options exercisable at \$0.20 each on or before 31 October 2012

- (j) no remuneration or emoluments have been paid to ERI by the Company for the current financial year or the previous financial year;
- (k) if all of the Deferred Consideration Shares are issued and the Deferred Consideration Options are granted and subsequently exercised, and ERI exercises the 20,000,000 Options it currently holds (assuming no other Options are exercised or Shares issued), a total of 30,000,000 Shares would be issued and allotted to ERI. This will increase the number of Shares on issue from 78,160,621 to 108,160,622 Shares (assuming that no other Options are exercised or Shares issued). The dilutionary effect of these issues on the shareholding of existing Shareholders would be as follows:

<b>Issued Shares as at date of this Notice</b>	<b>Issued Shares post-issue of Deferred Consideration and conversion of Options held by ERI<sup>1,2</sup></b>	<b>Dilutionary effect</b>
78,160,621	108,160,622	27.74%

**Notes**

<sup>1</sup> assuming exercise of all Deferred Consideration Options

<sup>2</sup> assuming ERI elects to convert all of its existing Options

The market price for Shares during the term of the Deferred Consideration Options would normally determine whether or not the Deferred Consideration Options are exercised. If, at any time the Shares are trading on ASX at a price that is higher than the exercise price of the Deferred Consideration Options (which at the date of this Notice of Meeting it is), there may be a perceived cost to the Company;

- (l) the trading history of the Shares on ASX in the 12 months before the date of this Notice of General Meeting is set out below:

	Price	Date
Highest	\$0.65	1 March and 5 April 2011
Lowest	\$0.15	23 September 2010
Last	\$0.30	23 September 2011

- (m) the purpose of the grant of Deferred Consideration Securities is to complete the consideration payments payable under the Agreement in relation to the Company's acquisition of HSAB;
- (n) the Directors acknowledge that as the market capitalisation of the Company is approximately \$28 million at the date of this Notice of Meeting, the Milestone does not appear to be achievable in the near future. However, the Company has been granted an ASX waiver to allow the issue of the Deferred Consideration between the date of the General Meeting and 21 April 2012, being the final date for the issue of the Deferred Consideration under the Agreement; and
- (o) refer to Section 2.7 for the interests and recommendations of Directors in relation to Resolution 2.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Deferred Consideration Securities as approval is being obtained under ASX Listing Rule 10.11. Accordingly, the issue of Deferred Consideration Securities will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1.

## 2.3 Resolution 2 - Section 611 – Item 7 of the Corporations Act

### ***Section 606 of the Corporations Act – Statutory Prohibition***

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

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

**(Prohibition).**

### ***Voting Power***

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

## **Associates**

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

- (a) (pursuant to Section 11 of the Corporations Act) the primary person is a body corporate and the second person is:
  - (i) a director or secretary of the body;
  - (ii) a related body corporate; or
  - (iii) a director or secretary of a related body corporate,
- (b) (pursuant to Section 12(2) of the Corporations Act) the first person is a body corporate and the second person is:
  - (i) a body corporate the first person controls;
  - (ii) a body corporate that controls the first person; or
  - (iii) a body corporate that is controlled by an entity that controls the person;
- (c) the second person has entered or proposed to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; or
- (d) the second person is a person with whom the first person is acting or proposed to act, in concert in relation to the company's affairs.

The Company has been advised by ERI that 3 of its associates, who are associates by virtue of being directors of ERI, Messrs Damian Hicks, Ian Gregory and Olof Forslund each have a relevant interest in the Company as set out under the heading "(b) Relevant Interest and Voting Power" below.

No other associates of ERI have or will have a relevant interest in the Company.

## **Relevant Interests**

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

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

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

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

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

### ***Reason Why Section 611 Approval Required***

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

### ***Increase in Relevant Interest***

There is the potential for an increase in ERI and its associates relevant interest in the Company from 29.02% to 48.80% assuming that:

- (a) Shareholders approve Resolution 1;
- (b) the 5,000,000 Deferred Consideration Options are issued and exercised;
- (c) the 5,000,000 Deferred Consideration Shares are issued;
- (d) all Options held by ERI as at the date of this Notice of Meeting are exercised;
- (e) the 188,334 Options that Mr Ian Gregory has a relevant interest in are exercised;
- (f) no other Options are exercised;
- (g) no other Shares are issued; and
- (h) no Securities the subject of any other Resolution are issued.

### ***Prescribed Information – ASIC Regulatory Guide***

The following information, including Sections 2.4 to 2.7, is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for Item 7 of Section 611 of the Corporations Act. Shareholders are also referred to the Independent Expert's Report prepared by BDO annexed to this Explanatory Statement.

(a) **Acquirer**

ERI making the acquisitions for the reasons set out in Section 2.1 of this Explanatory Memorandum. Its associates are Messrs Damian Hicks, Ian Gregory and Olof Forslund.

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

The relevant interests of ERI and its associates Messrs Damian Hicks, Ian Gregory and Olof Forslund immediately before and after the issues of Shares as contemplated by this Notice of Meeting are set out in the tables below (each column assumes that no other Shares are issued or Options are exercised at the relevant time):

<b>Party</b>	<b>As at the date of this Notice of Meeting</b>	<b>Following the issue of Deferred Consideration Shares</b>	<b>Following the issue of Shares upon exercise of Options held by ERI and that Mr Ian Gregory has a relevant interest in</b>
ERI	20,000,001	25,000,001	50,000,001
Damian Hicks	1,000,000	1,000,000	1,000,000

Ian Gregory	438,334	438,334	626,668
Olof Forslund	1,250,000	1,250,000	1,250,000
<b>Total</b>	<b>22,668,335</b>	<b>27,668,335</b>	<b>52,876,669</b>

The voting power of ERI and its associates immediately before and after the issues of Shares as contemplated by Resolution 2 is set out in the tables below (each column assumes that no other Shares are issued or Options are exercised at the relevant time):

<b>Party</b>	<b>As at the date of this Notice of Meeting</b>	<b>Following the issue of Deferred Consideration Shares</b>	<b>Following the issue of Shares upon exercise of Options held by ERI in SCR and that Mr Ian Gregory has a relevant interest in</b>
ERI	25.59%	30.06%	46.15%
Damian Hicks	1.28%	1.20%	0.92%
Ian Gregory	0.56%	0.51%	0.58%
Olof Forslund	1.59%	1.50%	1.15%
<b>Total</b>	<b>29.02%</b>	<b>33.27%</b>	<b>48.80%</b>

The maximum relevant interest and maximum voting power that ERI and its associate's associates will hold after completion of the events the subject of Resolution 2 are set out below (assuming no other Shares are issued or Options exercised):

<b>Party</b>	<b>Maximum Relevant Interest</b>	<b>Maximum Voting Power</b>	<b>Increase of voting power</b>
ERI	50,000,001	46.15%	20.56%
Damian Hicks	1,000,000	0.92%	-0.35%
Ian Gregory	626,668	0.58%	0.02%
Olof Forslund	1,250,000	1.15%	-0.44%
<b>Total</b>	<b>52,876,669</b>	<b>48.80%</b>	<b>N/A</b>

ERI does not have any associates with relevant interests in the Company's Shares other than as set out herein.

(c) **ERI's Intentions**

Other than as disclosed elsewhere in this Explanatory Statement, the Company understands that ERI and its associates:

- (i) have no intention of making any significant changes to the business of the Company;
- (ii) have no intention to inject further capital into the company;
- (iii) have no intention of making changes regarding the future employment of the present employees of the Company;
- (iv) do not intend to redeploy any fixed assets of the Company; and
- (v) do not intend to transfer any property between the Company and ERI or any of its associates.

These intentions are based on information concerning the Company, its business and the business environment which is known to ERI and its associates at the date of this document. It is limited to publicly available information and a due diligence review of certain non-public material provided to ERI and its associates by the Company.

There are no proposed Directors of the Company as a result of the events the subject of Resolution 2.

(d) **Particulars of Proposed Allotment**

Particulars relating to the proposed issue and allotment of the Deferred Consideration Securities are set out in Section 2.1 and Section 2.2 of this Explanatory Statement. The proposed issue of 25,000,000 Shares upon conversion of Options will occur upon the receipt by the Company from ERI of a valid Option exercise notice or notices and the Shares to be issued upon conversion of the Options will be issued in accordance with the terms of those Options.

(e) **Date of Proposed Allotment**

The Company intends to issue and allot the Securities the subject of Resolution 1 between the date of the Meeting and 21 April 2012 (being the final date for the issue of those securities under the Acquisition Agreement). ERI's Options (including the Deferred Consideration Options) expire on 31 October 2012. Accordingly, the Options need to be exercised by ERI before this date in order to be issued the underlying securities.

(f) **Reason for the Proposed Allotment**

The Deferred Consideration Securities will be issued as deferred consideration under the Agreement and the potential issue of the 25,000,000 Shares will be issued upon conversion of Options held by ERI in the Company.

(g) **Interests and Recommendations of Directors**

Refer to Section 2.7 for the interests and recommendations of Directors in relation to Resolution 2.

(h) **Capital Structure**

The proposed capital structure of the Company following completion of all the transactions the subject of the Resolution 1 and Resolution 2 is set out below:

<b>SHARES</b>	
Shares currently on issue	78,160,621
Shares issued as Deferred Consideration the subject of Resolution 1	5,000,000
<b>Total Shares upon issue of the Deferred Consideration</b>	<b>83,160,621</b>
Shares to be issued upon ERI exercising the Options its holds the subject of Resolution 2	25,000,000
Shares to be issued upon the Options Mr Ian Gregory has a relevant interest in are exercised the subject of Resolution 2	188,334
<b>Total shares upon issue of the Deferred Consideration and subsequent exercise by ERI of the 25,000,000 Options it holds and the 188,334 Options Mr Ian Gregory has a relevant interest in</b>	<b>108,348,955</b>

**Notes**

Assumes no other Shares are issued or Options exercised.

The Company obtained Shareholder approval at a general meeting of Shareholders held on 8 September 2011 to issue up to a total of 14,757,244 Shares upon conversion of convertible loans, and up to a total of 20,000,000 Shares under a placement to sophisticated and professional investors, which issues will otherwise be on the terms and conditions set out in the notice of meeting dated 8 August 2011. The above table does not assume these Shares are issued.

<b>Options</b>	
Listed Options exercisable at 25 cents on or before 31 October 2011	29,898,468
Unlisted Options exercisable at \$0.20 each on or before 31 October 2012	8,333,340
Unlisted Options exercisable at \$0.20 each on or before 31 October 2012 classified as restricted securities escrowed to 21 April 2012	20,133,334
Unlisted Options exercisable at \$0.25 each on or before 30 June 2013	400,000
Unlisted Options exercisable at \$0.50 each	300,000

on or before 30 June 2013	
Unlisted Options exercisable at \$0.75 each on or before 30 June 2013	300,000
Unlisted Options exercisable at \$0.40 on or before 15 December 2012	500,000
Unlisted Options exercisable at \$0.40 on or before 1 February 2013.	1,000,000
Options issued as Deferred Consideration the subject of Resolution 1	5,000,000
<b>Total Options on issue upon issue of the Deferred Consideration</b>	<b>65,865,142</b>
<b>Total Options on issue upon issue upon conversion of all Options held by ERI and that Mr Ian Gregory has a relevant interest in</b>	<b>40,676,808</b>

**Notes**

Assumes no other Options are issued or any Options are exercised.

The Company obtained Shareholder approval at a general meeting of Shareholders held on 8 September 2011 to issue up to a total of 1,500,000 Options, and 5,000,000 convertible notes with 1 free Option attaching to every 5 convertible notes, and 1,500,000 Options to Hannans Reward Limited, which issues otherwise be on the terms and conditions set out in the notice of meeting dated 8 August 2011. The above table does not assume these Options are issued.

## 2.4 Advantages of the Acquisitions – Resolution 1 and Resolution 2

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 1 and proposed Resolution 2:

- (a) the issue of Shares and Options as deferred consideration for the Acquisition will complete the Company's obligations under the Acquisition Agreement and will not require renegotiation of its terms;
- (b) the acquisition of HSAB provided the Company with access to the assets owned by HSAB which have added value and diversification to the Company's asset portfolio. The issue of the Deferred Consideration is the concluding step in the acquisition of HSAB, ensuring that the Company has full and complete ownership of HSAB; and
- (c) the issue of the Shares pursuant to the exercise of the 25,000,000 Options that would be issued to ERI, would provide the Company with additional funds of up to \$5,000,000.

## 2.5 Disadvantages of the Acquisitions – Resolution 1 and Resolution 2

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 1 and proposed Resolution 2:

- (a) if shareholders refuse to agree to the issue of the Deferred Consideration Shares for the Agreement, the Company will either need to find an alternative method of payment or suffer legal repercussions



for breach of contract. The alternative methods of payment would be either cash, which would result in diversion of funding from the Company's projects and therefore a diversion from the Company's operations strategy, or a combination of cash and shares issued under the Company's share placement capacity;

- (b) the issue of the total possible number of Shares (including those upon exercise of the options to be issued), will increase the voting power of ERI and its associates from 29.02% to 48.80%, reducing the voting power of non-associated Shareholders in aggregate from 70.98% to 51.20%;
- (c) although the Acquisition has until the date of this Meeting proven to be a positive one, there is the chance that the exploration could cease bearing fruit or that the underlying value of HSAB's assets (and therefore the Company's shareholding in HSAB) may not be fully reflected in the Company's share price due to the Company's ownership in those assets being indirectly held; and
- (d) there is no guarantee that the Company's Shares will not fall in value as a result of the issue.

## **2.6 Independent Expert's Report - Resolution 1 and Resolution 2**

The Independent Expert's Report assesses whether the acquisition of Shares outlined in Resolution 1 and Resolution 2 is fair and reasonable to the Shareholders who are not associated with ERI.

The Independent Expert's Report also contains an assessment of the advantages and disadvantages of the proposed issue and allotment of Shares the subject of Resolution 1 and Resolution 2. This assessment is designed to assist all Shareholders in reaching their voting decision.

The Independent Expert has provided the Independent Expert's Report and has provided an opinion that it believes the proposal as outlined in Resolution 1 and Resolution 2, on balance, **IS NOT FAIR BUT REASONABLE** to the Shareholders of the Company not associated with ERI. It is recommended that all Shareholders read the Independent Expert's Report in full.

The Independent Expert's Report is enclosed with this Notice of Meeting.

## **2.7 Directors Recommendations - Resolution 1 and Resolution 2**

- (a) Mr Damian Hicks declines to make a recommendation to Shareholders in relation to Resolution 1 and Resolution 2 due to his material personal interest in the outcome of those Resolutions as set out above.
- (b) Mr Olof Forslund declines to make a recommendation to Shareholders in relation to Resolution 1 and Resolution 2 due to his material personal interest in the outcome of those Resolutions as set out above.
- (c) Mr Ian Gregory declines to make a recommendation to Shareholders in relation to Resolution 1 and Resolution 2 due to his material personal interest in the outcome of those Resolutions as set out above.
- (d) Mr Markus Bachmann, who does not have a material interest in the outcome of Resolution 1 or Resolution 2 recommends that Shareholders vote in favour of Resolution 1 and Resolution 2 for the reasons set out in Section 2.4 above. Mr Bachmann is not aware of any other information other than as set out in this Notice of Meeting that would be reasonably

required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 1 or Resolution 2.

- (e) Mr Paul Thomas, who does not have a material interest in the outcome of Resolution 1 or Resolution 2 recommends that Shareholders vote in favour of Resolution 1 and Resolution 2 for the reasons set out in Section 2.4 above. Mr Thomas is not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution 1 or Resolution 2.

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### **3. RESOLUTION 3 – CONVERSION OF CONVERTIBLE LOAN/ OPTIONS AND INCREASE IN RELEVANT INTEREST - OM HOLDINGS LTD**

#### **3.1 General**

OM Holdings Ltd (**OM Holdings**) intends to exercise 13,227,218 Options into Shares in the Company and also has the ability to convert the Convertible Loan up to a maximum of 7,590,007 Shares subject to Shareholder approval (**Securities Exercise**).

Under the Convertible Loan Agreement, the Company has access to a \$5,000,000 facility. Currently, the Company has drawn down \$500,000 of this facility and, as the repayment date is 1 February 2012, the Company does not currently intend to make any further draw downs on the facility. Accordingly, it is likely that the Shares to be issued upon any conversion of the loan will be less than the full 7,590,007 Shares that the Company is seeking approval for.

Pursuant to the Securities Exercise OM Holdings' relevant interest and voting power in the Company will change from 15.64% to 33.39%,

Resolution 3 seeks Shareholder approval for:

- (a) the issue and allotment of 20,817,225 Shares to OM Holdings as a result of the Securities Exercise; and
- (b) a potential increase in OM Holding's voting power in the Company from 15.64% to 33.39%, as a result of the issue of Shares under the Securities Exercise (assuming no other Shares are issued or Options exercised,

for the purpose of Section 611 – Item 7 of the Corporations Act.

#### **3.2 Item 7 of Section 611 of the Corporations Act**

A summary of Section 606 of the Corporations Act and related Sections is provided in Section 1.3 above.

##### ***Increase in Relevant Interest***

There is the potential for an increase in OM Holding's voting power in the Company from 15.64% to 33.39%, assuming that:

- (a) Shareholders approve Resolution 3;
- (b) the full amount is drawn under the Convertible Loan Agreement and OM Holdings elects to convert it and the interest on the current draw down into Shares before the final repayment date for the loan and 7,590,007 Shares are issued and allotted to OM Holdings;

- (c) 13,227,218 Options held by OM Holdings on issue as at the date of this Notice of Meeting are exercised before the expiry date of those Options and 13,227,218 Shares are issued to OM Holdings; and
- (d) no other Securities are issued, including the Securities the subject of the other Resolutions.

**Prescribed Information – ASIC Regulatory Guide**

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

(a) **Acquirer**

OM Holdings is making the acquisition for the reasons set out in Section 3.1 of this Explanatory Memorandum.

(b) **Interest in Securities and Extent of Increase in Voting Power of OM Holdings**

As at the date of this Notice, OM Holdings have a relevant interest in 12,227,218 Shares of the Company.

The relevant interests of OM Holdings in Shares immediately before and after the issues of Shares as contemplated by this Notice of Meeting are set out in the tables below (and each column assumes that no other Shares are issued or Options are exercised at the relevant time unless otherwise stated):

<b>Party</b>	<b>As at the date of this Notice of Meeting</b>	<b>Following the issue of Shares upon exercise of Options</b>	<b>Following the issue of Shares upon exercise of the Convertible Loan assuming the issue in column 3 occurs</b>
OM Holdings	12,227,218	25,454,436	33,044,443

The voting power of OM Holdings immediately before and after the issues of Shares as contemplated by this Notice of Meeting are set out in the tables below (and each column assumes that no other Shares are issued or Options are exercised at the relevant time unless otherwise stated):

<b>Party</b>	<b>As at the date of this Notice of Meeting</b>	<b>Following the issue of Shares upon exercise of Options</b>	<b>Following the issue of Shares upon exercise of the Options and Convertible Loan</b>
OM Holdings	15.64%	27.85%	33.39%

The maximum relevant interest that OM Holdings will hold after completion of the events the subject of Resolution 3 is 33,044,443 Shares, and the maximum voting power that OM Holdings will hold is 33.39%. This represents an increase from 15.64% to 33.39%.

(c) **OM Holding's Intentions**

Other than as disclosed elsewhere in this Explanatory Statement, the Company understands that OM Holdings:

- (i) has no intention of making any significant changes to the business of the Company;
- (ii) has no intention to inject further capital into the company;
- (iii) has no intention of making changes regarding the future employment of the present employees of the Company;
- (iv) does not intend to redeploy any fixed assets of the Company; and
- (v) does not intend to transfer any property between the Company and OM Holdings or any of its Associates.

These intentions are based on information concerning the Company, its business and the business environment which is known to OM Holdings at the date of this document, which is limited to the publicly available information and a due diligence review of certain non-public material provided to OM Holdings by the Company.

There are no proposed Directors of the Company as a result of the events the subject of Resolution 3.

(d) **Particulars of Proposed Allotment**

Particulars relating to the proposed issue and allotment of the Shares the subject of the Securities Exercise are set out in Section 3.1 of this Explanatory Statement.

(e) **Date of Proposed Allotment**

The Company intends to issue and allot the Shares the subject of the Securities Exercise upon receiving a conversion notice in relation to the Options, and upon receiving a conversion notice in relation to the Convertible Loan. The Options expire on 31 October 2011 and the convertible Loan must be converted on or before 1 February 2012 being the maturity date of the Convertible Loan. Accordingly, the Options and the Convertible Loan need to be exercised by OM Holdings before these dates respectively in order to be issued the underlying securities.

(f) **Reason for the Proposed Allotment**

13,227,218 Shares will be issued upon exercise of the Options and Shares up to a maximum 7,590,007 Shares will be issued upon conversion of the convertible loan under the Convertible Loan Agreement.

(g) **Interests and Recommendations of Directors**

Mr Paul Thomas declared his professional interest in this matter being the Chief Development Officer of OM (Manganese) Ltd, a subsidiary of OM

Holdings Ltd. Accordingly he makes no recommendation on this resolution.

Based on the information available, including that contained in this Explanatory Statement and the Independent Expert's Report, including the advantages and disadvantages outlined in detail in those two documents, all of the Directors, except Mr Thomas, consider that the issue of Securities the subject of Resolution 3 is in the best interests of the Company.

With the exception of Mr Thomas each Director recommends that Shareholders vote in favour of Resolution 3 as they have no material interest in the outcome of that resolution.

(h) **Capital Structure**

The proposed capital structure of the Company following completion of all the transactions the subject of Resolution 3 is set out below:

<b>SHARES</b>	
Shares currently on issue	78,160,621
Shares issued on conversion of the Options	13,227,218
Shares issued on conversion of the Convertible Loan	7,590,007
<b>Total shares on issue upon conversion of the Options and the Convertible Loan</b>	<b>98,977,846</b>

**Notes**

Assumes no other Shares are issued or Options exercised.

The Company obtained Shareholder approval at a general meeting of Shareholders held on 8 September 2011 to issue up to a total of 14,757,244 Shares upon conversion of convertible loans, and up to a total of 20,000,000 Shares under a placement to sophisticated and professional investors, which issues will otherwise be on the terms and conditions set out in the notice of meeting dated 8 August 2011. The above table does not assume these Shares are issued.

<b>Options</b>	
Listed Options exercisable at 25 cents on or before 31 October 2011	17,671,250
Unlisted Options exercisable at \$0.20 each on or before 31 October 2012	8,333,340
Unlisted Options exercisable at \$0.20 each on or before 31 October 2012 classified as restricted securities escrowed to 21 April 2012	20,133,334
Unlisted Options exercisable at \$0.25 each on or before 30 June 2013	400,000
Unlisted Options exercisable at \$0.50 each on or before 30 June 2013	300,000

Unlisted Options exercisable at \$0.75 each on or before 30 June 2013	300,000
Unlisted Options exercisable at \$0.40 on or before 15 December 2012	500,000
<b>Total Options upon issue after the conversion of the Options held by OM Holdings</b>	<b>47,637,924</b>

**Notes**

Assumes no other Options are issued or any Options are exercised.

The Company obtained Shareholder approval at a general meeting of Shareholders held on 8 September 2011 to issue up to a total of 1,500,000 Options, and 5,000,000 convertible notes with 1 free Option attaching to every 5 convertible notes, and 1,500,000 Options to Hannans Reward Limited, which issues otherwise be on the terms and conditions set out in the notice of meeting dated 8 August 2011. The above table does not assume these Options are issued.

(i) **Advantages of the Acquisition**

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

- (i) the issue of the Shares pursuant to the exercise of the Options held by OM Holdings will provide the Company with funds of up to \$3,456,805;
- (ii) the conversion of the Convertible Loan into Shares, prevents the Company's funding being diverted away from its core operations by reason of the Company being required to then repay the amount of the Convertible Loan plus interest in cash; and
- (iii) allowing OM Holdings to increase its holding in the Company, where OM Holdings has stated that it does not wish to make any significant change in the business of the Company, provides existing shareholders with more certainty regarding their fellow shareholders than would otherwise be had if OM Holdings were forced to sell their Options for the reason that they were not permitted to exercise them.

(j) **Disadvantages of the Acquisition**

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

- (i) the issue of the total possible number of Shares, will increase the voting power of OM Holdings and its associates from 15.64% to 33.39%, reducing the voting power of non-associated Shareholders in aggregate from 84.36% to 66.61%; and
- (ii) there is no guarantee that the Company's Shares will not fall in value as a result of the issue of the Shares.

### ***Independent Expert's Report***

The Independent Expert's Report assesses whether the acquisition of Shares outlined in Resolution 3 is fair and reasonable to the Shareholders who are not associated with OM Holdings.

The Independent Expert's Report also contains an assessment of the advantages and disadvantages of the proposed issue and allotment of Shares the subject of Resolution 3. This assessment is designed to assist all Shareholders in reaching their voting decision.

The Independent Expert has provided the Independent Expert's Report and has provided an opinion that it believes the proposal as outlined in Resolution 3, on balance, **IS NOT FAIR BUT REASONABLE** to the Shareholders of the Company not associated with OM Holdings. It is recommended that all Shareholders read the Independent Expert's Report in full.

The Independent Expert's Report is enclosed with this Notice of Meeting.

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## **4. RESOLUTION 4 – SHARE ISSUE**

### **4.1 General**

As announced to ASX on 15 November 2010, the Company has entered into an agreement with Anglo American Exploration B.V (**Anglo**) and Rio Tinto Mining & Exploration Ltd (**Rio**) to acquire the Rakkuri Project located in Sweden (**Acquisition Agreement**).

Under the Acquisition Agreement, the Company agreed to pay US\$3,000,000 deferred consideration in payments of US\$1,200,000 to Anglo and US\$1,800,000 to Rio, on or before 6 December 2011 (**Deferred Consideration**).

Under the Acquisition Agreement, the Company may elect, at least 5 business days before payment of the Deferred Consideration, to issue Shares valuing US\$600,000 to Anglo in satisfaction of US\$600,000 of the Deferred Consideration due to and payable Anglo, and US\$900,000 to Rio in satisfaction of US\$900,000 of the Deferred Consideration due and payable to Rio.

If such an election is made, then in addition to the issue of the Shares, the Company will pay US\$600,000 to Anglo, and US\$900,000 to Rio, cash in full and final satisfaction of the Deferred Consideration. If such an election is made, the Company intends to fund the cash payment of the remaining US\$1,500,000 Deferred Consideration with the funds raised from the placement the subject of Resolution 5.

If an election is not made to satisfy half of the Deferred Consideration through the issue of Shares, the Company will not issue the Shares the subject of Resolution 4. In this instance, the Company intends to raise the full US\$3 million by a private placement of the Shares the subject of Resolution 5.

Resolution 4 seeks Shareholder approval for the allotment and issue of up to that number of shares, when multiplied by the issue price, which equals US\$1,500,000 (**Share Issue**).

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

The effect of Resolution 4 will be to allow the Directors to issue the Shares pursuant to the Share Issue during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

#### **4.2 Technical information required by ASX Listing Rule 7.1**

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the Share Issue:

- (a) the maximum number of Shares to be issued is up to that number of Shares which, when multiplied by the issue price, which equals US\$1,500,000. The following is a worked example of the number of Shares that may be issued under Resolution 4:
  - (i) the average closing price for Shares calculated over the 5 trading days up to and including 29 August 2011 was AU\$0.356;
  - (ii) the average exchange rate for Australian Dollars into United States Dollars on 29 August 2011 was AU\$1.0623 for US\$1 as released by the Reserve Bank of Australia;
  - (iii) the lowest issue price (i.e. maximum discount) of not less than 80% of this average market price would be AU\$0.2848 per Share and converted at the above rate into US\$0.2681; and
  - (iv) at this issue price the Company could issue up to 5,594,928 Shares.

As at 1 September 2011, the number of Shares on issue was 78,160,621. Assuming no other Shares are issued or Options exercised and the maximum number of Shares as set out in the worked example above were issued, the number of Shares on issue would increase from 78,160,621 to 83,651,549 and the shareholding of existing Shareholders would be diluted by 7.17%.

- (b) the Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment will occur on the same date;
- (c) the issue price will be not less than 80% of the average market price for Shares calculated over the 5 days on which sales in the Shares are recorded before the day on which the issue is made or, if there is a prospectus, over the last 5 days on which sales in the securities were recorded before the date the prospectus is signed;
- (d) Shares valuing US\$600,000 will be issued and allotted to Anglo American Exploration B.V or its nominee and Shares valuing US\$900,000 will be issued and allotted to Rio Tinto Mining & Exploration Ltd or its nominee;
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and
- (f) the Shares are being issued in part satisfaction of the Deferred Consideration payable under the Acquisition Agreement, so accordingly no funds will be raised from this issue.



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## 5. RESOLUTION 5 – SHARE ISSUE

### 5.1 General

Resolution 5 relates to the Deferred Consideration payable in relation to the Acquisition Agreement as described in Section 4.1 above.

Resolution 5 seeks Shareholder approval for the allotment and issue of up to that number of shares, when multiplied by the issue price, which equals US\$3,000,000 (**Placement**) to be issued to unrelated sophisticated and professional investors in order to raise the funds required to pay the Deferred Consideration payable under the Acquisition Agreement.

Resolution 4 seeks Shareholder approval for the allotment and issue of up to that number of shares, when multiplied by the issue price, which equals US\$1,500,000 to be issued in satisfaction of half of the Deferred Consideration payable under the Acquisition Agreement should the Company elect to do so.

Should the Company elect to issue the Shares the subject of Resolution 4 in satisfaction of half of the Deferred Consideration payable under the Acquisition Agreement, then the Company will only place half of the Shares the subject of Resolution 5, and will use the proceeds to pay the remaining cash consideration component of the Deferred Consideration.

A summary of ASX Listing Rule 7.1 is set out in Section 4.1 above.

The effect of Resolution 5 will be to allow the Directors to issue the Shares pursuant to the Placement during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

### 5.2 Technical information required by ASX Listing Rule 7.1

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the Share Issue:

- (a) the maximum number of Shares to be issued is up to that number of Shares which, when multiplied by the issue price, which equals US\$3,000,000. The following is a worked example of the number of Shares that may be issued under Resolution 5:
  - (v) the average closing price for Shares calculated over the 5 trading days up to and including 29 August 2011 was AU\$0.356;
  - (vi) the average exchange rate for Australian Dollars into United States Dollars on 29 August 2011 was AU\$1.0623 for US\$1 as released by the Reserve Bank of Australia;
  - (vii) the lowest issue price (i.e. maximum discount) of not less than 80% of this average market price would be AU\$0.2848 per Share and converted at the above rate into US\$0.2681; and
  - (viii) at this issue price the Company could issue up to 11,189,855 Shares.

As at 1 September 2011, the number of Shares on issue was 78,160,621. Assuming no other Shares are issued or Options exercised and the maximum number of Shares as set out in the worked example above were issued, the number of Shares on issue would increase from

78,160,621 to 89,246,476 and the shareholding of existing Shareholders would be diluted by 14.34%.

- (b) the Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment will occur on the same date;
- (c) the issue price will be not less than 80% of the average market price for Shares calculated over the 5 days on which sales in the Shares are recorded before the day on which the issue is made or, if there is a prospectus, over the last 5 days on which sales in the securities were recorded before the date the prospectus is signed;
- (d) the Directors will determine to whom the Shares will be issued and allotted and in any event these subscribers will be unrelated sophisticated and professional investors;
- (e) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and
- (f) the funds raised from this issue will be used in part satisfaction of the Deferred Consideration payable under the Acquisition Agreement.

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## **6. RESOLUTION 6 – ADOPTION OF EMPLOYEE PERFORMANCE RIGHTS PLAN**

### **6.1 General**

Resolution 6 seeks shareholder approval to establish and maintain a Scandinavian Resources Ltd Performance Rights Plan - Employees (**Employee PRP**) to provide ongoing incentives to employees of the Company.

On 26 August 2011, the board adopted the Employee PRP to allow employees to be granted Performance Rights to acquire shares in the Company.

The objective of the Employee PRP is to provide the Company with a remuneration mechanism, through the issue of securities in the capital of the Company, to motivate and reward the performance of employees in achieving specified performance milestones within a specified performance period. The board will ensure that the performance milestones attached to the securities issued pursuant to the Employee PRP are aligned with the successful growth of the Company's business activities.

The employees of the Company have been, and will continue to be, instrumental in the growth of the Company. The directors consider that the Employee PRP is an appropriate method to:

- (a) reward employees for their past performance;
- (b) provide long term incentives for participation in the Company's future growth;
- (c) motivate employees and generate loyalty from senior employees; and
- (d) assist to retain the services of valuable employees.

### **6.2 ASX Listing Rule 7.1**

Refer to Section 4.1 for a summary of ASX Listing Rule 7.1.

One of the exceptions to ASX Listing Rule 7.1 is Listing Rule 7.2 (Exception 9) which provides that ASX Listing Rule 7.1 does not apply to an issue under an employee incentive scheme if, within the 3 years before the date issue, shareholders have approved the issue as an exception to ASX Listing Rule 7.1.

The effect of Resolution 6 will be to allow the directors to grant Performance Rights to employees of the Company pursuant to the Employee PRP during the period of 3 years after the meeting (or a longer period, if allowed by ASX), and to issue shares to those employees if they achieve the performance and vesting conditions of the Performance Rights, without using the Company's 15% annual placement capacity.

### **6.3 Terms of the Employee PRP**

A summary of the terms of the Employee PRP is provided in Schedule 3 to this explanatory memorandum. A copy of the Employee PRP will be made available free of charge to any shareholder on request.

No Performance Rights have been issued under the Employee PRP as at the date of this Notice.

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## **7. RESOLUTION 7 – PLACEMENT - SHARES**

### **7.1 General**

Resolution 7 seeks Shareholder approval for the allotment and issue of up to 10,000,000 Shares (**Share Placement**).

None of the subscribers pursuant to this issue will be related parties of the Company.

A summary of ASX Listing Rule 7.1 is set out in Section 3.1 above.

The effect of Resolution 7 will be to allow the Directors to issue the Shares pursuant to the Share Placement during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

### **7.2 Technical information required by ASX Listing Rule 7.1**

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the Share Placement:

- (b) the maximum number of Shares to be issued is 10,000,000;
- (c) the Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment will occur on the same date;
- (d) the issue price will be not less than 80% of the average market price for Shares calculated over the 5 days on which sales in the Shares are recorded before the day on which the issue is made or, if there is a prospectus, over the last 5 days on which sales in the securities were recorded before the date the prospectus is signed;
- (e) the Directors will determine to whom the Shares will be issued but these persons will not be related parties of the Company;

- (f) the Shares issued will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares; and
- (g) the Company intends to use the funds raised from the Share Placement to fund exploration on the Company's precious metals, base metals and bulk minerals portfolio and working capital.

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## **8. COMPETENT PERSONS STATEMENTS**

### **Competent Persons Statement - Exploration Results**

The information in this document that relates to exploration results is based on information compiled by Mrs. Amanda Arrowsmith, Exploration Manager, Scandinavian Resources Ltd, who is a Member of the Australian Institute of Mining and Metallurgy. Mrs. Arrowsmith is a full-time employee of Scandinavian Resources Ltd. Mrs. Arrowsmith has sufficient experience, which is relevant to the style of mineralisation and types of deposits under consideration and to the activity which has been undertaken to qualify as a Competent Person as defined by the 2004 edition of the "Australian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mrs. Arrowsmith consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

### **Competent Persons Statement - Exploration Targets**

The information in this document that relates to JORC Exploration Targets is based on information reviewed by Mr Thomas Lindholm of GeoVista AB, Luleå, Sweden acting as an independent "Competent Person". Mr Lindholm is a member of the Australasian Institute of Mining and Metallurgy (Member 230476). Mr Lindholm is qualified to be a Competent Person as defined by the JORC Code on the basis of training and experience in the exploration, mining and estimation of mineral resources of gold, base metal and iron deposits. Mr Lindholm consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

\*The JORC Exploration Targets have been subjected to diamond drill testing, ground geophysics and interpretation by the Geological Survey of Sweden reviewed by Mr Thomas Lindholm, of GeoVista AB. The potential quantity and grade of the exploration targets is conceptual in nature, there has been insufficient interpretation to define a JORC Mineral Resource and it is uncertain if further interpretation will result in the determination of a JORC Mineral Resource.

### **Competent Persons Statement - Mineral Resources**

The mineral resource estimate for Rakkurijärvi, Rakkurijoki, Discovery and Tributary Zone is effective from 27 July 2011 and has been prepared by Mr Thomas Lindholm, MSc of GeoVista AB, Luleå, Sweden acting as an independent "Competent Person". Mr Lindholm is a fellow member of the Australasian Institute of Mining and Metallurgy (Member 230476). Mineral resources of the Rakkuri iron deposits have been prepared and categorised for reporting purposes by Mr Lindholm, following the guidelines of the JORC Code. Mr Lindholm is qualified to be a Competent Person as defined by the JORC Code on the basis of training and experience in the exploration, mining and estimation of mineral resources of gold, base metal and iron deposits.

The mineral resource estimate for Ekströmsberg, Tjärrojåkka, and Pattok is effective from 22 July 2011 and has been prepared by Dr Christopher Wheatley

of Behre Dolbear International Ltd, UK, acting as an independent "Competent Person". Dr Wheatley is a member of the Institute of Materials Minerals and Mining (Member 450553). Mineral resources of the Ekströmsberg, Tjärrojåkka, and Pattok have been prepared and categorised for reporting purposes by Dr Wheatley, following the guidelines of the JORC Code. Dr Wheatley is qualified to be a Competent Person as defined by the JORC Code on the basis of training and experience in the exploration, mining and estimation of mineral resources of gold, base metal and iron deposits. Dr Wheatley consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

The mineral resource estimate for Vieto and Sautusvaara is effective from 26 July 2011 and has been prepared by Mr Geoffrey Reed of Minarco-MineConsult acting as an independent "Competent Person". Mr Geoffrey Reed is a Member of the Australasian Institute of Mining and Metallurgy (CP)(Member 205422). Mineral resources of the Vieto, Sautusvaara have been prepared and categorised for reporting purposes by Mr Reed, following the guidelines of the JORC Code. Mr Reed is qualified to be a Competent Person as defined by the JORC Code on the basis of training and experience in the exploration, mining and estimation of mineral resources of gold, base metal and iron deposits. Mr Reed consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

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## **9. ENQUIRIES**

Shareholders are requested to contact the Company Secretary Mr Ian Gregory on (+ 61 8) 9324 1153 if they have any queries in respect of the matters set out in these documents.

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## GLOSSARY

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**\$** means Australian dollars.

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

**ASX** means ASX Limited.

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

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

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

**Company** means Scandinavian Resources Ltd (ACN 132 035 842).

**Convertible Loan** means the loan of \$5,000,000 with interest at 12.5% convertible into Shares at a rate of \$1 for every \$0.66 drawn down.

**Convertible Loan Agreement** means the convertible loan agreement dated 8 February 2011 between the Company and OM Holdings Ltd pursuant to which OM Holdings provided the Convertible Loan to the Company.

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

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

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

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

**ERI** means Equity and Royalty Investments Ltd (ACN 129 549 435) formerly, Scandinavian Shield Limited.

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

**HSAB** means Hannans Scandinavia AB, a company incorporated in Sweden.

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

**OM Holdings** means OM Holdings Ltd (ARBN 081 028 337).

**Option** means an option to acquire a Share with the terms and conditions set out in Schedule 2.

**Optionholder** means a holder of an Option.

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

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

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

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

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

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## SCHEDULE 1 – TERMS AND CONDITIONS OF DEFERRED CONSIDERATION OPTIONS

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The Options entitle the holder to subscribe for Shares on the following terms and conditions:

- (a) each Option entitles the holder to subscribe for and be allotted one fully paid ordinary Share in the Company;
- (b) the Options are exercisable at 20 cents;
- (c) the Options will expire on 5:00pm (WST) 31 October 2012 (the **Expiry Date**);
- (d) the Options are exercisable at any time on or prior to the Expiry Date by notice in writing to the directors of the Company accompanied by payment of the exercise price;
- (e) the Options are transferable in accordance with the Constitution, the Corporations Act and the Listing Rules;
- (f) all Shares allotted upon the exercise of Options will upon allotment rank pari passu in all respects with other Shares;
- (g) the Company will not apply for quotation of the Options on ASX. However, The Company will apply for quotation of all Shares allotted pursuant to the exercise of Options on ASX within 10 Business Days after the date of allotment of those Shares;
- (h) there are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, the Company will send a notice to each holder of Options at least five business days before the record date. This will give Option holders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue;
- (i) if from time to time on or prior to the Expiry Date the Company makes an issue of Shares to the holders of ordinary Shares in the Company by way of capitalisation of profits or reserves (a bonus issue), then upon exercise of his Options an Option holder will be entitled to have issued to him (in addition to the Shares which would otherwise be issued to him upon such exercise) the number of Shares of the class which would have been issued to him under that bonus issue (bonus Shares) if on the record date for the bonus issue he had been registered as the holder of the number of Shares of which he would have been registered as holder if, immediately prior to that date, he had duly exercised his Options and the Shares the subject of such exercise had been duly issued and allotted to him. The bonus Shares will be paid by the Company out of profits or reserves (as the case may be) in the same manner as was applied in relation to the bonus issue and upon issue will rank pari passu in all respects with the other Shares allotted upon exercise of the Options; and
- (j) in the event of any reorganisation of the issued capital of the Company on or prior to the Expiry Date, the rights of an Option holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules in force at the time of the reorganisation.

## SCHEDULE 2 – VALUATION OF DEFERRED CONSIDERATION OPTIONS

The Deferred Consideration Options to be issued to ERI pursuant to Resolution 1 have been valued by internal management.

Using the theoretical Black & Scholes option model and based on the assumptions set out below, the Deferred Consideration Options were ascribed a value range, as follows:

<b>Assumptions:</b>			
Valuation date	1 September 2011		
Market price of Shares	36 cents		
Exercise price	20 cents		
Expiry date	31 October 2012		
Risk free interest rate	3.82%		
Volatility	75%	100%	125%
<b>Indicative value per Deferred Consideration Option</b>	19.39 cents	21.40 cents	23.45 cents
<b>Total Value of Deferred Consideration Options</b>	\$969,500	\$1,070,000	\$1,172,500

Note: The valuation ranges noted above are not necessarily the market prices that the Deferred Consideration Options could be traded at and they are not automatically the market prices for taxation purposes.



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### SCHEDULE 3 – SUMMARY OF EMPLOYEE PRP

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1. The Employee PRP is open to full time or part time employees of a Group Company who are determined by the Board to be eligible to participate in the Employee PRP (**Eligible Participants**).
2. Performance Rights may be issued under the Employee PRP. A Performance Right will entitle the participant to one Share upon vesting of that Performance Right.
3. A Performance Right granted under the Employee PRP will vest when the vesting conditions imposed by the Board are met (or waived by the Board in accordance with the terms of the Plan). If the vesting conditions are not met, the Performance Rights will lapse and the holder will have no entitlement to any Shares.
4. An Eligible Participant will receive their Shares on the exercise of their Performance Rights.
5. Eligible Participants will not be liable to make payment for Performance Rights granted to them.
6. The Board may, at its absolute discretion and only where a participant continues to satisfy any relevant conditions imposed by the Board, grant Performance Rights to Eligible Participants with effect from the date determined by the Board, upon the terms set out in either the Employee PRP and upon such additional terms and vesting conditions as the Board determines.
7. Performance Rights are transferable only with consent of the Board or by operation of law upon the death or bankruptcy of the Eligible Participant.
8. The exercise of any vested Performance Right will be effected in the form and manner determined by the Board.
9. All Shares allocated on the exercise of Performance Rights allotted under the Employee PRP rank equally with other Shares on issue at the time those Shares are provided and carry the same rights and entitlements as those conferred by other Shares.
10. The Company will apply to ASX for the listing of the Shares issued upon the exercise of the Performance Rights.
11. The Board may determine that Shares allocated on the exercise of Performance Rights are to be subject to restrictions on sale, transfer or other dealing by the Eligible Participant.
12. Where, in the opinion of the Board, an Eligible Participant:
  - (a) acts fraudulently or dishonestly; or
  - (b) is in breach of his or her obligations to any Group Company,
  - (c) then the Board may:
    - (i) deem any unexercised Performance Rights of the participant to have lapsed; and/or
    - (ii) deem all or any Shares allotted under the Plan and held by the participant to be forfeited – in which event the Eligible Participant is deemed to have agreed to sell his shares to the Company pursuant to an Employee Share Scheme Buy-Back (as defined in the Corporations Act) for no consideration or deemed to have

appointed any officer of the Company as his or her agent to sell the Shares on market; and

- (iii) where any Shares allotted under the Plan have been sold by the Eligible Participant, require the Eligible Participant to pay all or part of the net proceeds of that sale to the Company.

13. Where, in the opinion of the Board:

- (a) an Eligible Participant's Performance Rights vest as a result of the fraud, dishonesty, or breach of obligations of another person; and
- (b) in the opinion of the Board, the Performance Rights would not otherwise have vested,

the Board may, subject to applicable laws,:

- (a) where Shares have not been issued or transferred upon the exercise of a vested Performance Right, determine that the Performance Rights have not vested and reset the Vesting Conditions applicable to the Performance Rights;
- (b) where Performance Rights have vested and have been exercised by the participant, determine that the Shares are forfeited by the participant and may, at its own discretion, reissue any number of Performance Rights to the Eligible Participant, subject to new Vesting Conditions; or
- (c) do any other thing in relation to Performance Rights or Shares to ensure no unfair benefit is obtained by an Eligible Participant as a result of such actions of another person.

14. The Board may, in its absolute discretion, determine that part or all of an Eligible Participant's unvested Performance Rights vest where:

- (a) the Eligible Participant dies;
- (b) a takeover bid is made for the Company;
- (c) a Court orders a meeting to be held in relation to a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies;
- (d) the Company passes a resolution for voluntary winding up;
- (e) an order is made for the compulsory winding up of the Company;
- (f) the Eligible Participant ceases to be employed by a Group Company by reason of retirement, redundancy, or total and permanent disability; or
- (g) if the Eligible Participant is a Director - the Eligible Participant resigns or is removed for reasons other than performance or misconduct.

If no determination is made or if the Board determines that some or all of an Eligible Participant's Performance Rights do not vest, those Performance Rights will automatically lapse.

15. If Shares are issued pro rata to the Company's shareholders generally by way of bonus issue (other than an issue in lieu of dividends or by way of dividend reinvestment) involving capitalisation of reserves or distributable profits, the number of Performance Rights to which each Eligible Participant is entitled, will be adjusted

in the manner determined by the Board to ensure that no advantage accrues to the Eligible Participant as result of the bonus issue.

16. In the event of any reorganisation (including consolidation, subdivision, reduction or return) of the issued capital of the Company, the number of Performance Rights to which each Eligible Participant is entitled, will be adjusted in the manner determined by the Board to ensure that no advantage or disadvantage accrues to the Eligible Participant as a result of such corporate actions.
17. During the currency of any Performance Rights and prior to vesting, participants are not entitled to participate in any new issue of securities of the company as a result of their holding Performance Right. In addition, Eligible Participants are not entitled to vote nor to receive dividends as a result of holding Performance Rights.
18. The Board may at any time by resolution amend all or any of the provisions of the Employee PRP, or the terms or conditions of any Performance Right granted under the Employee PRP.
19. Without the consent of the Eligible Participant, no amendment may be made to the terms of any granted Performance Right which reduces the rights of the participant in respect of that Performance Right, other than an amendment:
  - (a) for the purpose of complying with or conforming to present or future State or Commonwealth legislation, the Listing Rules or relevant instruments of relief granted by the ASIC governing or regulating the maintenance or operation of the Employee PRP or like plans;
  - (b) to correct any manifest error or mistake; or
  - (c) to take into consideration possible adverse tax implications in respect of the Plan arising from, amongst others, adverse rulings from the Commissioner of Taxation, changes to tax legislation (including an official announcement by the Commonwealth of Australia) and/or a change in the interpretation of tax legislation by a court of competent jurisdiction.

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## SCHEDULE 4 – TERMS AND CONDITIONS OF PERFORMANCE RIGHTS

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1. Each Performance Right will vest as an entitlement to one fully paid ordinary share in the capital of the Company (**Share**) provided that certain performance milestones are met. If the performance milestones are not met, the Performance Rights will lapse and the holder will have no entitlement to any Shares.
2. There is nil consideration payable upon the grant of a Performance Right and no amount will be payable on the vesting of a Performance Right.
3. The Board shall notify the holder when the Vesting Requirements have been satisfied and the holder may then exercise their right to accept the vesting of the Performance Rights and be issued the Shares, following which the Company shall issue the Shares and deliver notification of the Shareholding to the holder.
4. Shares resulting from the vesting of the Performance Rights shall, from the date of issue, rank *pari passu* with all other Shares on issue.
5. Performance Rights shall not be transferred or assigned by a holder except with the prior written consent of the Directors of the Company and ASX.
6. Subject to any right a holder may have as a holder of shares, holders of Performance Rights may only participate in new issues of securities to holders of shares if the Vesting Requirements have been satisfied and the relevant Shares have been issued prior to the record date for determining entitlements to the issue. The Company shall give notice to holders of Performance Rights (as required under the ASX Listing Rules) of any new issues of securities prior to the record date for determining entitlements to the issue.
7. If Shares are issued pro rata to the Company's shareholders generally by way of bonus issue (other than an issue in lieu of dividends or by way of dividend reinvestment) involving capitalisation of reserves or distributable profits, the number of Performance Rights to which each participant is entitled, and/or any amount payable on vesting of the Performance Rights, will be adjusted in the manner determined by the Board to ensure that no advantage or disadvantage accrues to the participant as result of the bonus issue.
8. In the event of any reorganisation (including consolidation, subdivision, reduction or return) of the issued capital of the Company, the number of Performance Rights to which each participant is entitled, and/or any amount payable on vesting of the Performance Rights, will be adjusted in the manner determined by the Board to ensure that no advantage or disadvantage accrues to the participant as a result of such corporate actions.
9. The Board may, in its absolute discretion, determine that part or all of a participant's unvested Performance Rights vest where:
  - (a) a takeover bid is made for the Company;
  - (b) a Court orders a meeting to be held in relation to a proposed compromise or arrangement for the purposes of or in connection with scheme for the reconstruction of the Company or its amalgamation with any other company or companies;
  - (c) any person becomes bound or entitled to acquire shares in the Company under:
    - (i) Section 414 of the Corporations Act; or
    - (ii) Chapter 6A of the Corporations Act;

- (d) the Company passes a resolution for voluntary winding up;
  - (e) an order is made for the compulsory winding up of the Company; or
  - (f) the participant resigns or is removed for reasons other than performance or misconduct.
10. The holder of Performance Rights does not have any entitlement to vote at a general meeting of Shareholders.

## PROXY FORM

**APPOINTMENT OF PROXY  
SCANDINAVIAN RESOURCES LTD  
ACN 132 035 842**

### GENERAL MEETING

I/We

of

being a member of Scandinavian Resources Ltd entitled to attend and vote at the General Meeting, hereby

Appoint

Name of proxy

OR  the Chair of the General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the General Meeting, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, as the proxy sees fit, at the General Meeting to be held at 10.00am (WST), on 27 October 2011 at Park Business Centre, 45 Ventnor Avenue, West Perth, Western Australia, and at any adjournment thereof.

If no directions are given, the Chair will vote in favour of all the Resolutions.

If the Chair of the General Meeting is appointed as your proxy, or may be appointed by default, and you do **not** wish to direct your proxy how to vote as your proxy in respect of **Resolutions 1 and 2** please place a mark in this box.

By marking this box, you acknowledge that the Chair of the General Meeting may exercise your proxy even if he is deemed to have an interest in the outcome of Resolutions 1 and 2 by virtue of being Key Management Personnel and that votes cast by the Chair of the General Meeting for Resolutions 1 and 2 other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on Resolutions 1 and 2, and your votes will not be counted in calculating the required majority if a poll is called on Resolutions 1 and 2.

**Important information for Resolutions 1 and 2** If the Chair of the Meeting is appointed as your proxy, or may be appointed by default, and you do not wish to direct your proxy how to vote as your proxy in respect of Resolutions 1 and 2, please be aware that by signing this form you are taken to expressly authorise the Chair of the Meeting to exercise your proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel of the Company.

**OR**

#### Voting on Business of the General Meeting

	FOR	AGAINST	ABSTAIN
Resolution 1 – Issue of Securities to a Related Party	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 – Issue of Securities and increase in relevant interest – ERI	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 – Issue of Shares and increase in relevant interest – OM Holdings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 – Share Issue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5 – Share Issue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6 – Adoption of Performance Rights Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7 – Share Placement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

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

**Signature of Member(s):**

**Date:** \_\_\_\_\_

**Individual or Member 1**

**Member 2**

**Member 3**

**Sole Director/Company Secretary**

**Director**

**Director/Company Secretary**

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

**SCANDINAVIAN RESOURCES LTD**  
**ACN 132 035 842**

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

1. **(Appointing a Proxy):** A member entitled to attend and vote at the General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.

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

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

Further detail on these changes is set out below.

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

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

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

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

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

2. **(Direction to Vote):** A member may direct a proxy how to vote by marking one of the boxes opposite each item of business. Where a box is not marked the proxy may vote as they choose. Where more than one box is marked on an item the vote will be invalid on that item. If a person appointed as a proxy for a member who is entitled to vote (and such proxy is not chairing the meeting) abstains from voting and the directions on the Proxy Form require that person to vote, the votes not exercised by that person will be given to the person chairing the meeting to vote in accordance with the directions on the Proxy Form. A proxy holder who holds contradictory instructions from multiple members must not vote on a show of hands.
3. **(Signing Instructions):**
  - **(Individual):** Where the holding is in one name, the member must sign.
  - **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.
  - **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
  - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the General Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
  - (a) post to the Company, PO Box 1668, WEST PERTH WA 6872; or
  - (b) facsimile to the Company on facsimile number (+61 8) 9324 3366; or
  - (c) email to the Company at michaelc@scandinavianresources.com,so that it is received not less than 48 hours prior to commencement of the Meeting.

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





**SCANDINAVIAN RESOURCES LTD**  
Independent Expert's Report

1 September 2011

**IN OUR OPINION THE PROPOSED TRANSACTION IS  
NOT FAIR BUT REASONABLE**



## Financial Services Guide

1 September 2011

**BDO Corporate Finance (WA) Pty Ltd** ABN 27 124 031 045 (“**BDO**” or “**we**” or “**us**” or “**ours**” as appropriate) has been engaged by Scandinavian Resources Ltd (“**SCR**”) to provide an independent expert’s report on the proposal to SCR shareholders.

On 18 July 2008, SCR entered into an agreement with Equity & Royalty Investments Ltd (“**ERI**”), amended on 26 August 2009, for SCR to acquire from ERI all the issued share capital of Hannans Scandinavia AB (“**HSAB**”) (“**HSAB Acquisition Agreement**”). Our Independent Expert Report addresses the issue of 5 million deferred consideration shares to ERI and the potential exercise of 25 million options by ERI.

You will be provided with a copy of our report as a retail client because you are a shareholder of SCR.

### Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (“**FSG**”). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

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

### Information about us

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

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

### Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

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

### General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

### Fees, Commissions and Other Benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee for this engagement is approximately \$38,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

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

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

We have received a fee from SCR for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

## **Referrals**

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

## **Complaints resolution**

### *Internal complaints resolution process*

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

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

## **Referral to External Dispute Resolution Scheme**

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service (“FOS”). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly via the details set out below.

Financial Ombudsman Service  
GPO Box 3 Melbourne VIC 3001  
Toll free: 1300 78 08 08  
Facsimile: (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

## **Contact details**

You may contact us using the details set out at the top of our letterhead on page 1 of this FSG.

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Appendix 1 - Glossary

Appendix 2 - Valuation Methodologies

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1 September 2011

The Directors  
Scandinavian Resources Ltd  
Ground Floor, 28 Ord Street  
West Perth WA 6005

Dear Sirs

## Independent Expert Report

### 1. Introduction

Scandinavian Resources Ltd (“SCR” or the “Company”) is seeking the approval of its shareholders for the issue of securities to Equity & Royalty Investments Ltd (“ERI”) and associates. The proposed issue arises from an agreement between SCR and ERI dated 18 July 2008 (and amended on 26 August 2009), for SCR to acquire from ERI all the issued share capital of Hannans Scandinavia AB (“HSAB”) (“HSAB Acquisition Agreement”). The consideration to be paid by SCR under the HSAB Acquisition Agreement comprised the following six elements:

- paying ERI cash of \$17,259 (“Cash Consideration”);
- allotting and issuing to ERI (or its nominee) 20,000,000 fully paid ordinary shares in SCR (“Share Issue Consideration”);
- allotting and issuing to ERI (or its nominee) 20,000,000 options in SCR, exercisable at 20 cents each on or before 31 October 2012 (“Option Issue Consideration”);
- paying ERI a royalty of 1% of future production from mineral assets owned or controlled by SCR and/or its subsidiaries in Sweden, Norway and Finland (“Royalty Consideration”);
- accepting the assignment and assumption of all loan agreements entered into by HSAB (“Loan Assignment and Assumption Consideration”); and
- only in the event that the market capitalisation of SCR exceeds \$50 million for 15 consecutive ASX trading days within two years of listing on the Australian Securities Exchange (“ASX”), issuing to ERI a further 5,000,000 fully paid ordinary shares in SCR (“Deferred Shares Consideration”) and a further 5,000,000 options in SCR with an exercise price of 20 cents and an expiry date of 31 October 2012 (“Deferred Options Consideration”) (together “Deferred Consideration”).

The payment of the Deferred Consideration is the only outstanding obligation by SCR in relation to the payment of the consideration under the HSAB Acquisition Agreement. We note that the Company has sought an ASX waiver to allow the issue of the Deferred Consideration between the date of the General Meeting and 21 April 2012, being the final date for the issue of the Deferred Consideration under the HSAB Acquisition Agreement.

As the current market capitalisation of SCR is approximately \$28 million, it is possible that the condition for the issue of the Deferred Consideration may be met in the near future. Therefore SCR is seeking shareholder approval to issue a further 5,000,000 ordinary shares and a further 5,000,000 options to ERI. Following the issue of the Deferred Consideration, ERI will hold 25,000,000 options convertible into 25,000,000 ordinary shares.

SCR shareholder approval is sought for the proposal set out in Resolution 1 and Resolution 2 of the attached Notice of General Meeting for SCR shareholders. The proposal comprises the potential issue of shares and options under the Deferred Consideration (if the market capitalisation condition is met) and the potential issue of 25,000,000 shares on conversion of 25,000,000 options by ERI (“Proposed Transaction”).

## 2. Summary and Opinion

### 2.1 Purpose of the report

The directors of SCR have requested that BDO Corporate Finance (WA) Pty Ltd (“BDO”) prepare an independent expert report (“our Report”) to express an opinion as to whether or not the issue of shares to ERI (as set out in Resolution 1 and Resolution 2 in the attached Notice for the General Meeting of SCR shareholders) is fair and reasonable to the non associated shareholders of SCR (“Shareholders”).

Our Report is prepared pursuant to section 611 item 7 of the Corporations Act and is to be included in the Explanatory Statement which accompanies the Notice of Meeting for SCR in order to assist the Shareholders in their decision as to whether or not to approve the issue of shares to ERI under the terms for the consideration in the HSAB Acquisition Agreement.

Our Report is also prepared pursuant to the Corporations Act Chapter 2E - Related Party Transactions and ASX Listing Rule 10.11 since ERI is a related party of SCR as it is controlled by three directors of SCR (Damian Hicks, Ian Gregory and Olof Forslund). ASX Listing Rule 10.11 requires shareholder approval before securities are issued to a related party.

### 2.2 Approach

Our Report has been prepared having regard to the Australian Securities & Investments Commission (“ASIC”) Regulatory Guide 111 ‘Content of Expert Reports’ (“RG 111”) and Regulatory Guide 112 ‘Independence of Experts’ (“RG 112”).

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

- A comparison between the amount that will be received by the Company from the issue of shares to ERI and the exercise of options by ERI under the Proposed Transaction and the value of a SCR share to Shareholders;
- Other factors which we consider to be relevant to Shareholders in their assessment of the Proposed Transaction; and
- The position of Shareholders should the Proposed Transaction not proceed.

### 2.3 Opinion

We have considered the terms of the Proposed Transaction as outlined in the body of this report and have concluded that the **Proposed Transaction is not fair but reasonable to Shareholders.**

In our opinion, the Proposed Transaction is not fair because the Options held, and to be issued, to ERI have an exercise price that is below our preferred value for a SCR share. Consequently, we consider that the options will be exercised and SCR will receive the funds of \$0.20 per share.

However, we consider the Proposed Transaction to be reasonable because the advantages of the Proposed Transaction to Shareholders are greater than the disadvantages and because of the other matters that we have considered in section 11.5.

### 2.4 Fairness

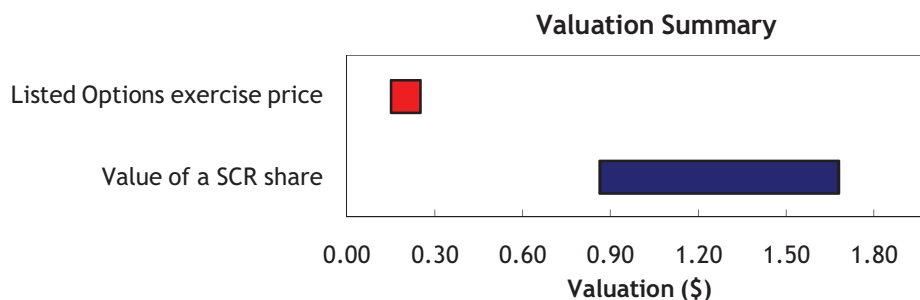
In Section 10 we determined that the exercise price of the options held by ERI, and to be issued to ERI, is less than the fair value range of a SCR share on issue, as detailed hereunder.

	Low	Preferred	High
	\$	\$	\$
Assessed value of a SCR share	0.863	1.456	1.678

	Number	Exercise price	Total funds received
Options held by ERI from Option Issue Consideration	20,000,000	\$0.20	\$4,000,000
Options to be held by ERI from Deferred Consideration	5,000,000	\$0.20	\$1,000,000
<b>Total</b>			<b>\$5,000,000</b>

The above valuation ranges are graphically presented below:



The above pricing indicates that, in the absence of any other relevant information, the exercise of options is not fair for Shareholders.

If the Proposed Transaction is approved then 5 million ordinary shares will be issued to ERI. The value of SCR shares is shown above. SCR will not receive any additional benefit from the issue of the Deferred Shares Consideration as SCR already holds the issued shares in HSAB. Therefore, the Deferred Shares Consideration in isolation is not fair to Shareholders.

## 2.5 Reasonableness

We have considered the analysis in Sections 10 and 11 of this report, in terms of both:

- advantages and disadvantages of the Proposed Transaction; and
- alternatives, including the position of Shareholders if the Proposed Transaction does not proceed.

In our opinion, the position of Shareholders if the Proposed Transaction is approved is more advantageous than the position if the Proposed Transaction is not approved. Accordingly, in the absence of any other relevant information we believe that the Proposed Transaction is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
11.3	Improved NTA position through cash received from the exercise of Options	10	The Proposed Transaction is not fair
11.3	No changes to current operating and financial arrangements	11.4	Dilution of Shareholders' interests
11.3	No requirement for alternative arrangement to satisfy HSAB Acquisition Agreement	11.4	ERI and its associates will gain a significant level of control of SCR

Other key matters we have considered include:

Section	Description
11.1	Lack of an alternative Proposal
11.2	Practical level of control
11.5	Other Considerations <ul style="list-style-type: none"> <li>• Dilution of Shareholders' interests</li> <li>• Future net tangible asset position</li> <li>• SCR share price reflects dilution</li> <li>• SCR share price unlikely to react to the rejection of Proposed Transaction</li> </ul>



### 3. Scope of the Report

#### 3.1 Purpose of the Report

As ERI and its associates currently hold approximately 29.03% of SCR's voting power, the issue of further shares to ERI is prohibited under section 606 of the Corporations Act 2001 ("the Act") which prohibits the acquisition of relevant interests in voting shares of a company if, as a result of the transaction, the acquirer's voting power in the target company increases from a starting point which is above 20% and below 90%.

However, an acquisition will be exempt from this prohibition if it is approved by a resolution passed at a general meeting of the target company if the members of the target company are given all information, known to the acquirer (and associates) and known to the target company, that is material to the decision on how to vote on the resolution (Corporations Act 2001 section 611 item 7(b)). An independent expert report is commonly commissioned by the directors of the target company to enable them to discharge the requirement to disclose all material information on how to vote on such a resolution, and our Report assists the directors in discharging this requirement in relation to the Proposed Transaction.

The percentage of SCR's voting power held by ERI and its associates is shown in the below table:

Party	As at Notice of Meeting		After Resolutions 1 & 2	
	No of Ordinary Shares Held	Percentage of Issued Shares	No of Ordinary Shares Held	Percentage of Issued Shares
ERI	20,000,001	25.59%	50,000,001	46.15%
Damian Hicks	1,000,000	1.28%	1,000,000	0.92%
Ian Gregory*	438,334	0.56%	626,668	0.58%
Olof Forslund	1,250,000	1.60%	1,250,000	1.15%
<b>Total</b>	<b>22,688,335</b>	<b>29.03%</b>	<b>52,876,669</b>	<b>48.80%</b>

\*Assumes 188,334 Shares are issued upon the exercise of options Ian Gregory has an interest in

The precise percentages of voting power which will result from the Proposed Transaction are affected by a further proposal (as set out in Resolution 3 of the attached Notice of General Meeting for SCR shareholders) for OM Holdings Ltd ("OMH"), currently SCR's second largest shareholder after ERI with approximately 15.64% of SCR's voting power, to exercise the 13,227,218 options it currently holds and convert into 7,590,007 ordinary shares the \$5 million convertible loan it currently holds ("OMH Proposal"). The OMH Proposal is also subject to approval by SCR shareholders in general meeting because as a result OMH may exceed the 20% voting power threshold.

Our Report is also prepared pursuant to the Corporations Act Chapter 2E - Related Party Transactions and ASX Listing Rule 10.11 since ERI is a related party of SCR as it is controlled by three directors of SCR (Damian Hicks, Ian Gregory and Olof Forslund). ASX Listing Rule 10.11 requires shareholder approval before securities are issued to a related party.

ASIC Regulatory Guide 74 - 'Acquisitions agreed to by shareholders' ("RG 74") states that the obligation to supply shareholders with all information that is material to the decision on how to vote on the resolution can be satisfied by the non-associated directors of SCR either:

- commissioning an independent expert report, or
- undertaking a detailed examination of the Proposed Transaction themselves, if they consider that they have sufficient expertise, experience and resources.

The non-associated directors of SCR have commissioned this Independent Expert Report to assist shareholders.

### **3.2 Regulatory guidance**

The Act does not prescribe the matters to be included in an Independent Expert Report prepared to address the requirements of section 611 item 7. However, RG 111 provides guidance for the expert in relation to the content of an Independent Expert Report and specifies the matters an independent expert should consider to assist shareholders in making informed decisions about transactions.

RG 111 identifies a 'control transaction' (defined as being where a party acquires or increases a controlling stake in a company) as a key type of transaction requiring an independent expert report and cites an issue of shares approved under section 611 item 7 of the Act as an example of a control transaction.

We consider that the Proposed Transaction constitutes a control transaction as defined by RG 111.

RG 111 states that where the transaction is a control transaction the expert should focus on the substance of the control transaction rather than the legal mechanism used to affect it.

In determining the content of the independent expert report for a control transaction, RG 111 states that an issue of shares approved under section 611 item 7 of the Act is comparable to a takeover bid (RG 111.24). In such a case the expert should apply the same analysis as for takeover bids under section 640 of the Act (RG 111.25).

Section 640 of the Act specifies that the expert should state whether, in the expert's opinion, the takeover bid (or in this case the issue of shares) is 'fair and reasonable', and provides the reasons for forming that opinion. RG 111 then provides guidance for the expert as to the meaning of 'fair and reasonable' (RG111.10 to 111.17).

Consequently we have assessed the Proposed Transaction based on whether, in our opinion, it is fair and reasonable to SCR's Shareholders.

### **3.3 Adopted basis of evaluation**

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities the subject of the offer. This form of words is determined by the context of a takeover bid. For an allotment of shares being assessed under Section 611 item 7 of the Act the equivalent is a comparison between the value of the asset being acquired by the company and the value of the shares being issued.

This comparison should be made:

- assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length, and
- considering the value of the securities the subject of the offer (for a Section 611 item 7 transaction the equivalent is the shares being issued) inclusive of a control premium.

Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid (for a Section 611 item 7 transaction the equivalent is sufficient reasons for approving the issue).

Having regard to the above, BDO has assessed this comparison in two parts as follows:

- A comparison between the amount that will be received by the Company from the issue of shares to ERI and the exercise of options by ERI under the Proposed Transaction and the value of a SCR share to Shareholders (fairness - see Section 10 " Is the Proposed Transaction Fair?"); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness - see Section 11 " Is the Proposed Transaction Reasonable?").

This assignment is a Valuation Engagement as defined by APES 225 Valuation Services. A Valuation Engagement means an engagement or assignment to perform a valuation and provide a valuation report where we determine an estimate of value of the Company by performing appropriate valuation procedures and where we apply the valuation approaches and methods that we consider to be appropriate in the circumstances.

## 4. Outline of the Proposed Transaction

The Proposed Transaction is set out in Resolution 1 and Resolution 2 of the attached Notice of General Meeting for SCR shareholders. Resolution 1 and 2 relate to the issue of securities and the increase in voting power of ERI and its associates.

Resolution 1 reads as follows:

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

*“That, subject to and conditional upon Shareholders approving Resolution 2, for the purposes of ASX Listing Rule 10.11 and Sections 208 of the Corporations Act and for all other purposes, Shareholders approve the issue of:*

*i) 5,000,000 Shares; and*

*ii) the issue of 5,000,000 Options,*

*to ERI as deferred consideration for the acquisition of HSAB (Deferred Consideration) in the event that the Company’s market capitalisation reaches \$50,000,000 for 15 consecutive ASX trading days within 2 years of the Company listing on ASX and otherwise on the terms and conditions set out in the Explanatory Statement.”*

Resolution 2 reads as follows:

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

*That, subject to and conditional upon Shareholders approving Resolution 1, for the purposes of Section 611 (item 7) of the Corporations Act and for all other purposes, Shareholders approve a potential increase in ERI and its associates voting power in the Company from 29.02% to 48.80% (assuming the Deferred Consideration is issued, and that ERI converts the 25,000,000 Options it will hold post-issue of the Deferred Consideration, and without taking into effect the issue of Securities the subject of any other Resolution), on the terms and conditions set out in the Explanatory Statement.”*

Essentially Resolutions 1 and 2 arise from the HSAB Agreement between SCR and ERI dated 18 July 2008 (and amended on 26 August 2009) under which SCR acquired from ERI all the issued share capital of Hannans Scandinavia AB (now Scandinavian Resources AB). The consideration to be paid by SCR under the HSAB Acquisition Agreement comprised the following six elements:

- Cash Consideration - paying ERI cash of \$17,259;
- Share Issue Consideration - allotting and issuing to ERI (or its nominee) 20,000,000 fully paid ordinary shares in SCR;
- Option Issue Consideration - allotting and issuing to ERI (or its nominee) 20,000,000 options in SCR, exercisable at 20 cents each on or before 31 October 2012;
- Royalty Consideration - paying ERI a royalty of 1% of future production from mineral assets owned or controlled by SCR and/or its subsidiaries in Sweden, Norway and Finland;
- Loan Assignment and Assumption Consideration - accepting the assignment and assumption of all loan agreements entered into by HSAB; and

- Deferred Consideration - only in the event that the market capitalisation of SCR exceeds \$50 million for 15 consecutive ASX trading days within two years of listing on the ASX, issuing to ERI a further 5,000,000 fully paid ordinary shares in SCR and a further 5,000,000 options in SCR with an exercise price of 20 cents and an expiry date of 31 October 2012.

The payment of the Deferred Consideration is the only outstanding obligation by SCR in relation to the payment of the consideration under the HSAB Acquisition Agreement. We note that the Company has sought an ASX waiver to allow the issue of the Deferred Consideration between the date of the General Meeting and 21 April 2012, being the final date for the issue of the Deferred Consideration under the HSAB Acquisition Agreement.

As the current market capitalisation of SCR is approximately \$28 million, it is possible that the condition for the issue of the Deferred Consideration may be met in the near future. Therefore, SCR is seeking shareholder approval to issue a further 5,000,000 ordinary shares and a further 5,000,000 options to ERI. Following the issue of the Deferred Consideration ERI will hold 25,000,000 options (20,000,000 from the Option Issue Consideration and 5,000,000 from the options arising from the Deferred Consideration) exercisable into 25,000,000 ordinary shares.

SCR shareholder approval is sought for the Proposed Transaction set out in Resolution 1 and Resolution 2 comprising the potential issue of shares and options under the Deferred Consideration (if the market capitalisation condition is met) and the potential issue of 25,000,000 shares on exercise of 25,000,000 options by ERI.

The potential increase in the voting power in SCR of ERI and its associates is from the current level of 29.03% to a maximum of 48.80%. This increase would decrease from the maximum of 48.80% to 40.94% if shareholders approve Resolution 3 of the attached Notice of General Meeting for SCR shareholders, under which an additional 20,817,225 shares would be issued to OMH. These potential changes in shareholdings and voting power are summarised in the table below, assuming none of the other options on issue are exercised.

	ERI and Associates	OMH	Other shareholders	Total
<b>Issued Shares as at date of this Report</b>	<b>22,688,335</b>	<b>12,227,218</b>	<b>43,245,068</b>	<b>78,160,621</b>
<i>% holdings as at date of this report</i>	29.03%	15.64%	55.33%	100.00%
Shares to be issued as Deferred Consideration	5,000,000	-	-	5,000,000
Shares to be issued on exercise of Options	25,000,000	-	-	25,000,000
Shares to be issued on exercise of Mr Ian Gregory Options	188,334	-	-	188,334
<b>Issued Shares after Deferred Consideration &amp; Options exercised</b>	<b>52,876,669</b>	<b>12,227,218</b>	<b>43,245,068</b>	<b>108,348,955</b>
<i>% holdings after Deferred Consideration issued &amp; Options exercised</i>	48.80%	11.29%	39.91%	100.00%
Shares to be issued to OMH	-	20,817,225	-	20,817,225
<b>Issued Shares after Deferred Consideration, Options exercised &amp; shares issued to OMH</b>	<b>52,876,669</b>	<b>33,044,443</b>	<b>43,245,068</b>	<b>129,166,180</b>
<i>% holdings after Deferred Consideration, Options exercised &amp; shares issued to OMH</i>	40.94%	25.58%	33.48%	100.00%

## 5. Profile of Scandinavian Resources Ltd

### 5.1 History

Scandinavian Resources Ltd was incorporated in July 2008 and was admitted to the Official List of the ASX on 19 April 2010 after successfully completing an Initial Public Offer (“IPO”) raising of approximately \$6.7 million. Scandinavian Resources Ltd is a diversified mineral explorer operating in Scandinavia, primarily in Sweden and Norway. The company has three main projects being the Kiruna Iron Project Permits held by Kiruna Iron AB, Caledonide Project base metals project and the Vatmyrberget IOCG project. The exploration permits for these projects are held by Scandinavian Resources AB, formerly Hannans Scandinavia AB, which was acquired as part of the HSAB Acquisition Agreement. Kiruna Iron AB is 100% owned by Scandinavian Resources AB which is registered in Sweden and Scandinavian Resources AB is 100% owned by SCR.

The current Board of Directors consists of Damian Hicks as Chairman, Olof Forslund as Technical Director and Ian Gregory, Markus Bachmann and Paul Thomas as Non Executive Directors.

Scandinavian Resources Ltd’s two significant shareholders are Equity & Royalty Investments Ltd and OM Holdings Ltd.

### 5.2 Key projects

#### Kiruna Project

SCR’s flagship Kiruna iron exploration project is located within a radius of 50 km of the mining town of Kiruna in northern Sweden. The exploration package covers more than 300km<sup>2</sup> and is located between two major east-west trending lake systems. Access to the project can be made via the main highway during the winter months which is when the majority of field work is carried out as the ground is frozen and access to the project is considered easier.

The majority of the assets in the Kiruna area are assumed to be skarn-type iron ore deposits. There are also a few cases of apatite-magnetite iron ore deposits.

On 15 November 2010 SCR announced that through its wholly owned subsidiary, Kiruna Iron AB, it had reached an agreement with Anglo American Exploration BV and Rio Tinto Mining & Exploration Ltd to acquire 100% of the Rakkuri Project. The project contains an exploitation concession application for the mining of copper-gold.

#### Caledonide Project

The Caledonide Project is located in the Nordland region of northern Norway and is 7 km west of the Swedish border and 145 km from the Norwegian mining and port town of Mo i Rana. Access to this area is typically helicopter assisted due to the mountainous terrain. The Caledonite Project consists of 564 permits and covers approximately 141 km<sup>2</sup>.

The Caledonide Project is located within the Scandinavian Caledonides and the principal target is stratiform sediment hosted copper-lead-zinc-silver mineralisation and volcanogenic massive sulphide mineralisation (“VMS”) both hosted within the Palaeozoic Caledonide terrain.

#### Vatmyrberget Project

The Vatmyrberget Project consists of three permits which cover an area of approximately 54 km<sup>2</sup>. The permits are located within the Municipality of Pitea which is an area that is considered

prospective for iron, copper, nickel and platinum group elements. The Vatmyrberget Project is also considered prospective for iron oxide copper gold (“IOCG”) given its close proximity to a major, crustal scale, deformation zone located to the east of the project.

### 5.3 Historical statement of financial position

	Unaudited as at 30-Jun-11	Reviewed as at 31-Dec-10	Audited as at 30-Jun-10
Statement of financial position	\$	\$	\$
<b>Current assets</b>			
Cash and cash equivalents	128,430	321,995	5,754,683
Trade and other receivables	557,858	159,915	61,853
Prepayments	47,223	-	-
<b>Total current assets</b>	<b>733,511</b>	<b>481,910</b>	<b>5,816,536</b>
<b>Non-current assets</b>			
Trade and other receivables	211,644	15,611	28,049
Property, plant & equipment	79,775	55,914	1,343
Other financial assets	1	1	-
<b>Total non-current assets</b>	<b>291,420</b>	<b>71,526</b>	<b>29,392</b>
<b>Total assets</b>	<b>1,024,931</b>	<b>553,436</b>	<b>5,845,928</b>
<b>Current liabilities</b>			
Trade and other payables	1,856,466	302,044	280,059
Deferred consideration	3,874,100	2,628,379	-
Other financial liabilities	2,140,150	567,241	-
<b>Total current liabilities</b>	<b>7,870,716</b>	<b>3,497,664</b>	<b>280,059</b>
<b>Total liabilities</b>	<b>7,870,716</b>	<b>3,497,664</b>	<b>280,059</b>
<b>Net assets</b>	<b>(6,845,785)</b>	<b>(2,944,228)</b>	<b>5,565,869</b>
<b>Equity</b>			
Issued capital	12,195,148	7,304,351	7,255,888
Reserves	2,455,625	228,271	(170,876)
Accumulated losses	(21,496,558)	(10,476,850)	(1,519,143)
<b>Total equity</b>	<b>(6,845,785)</b>	<b>(2,944,228)</b>	<b>5,565,869</b>

Source: Scandinavian Resources Ltd Annual Report 2010, Financial Report for half year ended 31 December 2010 and Management Accounts as at 30 June 2011.

## 5.4 Historical statement of comprehensive income

	Unaudited Year ended 30-Jun-11	Audited Year ended 30-Jun-10	Audited Year ended 30-Jun-09
Statement of comprehensive income	\$	\$	\$
Interest revenue	459,828	65,393	56
Employee and contractors expense	(350,448)	(36,624)	-
Depreciation expense	(22,420)	(79)	-
Consultants expenses	(223,397)	(115,282)	(72,174)
Occupancy expenses	(67,921)	(43,291)	-
Marketing expenses	(35,631)	(42,513)	-
Exploration and evaluation expenses	(18,618,492)	(875,820)	(233,283)
Travel	(84,237)	-	-
Exchange rate losses	(379,577)	-	-
Other expenses	(104,221)	(114,275)	(768)
Provision against recoverability of loan	(14,108)	-	-
Finance costs	(540,328)	(14,927)	(35,556)
<b>Loss before income tax expense</b>	<b>(19,980,952)</b>	<b>(1,177,418)</b>	<b>(341,725)</b>
Income tax (expense) / benefit	-	-	-
<b>Net loss for the period</b>	<b>(19,980,952)</b>	<b>(1,177,418)</b>	<b>(341,725)</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operations	608,564	(29,030)	(13,678)
<b>Total comprehensive loss</b>	<b>(19,372,388)</b>	<b>(1,206,448)</b>	<b>(355,403)</b>

Source: Scandinavian Resources Ltd Annual Report 2010 and Management Accounts as at 30 June 2011.

### Commentary on Historical Financial Statements

We have not undertaken a review of SCR's unaudited accounts in accordance with Australian Auditing and Assurance Standard 2405 "Review of Historical Financial Information" and do not express an opinion on this financial information. However nothing has come to our attention as a result of our procedures that would suggest the financial information within the management accounts has not been prepared on a reasonable basis.

We note that the majority of the deferred consideration in the balance sheet of approximately \$2.6 million and \$3.9 million as at 31 December 2010 and 30 June 2011 respectively relates to the acquisition of the Rakkuri Project by SCR's wholly owned subsidiary, Kiruna Iron AB. This deferred consideration is expected to be paid in December 2011. We note the deferred consideration in relation to the HSAB Acquisition Agreement is not recorded in the balance sheets above.

Financial liabilities of approximately \$2.1 million as at 30 June 2011 relate to three convertible loans entered into. The first was entered into with HR Equities Pty Ltd, which allows \$2.5 million to be drawn down with interest at 12.5% per annum, the second was entered into with Mathew Walker, which allows \$1.25 million to be drawn down with interest at 12.5% per annum and the third is with



OMH which allows \$5 million to be drawn down at an interest rate of 12.5% per annum. In February 2011 the Company also entered into a fourth convertible loan agreement which allows \$1.25 million to be drawn down with interest at 12.5% per annum. In July 2011 and August 2011 three further loan agreements have been entered into, the first for \$250,000 at an interest rate of 12.5%, the second for \$750,000 at an interest rate of 21.3% and the third is for \$150,000 at an interest rate of 12.5%. The Board of SCR has approved the rollover of both the first and second of these loans to convertible loans following approval at a meeting of shareholders to be held on 8 September 2011.

The issued capital has increased from approximately \$7.3 million as at 31 December 2010 to \$12.2 million as at 30 June 2011. This was primarily due to the exercise of options over the six month period.

Revenue of \$459,828 for the year ended 30 June 2011 relates primarily to interest income.

Exploration and evaluation expenditure of \$18.6 million has been recorded in the profit and loss statement for the year ended 30 June 2011. This relates to the acquisition of the Rakkuri Project by an SCR wholly owned subsidiary during the period as well as the commencement of the diamond drilling programme at the Kiruna Iron Project which commenced in January 2011. Drilling programmes within the Kiruna Project were also completed during the period at the Vieto Prospect, the Sautusvaara Prospect and the Rakkurijarva Prospect which all contributed to this increase in exploration and evaluation expenditure.

## 5.5 Capital Structure

The share structure of SCR as at 1 September 2011 is outlined below:

	Number
Total ordinary shares on issue	78,160,621
Top 20 shareholders	61,198,668
Top 20 shareholders - % of shares on issue	78.30%

Source: SCR Management

The ordinary shares held by the most significant shareholders of SCR as at 1 September 2011 are detailed below:

Name	No of Ordinary Shares Held	Percentage of Issued Shares (%)
Equity & Royalty Investments Ltd	20,000,001	25.59%
OM Holdings Ltd	12,227,218	15.64%
Grangesberg Iron AB	8,200,000	10.49%
JP Morgan Nominees Australia Ltd - Cash Income A/C	7,003,197	8.96%
Subtotal	47,430,416	60.68%
Others	30,730,205	39.32%
<b>Total ordinary shares on issue</b>	<b>78,160,621</b>	<b>100.00%</b>

Source: SCR Management

SCR has the following Options on issue as at 1 September 2011 as detailed below:

Details	Number
Listed options exercisable at \$0.25 on 31 October 2011	29,898,468
Unlisted options exercisable at \$0.20 on 31 October 2012	8,333,340
Unlisted options exercisable at \$0.20 on 31 October 2012 (escrowed to 21 April 2012)	20,133,334
Unlisted options exercisable at \$0.25 on 30 June 2013	400,000
Unlisted options exercisable at \$0.50 on 30 June 2013	300,000
Unlisted options exercisable at \$0.75 on 30 June 2013	300,000
Unlisted options exercisable at \$0.40 on 15 December 2012	500,000
Unlisted options exercisable at \$0.40 on 1 February 2013	1,000,000

Source: SCR Management

SCR has 29,898,468 Listed Options expiring on or before 31 October 2011 with an exercise price of \$0.25. The most significant holders as at 1 September 2011 are detailed below:

Name	No of Options Held	Percentage of Issued Options (%)
OM Holdings Ltd	12,227,218	40.90%
LLB Fund Services AG <Craton Capital Precious Metal>	6,100,000	20.40%
Braveheart Australia Pty Ltd	912,430	3.05%
Mr Donald peter Huntly	720,000	2.41%
Subtotal	19,959,648	66.76%
Others	9,938,820	33.24%
<b>Total listed options on issue</b>	<b>29,898,468</b>	<b>100.00%</b>

Source: SCR Management

## 6. Economic Analysis

The global economy is continuing its expansion, but the pace of growth slowed in the June 2011 quarter. The supply-chain disruptions from the Japanese earthquake and the dampening effects of high commodity prices on income and spending in major countries have both contributed to the slowing. The banking and sovereign debt problems in Europe have also added to uncertainty and volatility in financial markets over recent months.

A key question is whether this more moderate pace of growth will continue. Commodity prices have generally softened of late, though they remain at very high levels. Despite the challenging international environment, the central scenario for the world economy envisaged by most forecasters remains one of growth at, or above, average over the next couple of years. A number of countries have tightened monetary policy but, overall, global financial conditions remain accommodative and underlying rates of inflation have tended to move higher.

Australia's terms of trade are now at very high levels and national income has been growing strongly, though conditions vary significantly across industries. Investment in the resources sector is picking up strongly in response to high levels of commodity prices and the outlook remains very positive.

A gradual recovery from the floods and cyclones over the summer is taking place, though the resumption of coal production in flooded mines continues to proceed more slowly than initially expected. The recovery will boost output over the months ahead, and there will also be a mild boost to demand from the broader rebuilding efforts as they get under way, but growth through 2011 is now unlikely to be as strong as earlier forecast. Over the medium term, overall growth is still likely to be at trend or higher, if the world economy grows as expected.

Growth in employment has moderated over recent months and the unemployment rate has been little changed, near 5 per cent. Most leading indicators suggest that this slower pace of employment growth is likely to continue in the near term. Reports of skills shortages remain confined, at this point, to the resources and related sectors. After the significant decline in 2009, growth in wages has returned to rates seen prior to the downturn.

Credit growth remains modest. Signs have continued to emerge of some greater willingness to lend and business credit has expanded this year after a period of contraction. Growth in credit to households, on the other hand, has slowed. Most asset prices, including housing prices, have also softened over recent months.

Year-ended CPI inflation is likely to remain elevated in the near term due to the extreme weather events earlier in the year. However, as the temporary price shocks dissipate, CPI inflation is expected to be close to target over the next 12 months. In underlying terms, inflation has been in the bottom half of the target range, though a gradual increase is expected over time.

Source: [www.rba.gov.au](http://www.rba.gov.au) Statement by Glenn Stevens, Governor: Monetary Policy Decision 5 July 2011

## 7. Industry Analysis

### 7.1 Mining in Scandinavia

The Scandinavian region within Europe is made up of Norway, Denmark, Sweden and Finland. Mining has been a key industry within the region for hundreds of years. This has led to a stable workforce that is amongst the most proficient in the industry with a consequent benefit to productivity.

Long established mining companies have not stinted on investing in the latest technology and equipment making their operations, through use of remote controlled drilling and other automated processes, amongst the most cost effective of any worldwide.

Long term growth prospects appear promising as all countries within the region are actively engaged in encouraging the development of mining. The region is abundant in base metals, precious metals and industrial minerals and much of the region is underexplored making a prime region for potential discoveries.

#### Sweden

Sweden is a major European mining centre. Sweden has an extensive mining history and is the largest producer of iron ore within the European Union. It is also a leading producer of base metals such as copper, zinc and lead and a leading producer of precious metals such as gold and silver.

Legislation in Sweden is favourable towards mineral explorers with generous exploration permits and exploitation concessions as well as a royalty of only 0.2% of the average value of minerals mined and no minimum expenditure commitment required.

Until 1992, only the Swedish state was permitted to explore for minerals. Since then more than one hundred exploration companies have become active in Sweden. More than US\$90 million was spent on exploration in 2007. This is backed by quality databases of mining data, highly trained personnel and cutting edge mining technology to support mining companies.

The richest mining region within Sweden is the Skelleftea region in northern Sweden. There have been approximately 40 mines operated within the region since 1920.

#### Norway

Mining in Norway has also been occurring for hundreds of years. The mining industry within Norway produces products such as titanium minerals for use in pigments, iron ore, calcium carbonate slurry (used in paper), coal and construction materials for export.

Mining in Norway has mostly moved away from base metals, due to reserves being exhausted, to industrial minerals such as dimension stone, graphite, olivine and calcite. There are also significant coal reserves within Norway.

A focus on offshore hydrocarbon resources such as petroleum and natural gas in Norway has meant that the mainland has been under explored.

### 7.2 Iron Ore Mining in Scandinavia

Sweden's largest iron ore producer is LKAB, a state owned company, which operates two underground mines and produces the bulk of Sweden's annual production.

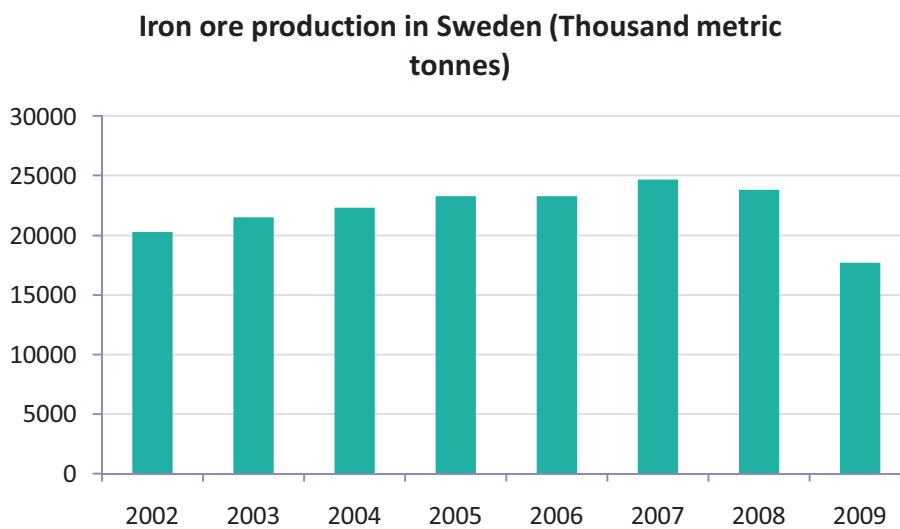
The largest iron ore deposit in Sweden is currently being mined by LKAB near the town of Kiruna and, as well as being one of the largest ore bodies in the world, is the largest underground iron ore

mine in the world. Mining in this deposit has been secured until 2035. Decades of mining have meant that the townsite itself will be moved over the next 40 to 50 years, with the town centre being moved to approximately four kilometres from where it is now.

In May 2010, LKAB were granted an environmental permit to open another iron ore mine in the village of Svappavaara which is also in the Kiruna region.

Mining in Sweden is supported by a robust rail network, developed over the past one hundred years, which allows deposits to be transported to Sweden's ports where the majority of iron ore products are exported.

The table below shows iron ore production in Sweden from 2002 to 2009.



Source: <http://www.indexmundi.com>

Compared to Sweden Norway has, historically, not produced large amounts of iron ore. The largest deposits of iron ore in Norway were in the Sor-Varanger region near the border with Russia and in the Caledonide Orogen region. Deposits within these regions have generally been exhausted.

Northern Iron, an ASX listed company, recently commenced work on the Sydvaranger Project which consists of three magnetite iron deposits and further prospects within the region that they currently operate within. This has led to an increase in iron ore production within Norway.

## 8. Valuation Approach Adopted

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

- Capitalisation of future maintainable earnings (“FME”)
- Discounted Cash Flow (“DCF”)
- Quoted Market Price Basis (“QMP”)
- Net Asset Value (“NAV”)
- Market Based Assessment
- Multiple of Exploration Expenditure (“MEE”)

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

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

- Net Tangible Assets on a going concern basis (“NTA”) as our primary valuation; and
- Quoted Market Price (“QMP”) as our secondary valuation.

We have chosen these methodologies for the following reasons:

- Being an exploration company, the core value of SCR is in the exploration assets it holds. We have instructed SRK Consulting (Sweden) AB (“SRK”) to act as independent specialist to value these assets and have considered these in the context of SCR’s other assets and liabilities on a Net Asset Value basis.
- The QMP basis is a relevant methodology to consider because SCR shares are listed on the ASX. This means there is a regulated and observable market where SCR shares can be traded. However, in order for QMP to be considered appropriate, the company’s shares should be liquid and the market should be fully informed as to SCR’s activities. We have considered these factors in section 9.2.
- Future Maintainable Earnings are not appropriate for exploration assets and sufficient information is not available for a Discounted Cash Flow valuation approach to be undertaken.

## 9. Valuation of SCR prior to the Proposed Transaction

### 9.1 Net Asset Valuation of SCR

The NAV methodology we applied is on a going concern basis method that estimates the market values of the net assets of an entity but does not take into account any realisation costs.

When performing a NAV valuation, we must determine the following:

- The assets and liabilities of the Company as at the date of valuation (or the closest available information); and
- The adjustments to be made to these assets and liabilities to reflect their market values.

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

	Unaudited 30-Jun-11 \$	Low Valuation \$	Preferred Valuation \$	High Valuation \$
<b>Assets</b>				
Cash and cash equivalents	128,430	128,430	128,430	128,430
Trade and other receivables	816,726	816,726	816,726	816,726
Property, plant & equipment	79,775	79,775	79,775	79,775
Exploration and evaluation assets	-	74,320,000	120,650,000	138,020,000
<b>Total tangible assets</b>	<b>1,024,931</b>	<b>75,344,931</b>	<b>121,674,931</b>	<b>139,044,931</b>
<b>Liabilities</b>				
Trade and other payables	1,856,466	1,856,466	1,856,466	1,856,466
Deferred consideration	3,874,100	3,874,100	3,874,100	3,874,100
Loans	2,140,150	2,140,150	2,140,150	2,140,150
<b>Total liabilities</b>	<b>7,870,716</b>	<b>7,870,716</b>	<b>7,870,716</b>	<b>7,870,716</b>
<b>Net assets</b>	<b>(6,845,785)</b>	<b>67,474,215</b>	<b>113,804,215</b>	<b>131,174,215</b>
Shares on issue (number)	78,160,621	78,160,621	78,160,621	78,160,621
Value per share (\$)	-	\$0.863	\$1.456	\$1.678

We have been advised that there has not been a significant change in the net assets of SCR since 30 June 2011 and that all assets and liabilities are recorded at their fair values as at 30 June 2011. The table above indicates the net asset value of a SCR share is between \$0.863 and \$1.678, with a preferred value of \$1.456.

The following adjustment was made to the net assets of SCR as at 30 June 2011 in arriving at our valuation:

#### Valuation of SCR evaluation and exploration assets

We instructed SRK to provide an independent specialist valuation of the mineral assets held by SCR. The table below provides a summary of this valuation:

SRK Independent Valuation	Low value	Preferred value	High value
Scandinavian Resources Mineral Assets	\$m	\$m	\$m
Exploration and evaluation assets (USD)	77	125	143
Exchange rate (USD/AUD)	0.9652	0.9652	0.9652
<b>Exploration and evaluation assets (AUD)</b>	<b>74.32</b>	<b>120.65</b>	<b>138.02</b>

SRK considered a number of different valuation methods when valuing the mineral assets held by SCR. Due to the majority of licences held being in an early development stage SRK applied the Past Expenditure Method, the Yardstick Method and the Comparable Transaction Method to provide a range of appropriate values.

SRK has used the Past Expenditure Method to obtain the low value of US\$77 million and the Yardstick Method to obtain the high value of US\$143 million. SRK also applied the Comparable Transaction Method which provided a value of US\$117 million. From the values obtained SRK provided a preferred value of SCR's mineral assets of US\$125 million.

SRK provided a technical value of SCR's mineral assets. A technical value, as defined by the Valmin Code 2005, is an assessment of a mineral asset's future net economic benefit at the valuation date under a set of assumptions deemed most appropriate by an expert, excluding any premium or discount to account for such factors as market or strategic considerations. A market value comprises two components, being the technical value and a premium or discount relating to market, strategic or other considerations.

The preferred value provided by SRK was based largely on the Comparable Transaction Method. As this method is based on previous transactions in the market we believe this value already takes into account any discounts or premiums relating to market or strategic considerations. We therefore have no reason to believe that the preferred technical value provided by SRK does not also represent the preferred market value of SCR's mineral assets.

SRK's independent valuation report can be found at Appendix 3 of the OMH Independent Expert Report in the attached Notice of General Meeting.

## 9.2 Quoted Market Prices for SCR Securities

To provide a comparison to the valuation of SCR in Section 9.1, we have also assessed the quoted market price for a SCR share.

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

RG 111.25 suggests that when considering the value of a company's shares for the purposes of approval under Item 7 of s611 the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

- control over decision making and strategic direction
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

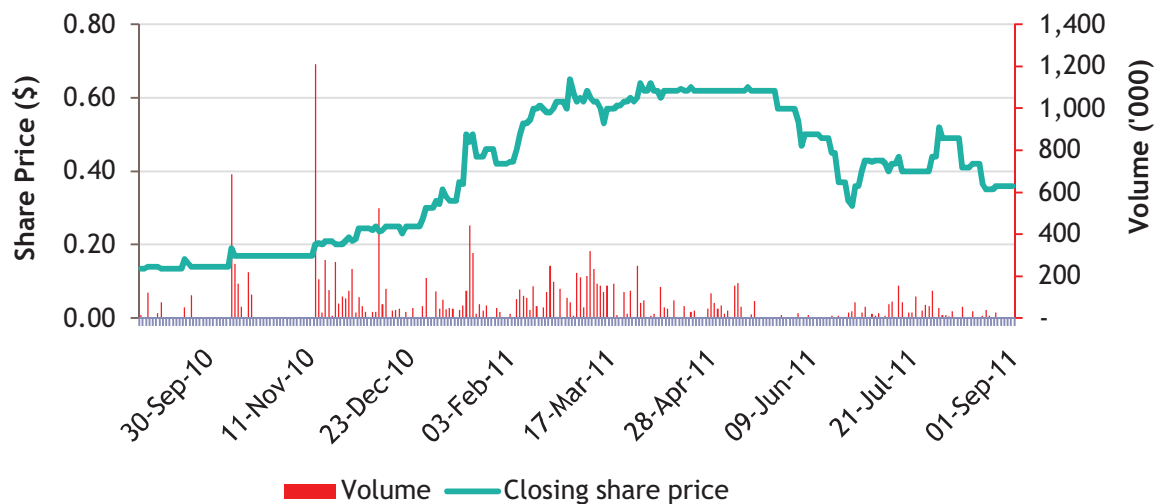


Whilst ERI and its associates will not be obtaining 100% of SCR, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. RG 111.27 states that the expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in Section 11.

Therefore, our calculation of the quoted market price of a SCR share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

### Minority interest value

Our analysis of the quoted market price of a SCR share is based on the pricing prior to the announcement of the Transaction. As at the date of this report no announcement has been made to the market. Therefore, the following chart provides a summary of the share price movement over the year to 1 September 2011.



Source: Bloomberg

The daily price of SCR shares from 2 September 2010 to 1 September 2011 has ranged from a low of \$0.135 on 20 September 2010 to a high of \$0.65 on 5 April 2011.

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

Date	Announcement	Closing Share Price Following Announcement \$ (movement)	Closing Share Price Three Days After Announcement \$ (movement)
2-Aug-11	Cleansing Prospectus	0.52 (▲ 18%)	0.49 (▼ 6%)
1-Aug-11	4 <sup>th</sup> Quarter Activities & Cashflow Report	0.44 (-)	0.49 (▲ 11%)
29-Jul-11	JORC Resources Significantly Exceeds Targets	0.44 (▲ 10%)	0.49 (▲ 11%)

22-Jul-11	General Meeting	0.40 (-)	0.40 (-)
13-Jul-11	Kiruna Iron Project - Update	0.42 (▲ 5%)	0.40 (▼ 5%)
8-Jul-11	Notice of General Meeting	0.43 (-)	0.42 (▼ 2%)
8-Jun-11	Kiruna Iron - Acquisition of Strategic Iron Permits	0.50 (-)	0.49 (▼ 2%)
11-May-11	Kiruna Iron Project Drilling Update	0.62 (-)	0.62 (-)
2-May-11	3 <sup>rd</sup> Quarter Activities & Cashflow Report	0.62 (-)	0.62 (-)
18-Apr-11	Kiruna Iron Drilling Update	0.62 (▼ 1%)	0.62 (-)
12-Apr-11	Kiruna Iron Strategy Update	0.62 (-)	0.63 (▲ 2%)
14-Mar-11	Financial report for Half Year	0.57 (▼ 3%)	0.57 (-)
4-Mar-11	Kiruna Iron Project - Drilling at Rakkurijarvi Prospect	0.60 (▲ 2%)	0.60 (-)
23-Feb-11	Kiruna Iron Project - Drilling at Sautusvaara Prospect	0.59 (▲ 5%)	0.57 (▼ 3%)
10-Feb-11	Funding Update and Option Exercise	0.53 (-)	0.57 (▲ 8%)
8-Feb-11	Funding Update and Option Exercise & Investor Presentation	0.50 (▲ 9%)	0.54 (▲ 8%)
31-Jan-11	2 <sup>nd</sup> Quarter Activities & Cashflow Report	0.42 (-)	0.43 (▲ 2%)
20-Jan-11	Kiruna Iron Update	0.44 (▼ 12%)	0.46 (▲ 5%)
17-Jan-11	Response to ASX Price & Volume Query	0.50 (▲ 37%)	0.44 (▼ 12%)
29-Dec-10	Funding and Iron Exploration	0.27 (▲ 8%)	0.32 (▲ 19%)
22-Nov-10	2010 AGM Results & Presentation	0.21 (-)	0.20 (▼ 5%)
15-Nov-10	Anglo American and Rio Tinto	0.20 (▲ 18%)	0.21 (▲ 5%)
13-Oct-10	Notice of General Meeting 2010 AGM	0.17 (-)	0.17 (-)
11-Oct-10	High Grade Gold	0.19 (▲ 36%)	0.17 (▼ 11%)
8-Oct-10	Kiruna Iron Project Update	0.14 (-)	0.17 (▲ 21%)
1-Oct-10	Annual Report 2010	0.14 (-)	0.14 (-)

Source: Bloomberg

To provide further analysis of the market prices for a SCR share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 1 September 2011.

Share Price per unit	1-Sept-11	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.360				
Volume Weighted Average Price (VWAP)		\$0.355	\$0.416	\$0.407	\$0.480

Source: Bloomberg

The above volume weighted average prices are as at 1 September 2011.

An analysis of the volume of trading in SCR shares for the six months to 1 September 2011 is set out below:

	Share price Low	Share price High	Cumulative Volume Traded	As a % of Issued capital
1 Trading Day	\$0.360	\$0.360	-	0.00%
10 Trading Days	\$0.350	\$0.365	89,000	0.11%
30 Trading Days	\$0.350	\$0.520	686,048	0.88%
60 Trading Days	\$0.280	\$0.520	1,410,448	1.80%
90 Trading Days	\$0.280	\$0.630	2,188,382	2.80%
180 Trading Days	\$0.250	\$0.650	9,067,243	11.60%

Source: Bloomberg

This table indicates that SCR's shares display a low level of liquidity, with 11.60% of the Company's current issued capital being traded in a six month period. However, we note that together ERI and OMH hold approximately 41% of SCR's issued capital. If we were to exclude these shares then approximately 19.7% of the Company's current issued capital has been traded in a six month period which would represent a moderate level of liquidity. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

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

Based on our analysis above, it appears that there is not a deep market for SCR shares.

Our assessment is that a range of values for SCR shares based on market pricing is between \$0.35 and \$0.45, with a preferred value of \$0.40.

## Control Premium

The concept of a premium for control reflects the additional value that attaches to a controlling interest. In determining whether including a control premium is appropriate in this instance, we believe there are two key considerations. Firstly, we believe it is appropriate to consider the level of control currently held by ERI and its associates and what additional level of control/ability to influence the Company ERI and its associates would gain if the Proposed Transaction is approved and whether a premium for control is appropriate given the current position of the company.

We have reviewed the announced control premia paid by acquirers for target iron ore companies listed on the ASX since 2005. A summary of the control premia is noted in the table below:

Announce Date	Target Name	Acquirer Name	Deal Value (A\$ million)	Shareholding		
				Interest Post Transaction	Announced Premium	Implied Premium
<b>Effective Control Acquisitions</b>						
23/05/2011	Territory Resources Ltd	Exxaro Resources Ltd	122.06	100.0%	75.4%	N/A
21/12/2010	Giralia Resources NL	Atlas Iron Ltd	983.83	100.0%	52.5%	30.0%
10/03/2010	Aurox Resources Ltd	Atlas Iron Ltd	131.49	100.0%	128.6%	26.5%
16/10/2009	United Minerals Corp NL	BHP Billiton Ltd	191.82	100.0%	38.6%	N/A
7/09/2009	Warwick Resources Ltd	Atlas Iron Ltd	48.59	100.0%	60.1%	26.5%
20/08/2009	Polaris Metals NL	Mineral Resources Ltd	138.63	100.0%	109.2%	20.0%
14/03/2008	Midwest Corp Ltd	Sinosteel Corp	1,068.62	100.0%	36.0%	N/A
10/01/2008	Cliffs Asia Pacific Iron Ore Holdings Pty Ltd	Cliffs Natural Resources Inc	559.42	100.0%	16.8%	N/A
24/07/2006	Aztec Resources Ltd/Australia	Mount Gibson Iron Ltd	207.24	100.0%	36.5%	N/A
11/01/2005	Cliffs Asia Pacific Iron Ore Holdings Pty Ltd	Cliffs Natural Resources Inc	508.28	80.4%	36.5%	N/A
				<b>Average</b>	<b>63.7%</b>	<b>25.8%</b>
				<b>Median</b>	<b>52.5%</b>	<b>26.5%</b>

Source: Bloomberg

**Note:**

- (1) We have excluded the acquisition premium paid for the compulsory acquisition by Cliffs Natural Resources Inc of the remaining 14.8% shareholding interest in Cliffs Asia Pacific Iron Ore Holdings Pty Ltd as Cliffs Natural Resources Inc held an effective controlling interest in Cliffs Asia Pacific Iron Ore Holdings Pty Ltd prior to the transaction.

We have also included an analysis of the control premia paid for effective control acquisition transactions in the general mining industry of Australia since 2004 to date.

	Number of Transactions	Announced Total Value (US\$ Mil)	Announced Control Premium
2010-2011	9	7,001.26	40.7%
2009-2010	24	2,241.91	45.9%
2008-2009	10	172.47	43.2%
2007-2008	23	2,158.94	30.2%
2006-2007	21	1,092.89	25.3%
2005-2006	17	14,297.78	38.3%
2004-2005	7	25,836.97	29.0%
		<b>Average</b>	<b>35.9%</b>

Source: Bloomberg

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

- Nature and magnitude of non-operating assets;
- Nature and magnitude of discretionary expenses;
- Perceived quality of existing management;
- Nature and magnitude of business opportunities not currently being exploited;

- Level of controlling interest acquired;
- Ability to integrate the acquiree into the acquirer’s business;
- Level of pre-announcement speculation of the transaction; and
- Level of liquidity in the trade of the acquiree’s securities.

Based on the table above, we observe that significant control premia on a company’s share price are paid for Australian iron ore companies. These significant premiums, in part reflect the strategic value of the target to the acquirer above the conventional level of control premium paid. We also observed that a higher control premium is paid for iron ore transactions resulting in an effective control with a range of 36.0% to 128.6% with an average of 63.7% and median of 52.5%. We have also analysed the implied premiums. These premiums have been obtained from the targets’ Independent Expert Report and represent the control premium used when analysing the targets’ share price. From our analysis an average premium of 25.8% and a median of 26.5% has been used.

Across the general Australian mining industry, the average annual control premium paid for effective control transactions over 2005 to 2011 ranged between 25.3% and 45.9% with an average of 35.9%.

ERI and its associates currently have a 29.03% holding in SCR. If the Proposed Transaction is approved, ERI and its associates could obtain a maximum interest in SCR of 48.80%, which represents significant influence, but not necessarily an effective control over the Company.

Taking the factors above into consideration in applying a control premium to SCR’s quoted market share price we believe an appropriate range to be 20% - 30% which is consistent with our analysis of the implied premiums within the market. We have chosen this range as these premia are calculated based on an independent experts opinion on a specific transaction and are not influenced by the level of share trading of an entity’s securities. The announced market premia are calculated on a Company’s share price and can be potentially higher if a security has a low level of liquidity which could lead to its share price not being reflective of the underlying value. As SCR shares do not have a deep level of liquidity we believe this range is the most appropriate to use.

### Quoted market price including control premium

Applying the control premium to SCR’s quoted market price results in the following quoted market price value including a premium for control.

	Low	Preferred	High
Quoted Market Price value	\$ 0.35	\$ 0.40	\$ 0.45
Control premium	20%	25%	30%
<b>Quoted Market Price valuation including a premium for control</b>	<b>\$0.420</b>	<b>\$0.500</b>	<b>\$0.585</b>

Therefore, our valuation of a SCR share based on the quoted market price method and including a premium for control is between \$0.420 and \$0.585, with a preferred value of \$0.500.

### 9.3 Assessment of SCR Value

The results of the valuations performed are summarised in the table below:

	Low	Preferred	High
	\$	\$	\$
Net asset value (Section 9.1)	\$0.863	\$1.456	\$1.678
ASX market prices (Section 9.2)	\$0.420	\$0.500	\$0.585

We have based our valuation of a SCR share on the Net Asset Value methodology and consider the value of a SCR share to be between \$0.863 and \$1.678, with a preferred value of \$1.456. We note that there is a difference between the preferred value of a SCR share derived under each methodology used in the above table. If we exclude shares held by ERI and OMH, approximately 19.7% of the Company's current issued capital has been traded in the six month period prior to this report, which does not indicate a deep level of liquidity. This can result in the value derived under the ASX market price methodology not being considered as a reliable reflection of the value of the Company shares to Shareholders. We therefore believe it is appropriate to rely on the Net Asset Value methodology in assessing the value of a SCR share.

## 10. Is the Proposed Transaction Fair?

In considering the Proposed Transaction, as outlined in section 4, we have performed an analysis to determine if the amount received for the issue of shares (5,000,000 shares issued as Deferred Consideration) and the amount received for the issue of shares arising from the exercise of options by ERI (20,000,000 options currently held by ERI and 5,000,000 options to be issued as part of the Deferred Consideration), on a per share basis is in excess of the current fair value of a SCR share on issue.

The tables below show a comparison of the value of a SCR share to the per share value of the consideration to be received by the Company for issuing the 5,000,000 shares to ERI (under the Deferred Consideration) and the exercise of the 25,000,000 options to be held by ERI.

	Low	Preferred	High
	\$	\$	\$
Assessed value of a SCR share	0.863	1.456	1.678

	Number	Exercise price	Total funds received
Options held by ERI from Option Issue Consideration	20,000,000	\$0.20	\$4,000,000
Options to be held by ERI from Deferred Consideration	5,000,000	\$0.20	\$1,000,000
<b>Total</b>			<b>\$5,000,000</b>

Based on the tables above the Options held by, and to be issued to, ERI and its associates have an exercise price that is below our preferred value for a SCR share of \$1.456. Consequently we consider that the options will be exercised and SCR will receive the funds of \$0.20 per share.

The Proposed Transaction relates to the issue of shares and options to ERI which formed part of the HSAB Acquisition Agreement dating back to 2008. Effectively the consideration received by SCR was the assets and liabilities of HSAB (through the acquisition of all the issued share capital of HSAB). As at the date of this report the assets and liabilities of HSAB are an integral part of SCR and they are not readily separately identifiable for the purposes of assessing value.

Our opinion is based on our belief that SCR has already received full consideration for the issue of the Deferred Shares Consideration. No further consideration will be received by the Company for the issue of the Deferred Shares Consideration.

On this basis, we consider the Proposed Transaction to be not fair.

## 11. Is the Proposed Transaction Reasonable?

### 11.1 Alternative Proposal

We are unaware of any alternative proposal that might offer the non-associated Shareholders of SCR a premium over the value ascribed to that resulting from the Proposed Transaction. However, it is likely that if SCR is restricted from issuing the shares and options through shareholders not approving the Proposed Transaction, then SCR would have to re-negotiate with ERI to come to an alternative arrangement, most likely involving the payment of cash.

### 11.2 Practical Level of Control

If the Proposed Transaction is approved then ERI and its associate's interest in SCR will increase from 29.03% to a maximum interest of 48.80%.

In assessing the practical level of control attained by ERI and its associates, we referred to RG 111.27 which deals with circumstances in which the allottee increases an existing holding of 20% or more, but does not obtain a practical measure of control or increases its practical control over that company. If the expert believes that the allottee has not obtained or increased its control over the company as a practical matter, then the expert could take this outcome into account in assessing whether the issue price is 'reasonable' if it has assessed the issue price as being 'not fair' applying the test in RG 111.11.

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

ERI and its associate's control of SCR following the Proposed Transaction will be significant when compared to all other shareholders, although OMH may also have a significant holding.

Therefore, in our opinion, while ERI and its associates will be able to significantly influence the activities of SCR to a greater extent than currently, it will not be able to exercise a similar level of control as if it held 100% of SCR. As such, ERI should not be expected to pay a similar premium for control as if it were acquiring 100% of SCR.



### 11.3 Advantages of Approving the Proposed Transaction

If the Proposed Transaction is approved, in our opinion, the potential advantages to Shareholders include those listed in the table below:

Advantage	Description
<p>Improved net tangible asset position through cash received from the exercise of options.</p>	<p>If the Proposed Transaction is approved, SCR's net tangible asset position will improve for the following reason:</p> <ul style="list-style-type: none"> <li>• Cash will be received of \$5 million in the event that all options held by ERI and its associates are exercised in the future.</li> </ul> <p>Cash received could be used to expand the Company's exploration and evaluation activities or fund existing working capital requirements.</p>
<p>No changes to current operating and financial arrangements</p>	<p>If the Proposed Transaction is approved, ERI and its associates could potentially increase their shareholding in SCR from 29.03% to 48.80%. However, we note that ERI and its associates have made no indication that they intend to change the business of the Company, inject further capital into the Company, alter the future employment of the present employees of the Company, or significantly change the financial or dividend policies of SCR.</p> <p>This implies that there will be no changes to the current operating and financing arrangements and SCR will be able to continue to develop its exploration assets in Sweden and Norway.</p>
<p>No requirement for alternative arrangement to satisfy HSAB Acquisition Agreement</p>	<p>If the Proposed Transaction is not approved then SCR would have to re-negotiate with ERI to come to an alternative arrangement regarding the deferred consideration to be paid to satisfy the HSAB Acquisition Agreement. This is likely to involve a cash payment. This would have the effect of reducing the available cash of the Company and may require a capital raising to achieve, which would dilute Shareholders' interests. It is likely that if a cash payment is required it would be at a higher value to that of the equity that would have otherwise been issued in order to compensate for any upside value that ERI could receive with an equity settled consideration if the SCR share price increased.</p>

## 11.4 Disadvantages of Approving the Proposed Transaction

If the Proposed Transaction is approved, in our opinion, the potential disadvantages to Shareholders include those listed in the table below:

Disadvantage	Description
The Proposed Transaction is not fair	As set out in Section 10 the Proposed Transaction is not fair. RG 111 states that an offer is reasonable if it is fair and by implication is not reasonable if it is not fair.
Dilution of Shareholders' interests	The Proposed Transaction will result in a dilution of existing SCR shareholders interest from 70.97% to 51.20%. The capacity of Shareholders to influence the operations of SCR will be reduced.
ERI and its associates will gain a significant level of control over SCR	If the Proposed Transaction is approved, ERI and its associates will acquire a maximum shareholding interest of 48.80%, meaning ERI and its associates will be able to influence any voting required on the activities of SCR. This maximum will reduce to 40.94% if Resolution 3 is approved and 20,817,225 shares are issued to OM Holdings Ltd.

## 11.5 Other Considerations

In assessing the fairness and reasonableness of approving or rejecting the Proposed Transaction, we have considered the advantages and disadvantages of approving or rejecting the Proposed Transaction. Although the Proposed Transaction is considered not fair, we believe the Proposed Transaction is reasonable as Shareholders will not be disadvantaged if the Proposed Transaction is approved. In the following points explored below, we highlight that the rejection of the Proposed Transaction will merely defer the timing that the advantages and disadvantages of the Proposed Transaction highlighted in Section 11.3 and 11.4 respectively will occur.

### a) Dilution of Shareholders' interests

In section 4 of our Report, we outlined that Shareholders' interest in SCR will decrease from 70.97% to 51.20% if the Proposed Transaction is approved and ERI and its associates elect to exercise their options for shares. However, in the event that the Proposed Transaction is rejected, Shareholders' interest will still be diluted if ERI and its associates pursue the following option:

- ERI and its associates could still increase its shareholding under the creeping provisions of the Act which allow it to convert the 20,000,000 options they have already been issued to increase its shareholding in SCR by 3% every 6 months without shareholder approval.

Under the scenario that ERI and its associates exercises its rights under the creeping provisions, ERI and its associates will be able to exercise all options already held to achieve a maximum interest of 43.60% within approximately 3 years. This scenario will most likely only occur in the event that SCR's share price falls below the exercise price of the options held and ERI and its associates exercise options held.

However, given the options are 'in the money', other option holders will most likely exercise their options which implies that ERI and its associates will be able exercise options under the creeping provisions at a faster pace.

Under this scenario, there will still be a dilutionary impact to existing Shareholders' interest. If the Proposed Transaction is rejected, the dilution of Shareholders' interests can still occur, although it will be to a lesser extent.

**b) Future net tangible asset position**

If the Proposed Transaction is rejected, the future net tangible asset position will be lower as a result of SCR not receiving \$5 million from the exercise of ERI options held.

**c) SCR share price reflects dilution**

SCR has undergone several capital raisings through convertible loans and options over the last two years. The market is fully informed of ERI's significant interest in the Company and is also aware that the options held by ERI are 'in the money' and that the terms of the HSAB Acquisition Agreement allow a further issue of shares and options to ERI. As such, in our opinion, the Company's share price already reflects the effect of the potential share dilution from the exercise of options.

**d) SCR share price unlikely to react to the rejection of the Proposed Transaction**

If the Proposed Transaction is rejected, it is unlikely that the SCR ASX share price will decline as the market will still be aware of the share overhang from the options existing in the market. The Proposed Transaction focuses on the approval of the issue of shares to ERI on exercise of options held. ERI may or may not exercise their options immediately if the Proposed Transaction was approved.

## **12. Conclusion**

We have considered the terms of the Proposed Transaction as outlined in the body of this report and have concluded that the Proposed Transaction is not fair but reasonable to the Shareholders of SCR.

## **13. Sources of information**

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Audited financial statements of Scandinavian Resources Ltd for the year ended 30 June 2010;
- Reviewed financial statements of Scandinavian Resources Ltd for the half year ended 31 December 2010;
- Unaudited management accounts of Scandinavian Resources Ltd as at 30 June 2011;
- Signed Hannans Scandinavian AB Acquisition Agreement dated 18 July 2008;
- Signed amended Hannans Scandinavian AB Acquisition Agreement dated 26 August 2009;
- Independent Valuation of Mineral Assets held by Scandinavian Resources Ltd prepared by SRK Consulting (Sweden) AB;
- Share registry information for Scandinavian Resources Ltd;
- Information in the public domain; and
- Discussions with Directors and Management of Scandinavian Resources Ltd.

## 14. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$38,000 (excluding GST and reimbursement of out of pocket expenses). Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

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

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Scandinavian Resources Ltd and Equity and Royalty Investments Ltd and any of their respective associates with reference to ASIC Regulatory Guide 112 "Independence of Experts". In BDO Corporate Finance (WA) Pty Ltd's opinion it is independence of Scandinavian Resources Ltd and Equity and Royalty Investments Ltd and their respective associates.

BDO Corporate Finance (WA) Pty Ltd prepared an Independent Expert's Report dated 1 September 2011 which was commissioned by Scandinavian Resources Ltd and provided an opinion as to whether the conversion of convertible loans and options by OM Holdings Ltd is fair and reasonable to Shareholders. Other than this, neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with Scandinavian Resources Ltd, or their associates, other than in connection with the preparation of this report.

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

BDO is the brand name for the BDO International network and for each of the BDO Member firms.

BDO (Australia) Ltd, an Australian company limited by guarantee, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of Independent Member Firms. BDO in Australia, is a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International).

## 15. Qualifications

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

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

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

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty years experience working in the audit and corporate finance fields with BDO and its predecessor firms in

London and Perth. He has been responsible for over 150 public company independent expert's reports under the Corporations Act or ASX Listing Rules. These experts' reports cover a wide range of industries in Australia. Sherif Andrawes is the Chairman of BDO in Western Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 13 years in the Audit and Assurance and Corporate Finance areas. Adam has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

## **16. Disclaimers and consents**

This report has been prepared at the request of Scandinavian Resources Ltd for inclusion in the Notice of Meeting which will be sent to all Scandinavian Resources Ltd Shareholders. Scandinavian Resources Ltd engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the potential issue of shares and options under the Deferred Consideration (if the market capitalisation condition is met) and the potential issue of 25,000,000 shares on conversion of 25,000,000 options by ERI.

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

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

BDO Corporate Finance (WA) Pty Ltd has not independently verified the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or review of Scandinavian Resources Ltd or Equity and Royalty Investments Ltd in accordance with standards issued by the Auditing and Assurance Standards Board. However, we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to Equity and Royalty Investments Ltd. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

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

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

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent property valuations for properties held by Scandinavian Resources Ltd.

The valuers engaged for the property valuations, SRK Consulting (Sweden) AB, possess the appropriate qualifications and experience in the property industry to make such assessments. The approaches adopted and assumptions made in arriving at their valuations are appropriate for this report. We have received consent from the valuer for the use of their valuation report in the preparation of this report and to append a copy of their report to this report.

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

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully

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

A handwritten signature in black ink, appearing to read 'Sherif Andrawes'.

**Sherif Andrawes**

Director

A handwritten signature in black ink, appearing to read 'Adam Myers'.

**Adam Myers**

Director

## Appendix 1 - Glossary of Terms

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Reference	Definition
The Act	The Corporations Act
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
The Company	Scandinavian Resources Ltd
DCF	Discounted Future Cash Flows
Deferred Consideration	The issue to Equity & Royalty Investments Ltd 5,000,000 fully paid ordinary shares and 5,000,000 options in Scandinavian Resources Ltd
Deferred Options Consideration	The issue to Equity & Royalty Investments Ltd 5,000,000 options in Scandinavian Resources Ltd
Deferred Shares Consideration	The issue to Equity & Royalty Investments Ltd 5,000,000 fully paid ordinary shares in Scandinavian Resources Ltd
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
ERI	Equity and Royalty Investments Ltd (formerly Scandinavian Shield Ltd)
FME	Future Maintainable Earnings
FSG	Financial Services Guide
HSAB	Hannans Scandinavia AB
HSAB Acquisition Agreement	The Agreement for Scandinavian Resources Ltd to acquire all the issued capital of Hannans Scandinavia AB from Equity & Royalty Investments Ltd.
IOCG	Iron Oxide Copper Gold
IPO	Initial Public Offer
NAV	Net Asset Value
OMH	OM Holdings Ltd

OMH Proposal	The proposal for OM Holdings Ltd to exercise the 13,227,218 options it currently holds and convert into 7,590,007 ordinary shares the convertible loan it currently holds
Our Report	This Independent Expert's Report prepared by BDO
Proposed Transaction	The potential issue of shares and options under the Deferred Consideration and the potential issue of 25,000,000 shares on conversion of 25,000,000 options by Equity & Royalty Investments Ltd
SRK	SRK Consulting (Sweden) AB
VMS	Volcanic Massive Sulphide mineralisation
VWAP	Volume Weighted Average Price
SCR	Scandinavian Resources Ltd
Shareholders	Shareholders of Scandinavian Resources Ltd not associated with Equity and Royalty Investments Ltd
RG 74	Acquisition agreed to by Shareholders
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)



## Appendix 2 - Valuation Methodologies

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

### 1 *Net asset value (“NAV”)*

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

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

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

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

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

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

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

### 2 *Quoted Market Price Basis (“QMP”)*

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

### 3 *Capitalisation of future maintainable earnings (“FME”)*

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

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

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

#### **4 Discounted future cash flows (“DCF”)**

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

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

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

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

#### **5 Market Based Assessment**

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

#### **6 Multiple of Exploration Expenditure (“MEE”)**

The Past Expenditure method is a method of valuing exploration assets in the resources industry. It is applicable for areas which are at too early a stage of prospectivity to justify the use of alternative valuation methods such as DCF. The Past Expenditure method is often referred to as the Multiple of Exploration Expenditure method.

Past expenditure, or the amount spent on exploration of a tenement, is commonly used as a guide in determining value. The assumption is that well directed exploration adds value to a property. This is not always the case and exploration can also downgrade a property. The Prospectivity Enhancement Multiplier (“PEM”) which is applied to the effective expenditure therefore commonly ranges from 0.5 to 3.0. The PEM generally falls within the following ranges:

- 0.5 to 1.0 where work to date or historic data justifies the next stage of exploration;
- to 2.0 where strong indications of potential for economic mineralisation have been identified; and
- to 3.0 where ore grade intersections or exposures indicative of economic resources are present.



**SCANDINAVIAN RESOURCES LTD**  
Independent Expert's Report

1 September 2011

**IN OUR OPINION THE PROPOSED TRANSACTION IS  
NOT FAIR BUT REASONABLE**



## Financial Services Guide

1 September 2011

**BDO Corporate Finance (WA) Pty Ltd** ABN 27 124 031 045 (“**BDO**” or “**we**” or “**us**” or “**ours**” as appropriate) has been engaged by Scandinavian Resources Ltd (“**SCR**”) to provide an independent expert’s report on the proposal to SCR shareholders.

On 8 February 2011, Kiruna Iron AB (“**Kiruna**”), a wholly owned subsidiary of SCR, entered into an agreement with OM Holdings Ltd (“**OMH**”) in which OMH agreed to provide a loan of up to \$5 million convertible into SCR fully paid ordinary shares at a conversion rate of one share for every \$0.66 drawn down or owed at any time before the final repayment date (“**Convertible Loan**”). In addition to the Convertible Loan OMH also holds a total of 13,227,218 options (“**OMH Options**”). OMH is considering converting its Convertible Loan and exercising its Options into a total of 20,817,225 SCR shares (“**Proposed Transaction**”).

You will be provided with a copy of our report as a retail client because you are a shareholder of SCR.

### Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (“**FSG**”). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

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

### Information about us

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

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

### Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

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

### General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

### Fees, Commissions and Other Benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee for this engagement is approximately \$38,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

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

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

We have received a fee from SCR for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

### **Referrals**

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

### **Complaints resolution**

#### *Internal complaints resolution process*

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

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

### **Referral to External Dispute Resolution Scheme**

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service (“FOS”). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly via the details set out below.

Financial Ombudsman Service  
GPO Box 3 Melbourne VIC 3001  
Toll free: 1300 78 08 08  
Facsimile: (03) 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)

### **Contact details**

You may contact us using the details set out at the top of our letterhead on page 1 of this FSG.



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Appendix 1 - Glossary

Appendix 2 - Valuation Methodologies

Appendix 3 - Independent Valuation of Mineral Assets held by Scandinavian Resources Ltd by SRK Consulting (Sweden) AB

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1 September 2011

The Directors  
Scandinavian Resources Ltd  
Ground Floor, 28 Ord Street  
West Perth WA 6005

Dear Sirs

## Independent Expert Report

### 1. Introduction

Scandinavian Resources Ltd (“SCR” or the “Company”) is seeking the approval of its shareholders for the issue of securities to OM Holding Ltd (“OMH”). The proposed issue arises from the conversion of a \$5 million convertible loan issued to OMH on 8 February 2011 (“Convertible Loan”). The Convertible Loan can be converted at a rate of one share for every \$0.66 drawn down or owed, including interest. As at the date of this report \$500,000 has been drawn down. However, the Company is seeking approval for the issue of the maximum number of shares that would be issued to OMH if the loan was fully drawn down including interest on the current draw down, which is 7,590,007 shares. In addition to the Convertible Loan OMH also holds 13,227,218 options (“OMH Options”)

OMH is considering exercising its Options and converting its Convertible Loan (assuming fully drawn down with interest) into a total of 20,817,225 SCR shares (“Proposed Transaction”). If the Proposed Transaction is approved OMH will be able to convert its convertible loan and exercise options held for shares resulting in an increase in its interest in SCR from 15.64% to a maximum of 33.39%.

### 2. Summary and Opinion

#### 2.1 Purpose of the report

The directors of SCR have requested that BDO Corporate Finance (WA) Pty Ltd (“BDO”) prepare an independent expert report (“our Report”) to express an opinion as to whether or not the issue of shares to OMH (as set out in Resolution 3 in the attached Notice for the General Meeting of SCR shareholders) is fair and reasonable to the non associated shareholders of SCR (“Shareholders”).

Our Report is prepared pursuant to section 611 item 7 of the Corporations Act and is to be included in the Explanatory Statement which accompanies the Notice of Meeting for SCR in order to assist the Shareholders in their decision as to whether or not to approve the issue of shares to OMH.

## 2.2 Approach

Our Report has been prepared having regard to the Australian Securities & Investments Commission (“ASIC”) Regulatory Guide 111 ‘Content of Expert Reports’ (“RG 111”) and Regulatory Guide 112 ‘Independence of Experts’ (“RG 112”).

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

- A comparison between the amount that will be received by the Company from the issue of shares to OMH upon the conversion of the convertible loan and the exercise of the options and the value of a SCR share to Shareholders;
- Other factors which we consider to be relevant to Shareholders in their assessment of the Proposed Transaction; and
- The position of Shareholders should the Proposed Transaction not proceed.

## 2.3 Opinion

We have considered the terms of the Proposed Transaction as outlined in the body of this report and have concluded that the **Proposed Transaction is not fair but reasonable to Shareholders.**

In our opinion, the Proposed Transaction is not fair because the Convertible Loan and OMH Options held by OMH all have conversion and exercise prices that are below our preferred value for a SCR share.

However, we consider the Proposed Transaction to be reasonable because the advantages of the Proposed Transaction to Shareholders are greater than the disadvantages and because of the other matters that we have considered in section 12.5.

## 2.4 Fairness

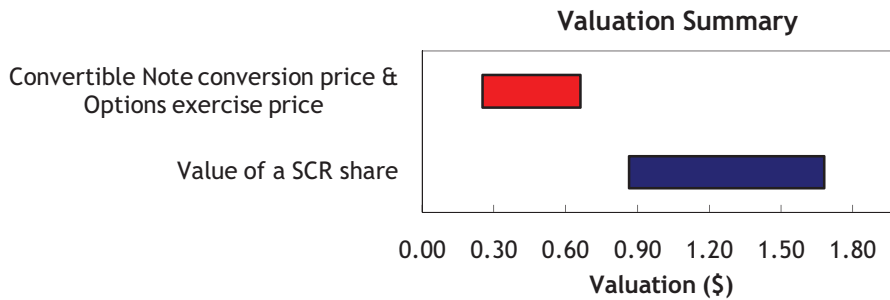
In Section 11 we determined that the conversion price of the Convertible Loan and exercise price of the options held by OMH is less than the fair value range of a SCR share on issue, as detailed hereunder.

	Low	Preferred	High
	\$	\$	\$
Assessed value of a SCR share	0.863	1.456	1.678

	Number	Exercise price	Total funds received
Shares to be issued on conversion of Convertible Loan	7,590,007	\$0.66	\$5,000,000
Unlisted options with expiry date of 1 February 2013	1,000,000	\$0.40	\$400,000
Listed options with expiry date of 31 October 2011	12,227,218	\$0.25	\$3,056,805
<b>Total</b>	<b>20,817,225</b>		<b>\$8,456,805</b>



The above valuation ranges are graphically presented below:



The above pricing indicates that, in the absence of any other relevant information, the conversion of the convertible loan and the exercise of options is not fair for Shareholders.

## 2.5 Reasonableness

We have considered the analysis in Sections 11 and 12 of this report, in terms of both

- advantages and disadvantages of the Proposed Transaction; and
- alternatives, including the position of Shareholders if the Proposed Transaction does not proceed.

In our opinion, the position of Shareholders if the Proposed Transaction is approved is more advantageous than the position if the Proposed Transaction is not approved. Accordingly, in the absence of any other relevant information we believe that the Proposed Transaction is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
12.3	Improved NTA position through cash received from the exercise of Options	11	The Proposed Transaction is not fair
12.3	No changes to current operating and financial arrangements	12.4	Dilution of Shareholders' interests
12.3	Improved capital structure	12.4	OMH will gain a significant level of control of SCR

Other key matters we have considered include:

Section	Description
12.1	Lack of an alternative Proposal
12.2	Practical level of control
12.5	Other Considerations <ul style="list-style-type: none"><li>• Dilution of Shareholders' interest</li><li>• Future net tangible asset position</li><li>• SCR share price reflects full dilution</li><li>• SCR share price unlikely to react to the rejection of the Proposed Transaction</li><li>• Level of control held by OMH</li></ul>

### 3. Scope of the Report

#### 3.1 Purpose of the Report

OMH currently own approximately 15.64% of the issued shares in SCR. Section 606 of the Corporations Act 2001 (“the Act”) expressly prohibits the acquisition of shares by a party if that acquisition will result in that person (or someone else) holding an interest in 20% or more of the issued shares of a public company, unless a full takeover offer is made to all shareholders.

However, an acquisition will be exempt from this prohibition if it is approved by a resolution passed at a general meeting of the target company if the members of the target company are given all information, known to the acquirer (and associates) and known to the target company, that is material to the decision on how to vote on the resolution (Corporations Act 2001 section 611 item 7(b)). An independent expert report is commonly commissioned by the directors of the target company to enable them to discharge the requirement to disclose all material information on how to vote on such a resolution, and our Report assists the directors in discharging this requirement in relation to the Proposed Transaction.

The precise percentages of voting power which will result from the Proposed Transaction are affected by a further proposal (as set out in Resolution 1 and Resolution 2 of the attached Notice of General Meeting for SCR shareholders) for Equity & Royalty Investments Ltd (“ERI”), currently SCR’s largest shareholder with approximately 29.03% of SCR’s voting power (including associates), to be issued 5 million shares in SCR and to exercise 25 million options in SCR (“ERI Proposal”) as part of an agreement in which SCR acquired all the issued capital of Hannans Scandinavia AB from ERI (“HSAB Acquisition Agreement”). The ERI Proposal is also subject to approval by SCR shareholders in general meeting because ERI and its associates already hold above 20% of the voting power in SCR.

ASIC Regulatory Guide 74 - ‘Acquisitions agreed to by shareholders’ (“RG 74”) states that the obligation to supply shareholders with all information that is material to the decision on how to vote on the resolution can be satisfied by the non-associated directors of SCR either:

- commissioning an independent expert report, or
- undertaking a detailed examination of the Proposed Transaction themselves, if they consider that they have sufficient expertise, experience and resources.

The non-associated directors of SCR have commissioned this Independent Expert Report to assist shareholders.

#### 3.2 Regulatory guidance

The Act does not prescribe the matters to be included in an Independent Expert Report prepared to address the requirements of section 611 item 7. However, RG 111 provides guidance for the expert in relation to the content of an Independent Expert Report and specifies the matters an independent expert should consider to assist shareholders in making informed decisions about transactions.

RG 111 identifies a ‘control transaction’ (defined as being where a party acquires or increases a controlling stake in a company) as a key type of transaction requiring an independent expert report and cites an issue of shares approved under section 611 item 7 of the Act as an example of a control transaction.

We consider that the Proposed Transaction constitutes a control transaction as defined by RG 111.

RG 111 states that where the transaction is a control transaction the expert should focus on the substance of the control transaction rather than the legal mechanism used to affect it.

In determining the content of the independent expert report for a control transaction, RG 111 states that an issue of shares approved under section 611 item 7 of the Act is comparable to a takeover bid (RG 111.24). In such a case the expert should apply the same analysis as for takeover bids under section 640 of the Act (RG 111.25).

Section 640 of the Act specifies that the expert should state whether, in the expert's opinion, the takeover bid (or in this case the issue of shares) is 'fair and reasonable', and provides the reasons for forming that opinion. RG 111 then provides guidance for the expert as to the meaning of 'fair and reasonable' (RG111.10 to 111.17).

Consequently we have assessed the Proposed Transaction based on whether, in our opinion, it is fair and reasonable to SCR's Shareholders.

### **3.3 Adopted basis of evaluation**

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities the subject of the offer. This form of words is determined by the context of a takeover bid. For an allotment of shares being assessed under Section 611 item 7 of the Act the equivalent is a comparison between the value of the asset being acquired by the company and the value of the shares being issued.

This comparison should be made:

- assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length, and
- considering the value of the securities the subject of the offer (for a Section 611 item 7 transaction the equivalent is the shares being issued) inclusive of a control premium.

Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid (for a Section 611 item 7 transaction the equivalent is sufficient reasons for approving the issue).

Having regard to the above, BDO has assessed this comparison in two parts as follows:

- A comparison between the amount that will be received by the Company from the issue of shares to OMH upon the conversion of the convertible loan and the exercise of the options and the value of a SCR share to Shareholders; (fairness - see Section 11 " Is the Proposed Transaction Fair?"); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness - see Section 12 " Is the Proposed Transaction Reasonable?").

This assignment is a Valuation Engagement as defined by APES 225 Valuation Services. A Valuation Engagement means an engagement or assignment to perform a valuation and provide a valuation report where we determine an estimate of value of the Company by performing appropriate valuation procedures and where we apply the valuation approaches and methods that we consider to be appropriate in the circumstances.

#### 4. Outline of the Proposed Transaction

The Proposed Transaction is set out in Resolution 3 of the attached Notice of General Meeting for SCR shareholders. Resolution 3 relates to the issue of securities and the increase in voting power of OMH.

Resolution 3 reads as follows:

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

*“That, for the purpose of section 611 Item 7 of the Corporation Act and for all other purposes, Shareholders approve:*

*(a) The issue of:*

- (i) 13,227,218 Shares to OM Holdings Ltd upon conversion of Options; and*
- (ii) 7,590,007 Shares to OM Holdings Ltd upon conversion of the Convertible Loan; and*

*(b) An increase in OM Holdings Ltd’s voting power in the Company from 15.64% to 33.39% as a result of the issue of the above Shares (without taking into effect the issue of Securities the subject of any other Resolution),*

*On the terms and conditions set out in the Explanatory Statement”.*

Essentially Resolution 3 arises from an agreement for OMH to loan Kiruna Iron AB (“**Kiruna**”), a wholly owned subsidiary of SCR, up to \$5 million on 8 February 2011. OMH can, at any time before the final repayment date, elect to convert the total amount drawn down by Kiruna including interest owing at the relevant time to fully paid ordinary SCR shares at a conversion rate of 1 share for every \$0.66 drawn down or owed (“**Convertible Loan**”). As at the date of this report \$500,000 has been drawn down. However, the Company is seeking approval for the issue of the maximum number of shares that would be issued to OMH if the loan was fully drawn down, including interest on the current draw down, which is a total of 7,590,007 shares.

As part of the Convertible Loan issued, OMH was also issued 1,000,000 unlisted options in SCR exercisable at \$0.40 each on or before 1 February 2013. In addition to these options OMH also holds 12,227,218 listed options exercisable at \$0.25 each on or before 31 October 2011. OMH therefore holds a total of 13,227,218 options (“**OMH Options**”).

The Company is seeking approval to allow OMH to exercise its Options and convert its Convertible Loan (assuming fully drawn down) into a total of 20,817,225 shares in SCR (“**Proposed Transaction**”).

The potential increase in the voting power in SCR of OMH is from the current level of 15.64% to a maximum of 33.39%. This increase would decrease from the maximum of 33.39% to 25.58% if shareholders also approve Resolution 1 and Resolution 2 of the attached Notice of General Meeting and Ian Gregory exercises 188,334 Options, under which an additional 30,188,334 shares would be issued to ERI and its associates. These potential changes in shareholdings and voting power are summarised in the table below, assuming none of the other options on issue are exercised.

	OMH	ERI and Associates	Other shareholders	Total
<b>Issued Shares as at date of this Report</b>	<b>12,227,218</b>	<b>22,688,335</b>	<b>43,245,068</b>	<b>78,160,621</b>
<i>% holdings as at date of this report</i>	15.64%	29.03%	55.33%	100.00%
Shares to be issued on conversion of Convertible Loan	7,590,007	-	-	7,590,007
Shares to be issued on exercise of Options	13,227,218	-	-	13,227,218
<b>Issued Shares after conversion of Convertible Loan &amp; Options exercised</b>	<b>33,044,443</b>	<b>22,688,335</b>	<b>43,245,068</b>	<b>98,977,846</b>
<i>% holdings after conversion of Convertible Loan &amp; Options exercised</i>	33.39%	22.92%	43.69%	100.00%
Shares to be issued to ERI and Associates	-	30,188,334	-	30,188,334
<b>Issued Shares after conversion of Convertible Loan, Options exercised &amp; shares issued to ERI</b>	<b>33,044,443</b>	<b>52,876,669</b>	<b>43,245,068</b>	<b>129,166,180</b>
<i>% holdings after conversion of Convertible Loan, Options exercised &amp; shares issued to ERI</i>	25.58%	40.94%	33.48%	100.00%

## 5. Profile of Scandinavian Resources Ltd

### 5.1 History

Scandinavian Resources Ltd was incorporated in July 2008 and was admitted to the Official List of the ASX on 19 April 2010 after successfully completing an Initial Public Offer (“IPO”) raising of approximately \$6.7 million. Scandinavian Resources Ltd is a diversified mineral explorer operating in Scandinavia, primarily in Sweden and Norway. The company has three main projects being the Kiruna Iron Project Permits held by Kiruna Iron AB, Caledonide Project base metals project and the Vatmyrberget IOCG project. The exploration permits for these projects are held by Scandinavian Resources AB, formerly Hannans Scandinavia AB, which was acquired as part of the HSAB Acquisition Agreement. Kiruna Iron AB is 100% owned by Scandinavian Resources AB which is registered in Sweden and Scandinavian Resources AB is 100% owned by SCR.

The current Board of Directors consists of Damian Hicks as Chairman, Olof Forslund as Technical Director and Ian Gregory, Markus Bachmann and Paul Thomas as Non Executive Directors.

Scandinavian Resources Ltd’s two significant shareholders are Equity & Royalty Investments Ltd and OM Holdings Ltd.

### 5.2 Key projects

#### Kiruna Project

SCR’s flagship Kiruna iron exploration project is located within a radius of 50 km of the mining town of Kiruna in northern Sweden. The exploration package covers more than 300km<sup>2</sup> and is located between two major east-west trending lake systems. Access to the project can be made via the main highway during the winter months which is when the majority of field work is carried out as the ground is frozen and access to the project is considered easier.

The majority of the assets in the Kiruna area are assumed to be skarn-type iron ore deposits. There are also a few cases of apatite-magnetite iron ore deposits.

On 15 November 2010 SCR announced that through its wholly owned subsidiary, Kiruna Iron AB, it had reached an agreement with Anglo American Exploration BV and Rio Tinto Mining & Exploration Ltd to acquire 100% of the Rakkuri Project. The project contains an exploitation concession application for the mining of copper-gold.

#### Caledonide Project

The Caledonide Project is located in the Nordland region of northern Norway and is 7 km west of the Swedish border and 145 km from the Norwegian mining and port town of Mo i Rana. Access to this area is typically helicopter assisted due to the mountainous terrain. The Caledonide Project consists of 564 permits and covers approximately 141 km<sup>2</sup>.

The Caledonide Project is located within the Scandinavian Caledonides and the principal target is stratiform sediment hosted copper-lead-zinc-silver mineralisation and volcanogenic massive sulphide mineralisation (“VMS”) both hosted within the Palaeozoic Caledonide terrain.

## Vatmyrberget Project

The Vatmyrberget Project consists of three permits which cover an area of approximately 54 km<sup>2</sup>. The permits are located within the Municipality of Pitea which is an area that is considered prospective for iron, copper, nickel and platinum group elements. The Vatmyrberget Project is also considered prospective for iron oxide copper gold (“IOCG”) given its close proximity to a major, crustal scale, deformation zone located to the east of the project.

### 5.3 Historical statement of financial position

	Unaudited as at 30-Jun-11	Reviewed as at 31-Dec-10	Audited as at 30-Jun-10
Statement of financial position	\$	\$	\$
<b>Current assets</b>			
Cash and cash equivalents	128,430	321,995	5,754,683
Trade and other receivables	557,858	159,915	61,853
Prepayments	47,223	-	-
<b>Total current assets</b>	<b>733,511</b>	<b>481,910</b>	<b>5,816,536</b>
<b>Non-current assets</b>			
Trade and other receivables	211,644	15,611	28,049
Property, plant & equipment	79,775	55,914	1,343
Other financial assets	1	1	-
<b>Total non-current assets</b>	<b>291,420</b>	<b>71,526</b>	<b>29,392</b>
<b>Total assets</b>	<b>1,024,931</b>	<b>553,436</b>	<b>5,845,928</b>
<b>Current liabilities</b>			
Trade and other payables	1,856,466	302,044	280,059
Deferred consideration	3,874,100	2,628,379	-
Other financial liabilities	2,140,150	567,241	-
<b>Total current liabilities</b>	<b>7,870,716</b>	<b>3,497,664</b>	<b>280,059</b>
<b>Total liabilities</b>	<b>7,870,716</b>	<b>3,497,664</b>	<b>280,059</b>
<b>Net assets</b>	<b>(6,845,785)</b>	<b>(2,944,228)</b>	<b>5,565,869</b>
<b>Equity</b>			
Issued capital	12,195,148	7,304,351	7,255,888
Reserves	2,455,625	228,271	(170,876)
Accumulated losses	(21,496,558)	(10,476,850)	(1,519,143)
<b>Total equity</b>	<b>(6,845,785)</b>	<b>(2,944,228)</b>	<b>5,565,869</b>

Source: Scandinavian Resources Ltd Annual Report 2010, Financial Report for half year ended 31 December 2010 and Management Accounts as at 30 June 2011.



## 5.4 Historical statement of comprehensive income

	Unaudited Year ended 30-Jun-11	Audited Year ended 30-Jun-10	Audited Year ended 30-Jun-09
Statement of comprehensive income	\$	\$	\$
Interest revenue	459,828	65,393	56
Employee and contractors expense	(350,448)	(36,624)	-
Depreciation expense	(22,420)	(79)	-
Consultants expenses	(223,397)	(115,282)	(72,174)
Occupancy expenses	(67,921)	(43,291)	-
Marketing expenses	(35,631)	(42,513)	-
Exploration and evaluation expenses	(18,618,492)	(875,820)	(233,283)
Travel	(84,237)	-	-
Exchange rate losses	(379,577)	-	-
Other expenses	(104,221)	(114,275)	(768)
Provision against recoverability of loan	(14,108)	-	-
Finance costs	(540,328)	(14,927)	(35,556)
<b>Loss before income tax expense</b>	<b>(19,980,952)</b>	<b>(1,177,418)</b>	<b>(341,725)</b>
Income tax (expense) / benefit	-	-	-
<b>Net loss for the period</b>	<b>(19,980,952)</b>	<b>(1,177,418)</b>	<b>(341,725)</b>
<b>Other comprehensive income</b>			
Foreign currency translation differences for foreign operations	608,564	(29,030)	(13,678)
<b>Total comprehensive loss</b>	<b>(19,372,388)</b>	<b>(1,206,448)</b>	<b>(355,403)</b>

Source: Scandinavian Resources Ltd Annual Report 2010 and Management Accounts as at 30 June 2011.

### Commentary on Historical Financial Statements

We have not undertaken a review of SCR's unaudited accounts in accordance with Australian Auditing and Assurance Standard 2405 "Review of Historical Financial Information" and do not express an opinion on this financial information. However nothing has come to our attention as a result of our procedures that would suggest the financial information within the management accounts has not been prepared on a reasonable basis.

We note that the majority of the deferred consideration in the balance sheet of approximately \$2.6 million and \$3.9 million as at 31 December 2010 and 30 June 2011 respectively relates to the acquisition of the Rakkuri Project by SCR's wholly owned subsidiary, Kiruna Iron AB. This deferred consideration is expected to be paid in December 2011. We note the deferred consideration in relation to the HSAB Acquisition Agreement is not recorded in the balance sheets above.

Financial liabilities of approximately \$2.1 million as at 30 June 2011 relate to three convertible loans entered into. The first was entered into with HR Equities Pty Ltd, which allows \$2.5 million to be drawn down with interest at 12.5% per annum, the second was entered into with Mathew Walker, which allows \$1.25 million to be drawn down with interest at 12.5% per annum and the third is with

OMH which allows \$5 million to be drawn down at an interest rate of 12.5% per annum. In February 2011 the Company also entered into a fourth convertible loan agreement which allows \$1.25 million to be drawn down with interest at 12.5% per annum. In July 2011 and August 2011 three further loan agreements have been entered into, the first for \$250,000 at an interest rate of 12.5%, the second for \$750,000 at an interest rate of 21.3% and the third is for \$150,000 at an interest rate of 12.5%. The Board of SCR has approved the rollover of both the first and second of these loans to convertible loans following approval at a meeting of shareholders to be held on 8 September 2011.

The issued capital has increased from approximately \$7.3 million as at 31 December 2010 to \$12.2 million as at 30 June 2011. This was primarily due to the exercise of options over the six month period.

Revenue of \$459,828 for the year ended 30 June 2011 relates primarily to interest income.

Exploration and evaluation expenditure of \$18.6 million has been recorded in the profit and loss statement for the year ended 30 June 2011. This relates to the acquisition of the Rakkuri Project by an SCR wholly owned subsidiary during the period as well as the commencement of the diamond drilling programme at the Kiruna Iron Project which commenced in January 2011. Drilling programmes within the Kiruna Project were also completed during the period at the Vieto Prospect, the Sautusvaara Prospect and the Rakkurijarva Prospect which all contributed to this increase in exploration and evaluation expenditure.

## 5.5 Capital Structure

The share structure of SCR as at 1 September 2011 is outlined below:

	Number
Total ordinary shares on issue	78,160,621
Top 20 shareholders	61,198,668
Top 20 shareholders - % of shares on issue	78.30%

Source: SCR Management

The ordinary shares held by the most significant shareholders of SCR as at 1 September 2011 are detailed below:

Name	No of Ordinary Shares Held	Percentage of Issued Shares (%)
Equity & Royalty Investments Ltd	20,000,001	25.59%
OM Holdings Ltd	12,227,218	15.64%
Grangesberg Iron AB	8,200,000	10.49%
JP Morgan Nominees Australia Ltd - Cash Income A/C	7,003,197	8.96%
Subtotal	47,430,416	60.68%
Others	30,730,205	39.32%
<b>Total ordinary shares on issue</b>	<b>78,160,621</b>	<b>100.00%</b>

Source: SCR Management

SCR has the following Options on issue as at 1 September 2011 as detailed below:

Details	Number
Listed options exercisable at \$0.25 on 31 October 2011	29,898,468
Unlisted options exercisable at \$0.20 on 31 October 2012	8,333,340
Unlisted options exercisable at \$0.20 on 31 October 2012 (escrowed to 21 April 2012)	20,133,334
Unlisted options exercisable at \$0.25 on 30 June 2013	400,000
Unlisted options exercisable at \$0.50 on 30 June 2013	300,000
Unlisted options exercisable at \$0.75 on 30 June 2013	300,000
Unlisted options exercisable at \$0.40 on 15 December 2012	500,000
Unlisted options exercisable at \$0.40 on 1 February 2013	1,000,000

Source: SCR Management

SCR has 29,898,468 Listed Options expiring on or before 31 October 2011 with an exercise price of \$0.25. The most significant holders as at 1 September 2011 are detailed below:

Name	No of Options Held	Percentage of Issued Options (%)
OM Holdings Ltd	12,227,218	40.90%
LLB Fund Services AG <Craton Capital Precious Metal>	6,100,000	20.40%
Braveheart Australia Pty Ltd	912,430	3.05%
Mr Donald peter Huntly	720,000	2.41%
Subtotal	19,959,648	66.76%
Others	9,938,820	33.24%
<b>Total listed options on issue</b>	<b>29,898,468</b>	<b>100.00%</b>

Source: SCR Management

## 6. Profile of OM Holdings Ltd

OMH was incorporated in Bermuda in November 1997 and listed on the ASX on 19 March 1998. It began in the sourcing and distribution of manganese ore products and subsequently in processing ores into ferro-manganese intermediate products. The OMH Group now operates commercial mining operations with subsidiary offices in Australia, China and Singapore.

Through its wholly owned subsidiary, OM (Manganese) Ltd, OMH controls 100% of the Bootu Creek Manganese Mine located approximately 110 km north of Tennant Creek in the Northern Territory of Australia. The tenement holdings in the area extend over 2,600 km<sup>2</sup> and the Project commenced production in late 2005.

In 2005 OMH commissioned its ferro alloy production facility, warehouse and distributing facility in the port city of Qinzhou, south west China. OMH has established itself as a significant manganese supplier to the Chinese market.

OMH's board of Directors is made up of Low Ngee Tong as the Executive Chairman, Peter Toth as an Executive Director, and Julie Wolseley, Tan Peng Chin, Wong Fing Fui and Thomas Teo Liang Huat as Non Executive Directors.

OMH is also a member of the S&P/ASX 200.

## 7. Economic Analysis

The global economy is continuing its expansion, but the pace of growth slowed in the June 2011 quarter. The supply-chain disruptions from the Japanese earthquake and the dampening effects of high commodity prices on income and spending in major countries have both contributed to the slowing. The banking and sovereign debt problems in Europe have also added to uncertainty and volatility in financial markets over recent months.

A key question is whether this more moderate pace of growth will continue. Commodity prices have generally softened of late, though they remain at very high levels. Despite the challenging international environment, the central scenario for the world economy envisaged by most forecasters remains one of growth at, or above, average over the next couple of years. A number of countries have tightened monetary policy but, overall, global financial conditions remain accommodative and underlying rates of inflation have tended to move higher.

Australia's terms of trade are now at very high levels and national income has been growing strongly, though conditions vary significantly across industries. Investment in the resources sector is picking up strongly in response to high levels of commodity prices and the outlook remains very positive.

A gradual recovery from the floods and cyclones over the summer is taking place, though the resumption of coal production in flooded mines continues to proceed more slowly than initially expected. The recovery will boost output over the months ahead, and there will also be a mild boost to demand from the broader rebuilding efforts as they get under way, but growth through 2011 is now unlikely to be as strong as earlier forecast. Over the medium term, overall growth is still likely to be at trend or higher, if the world economy grows as expected.

Growth in employment has moderated over recent months and the unemployment rate has been little changed, near 5 per cent. Most leading indicators suggest that this slower pace of employment growth is likely to continue in the near term. Reports of skills shortages remain confined, at this point, to the resources and related sectors. After the significant decline in 2009, growth in wages has returned to rates seen prior to the downturn.

Credit growth remains modest. Signs have continued to emerge of some greater willingness to lend and business credit has expanded this year after a period of contraction. Growth in credit to households, on the other hand, has slowed. Most asset prices, including housing prices, have also softened over recent months.

Year-ended CPI inflation is likely to remain elevated in the near term due to the extreme weather events earlier in the year. However, as the temporary price shocks dissipate, CPI inflation is expected to be close to target over the next 12 months. In underlying terms, inflation has been in the bottom half of the target range, though a gradual increase is expected over time.

Source: [www.rba.gov.au](http://www.rba.gov.au) Statement by Glenn Stevens, Governor: Monetary Policy Decision 5 July 2011

## 8. Industry Analysis

### 8.1 Mining in Scandinavia

The Scandinavian region within Europe is made up of Norway, Denmark, Sweden and Finland. Mining has been a key industry within the region for hundreds of years. This has led to a stable workforce that is amongst the most proficient in the industry with a consequent benefit to productivity.

Long established mining companies have not stinted on investing in the latest technology and equipment making their operations, through use of remote controlled drilling and other automated processes, amongst the most cost effective of any worldwide.

Long term growth prospects appear promising as all countries within the region are actively engaged in encouraging the development of mining. The region is abundant in base metals, precious metals and industrial minerals and much of the region is underexplored making a prime region for potential discoveries.

#### Sweden

Sweden is a major European mining centre. Sweden has an extensive mining history and is the largest producer of iron ore within the European Union. It is also a leading producer of base metals such as copper, zinc and lead and a leading producer of precious metals such as gold and silver.

Legislation in Sweden is favourable towards mineral explorers with generous exploration permits and exploitation concessions as well as a royalty of only 0.2% of the average value of minerals mined and no minimum expenditure commitment required.

Until 1992, only the Swedish state was permitted to explore for minerals. Since then more than one hundred exploration companies have become active in Sweden. More than US\$90 million was spent on exploration in 2007. This is backed by quality databases of mining data, highly trained personnel and cutting edge mining technology to support mining companies.

The richest mining region within Sweden is the Skelleftea region in northern Sweden. There have been approximately 40 mines operated within the region since 1920.

#### Norway

Mining in Norway has also been occurring for hundreds of years. The mining industry within Norway produces products such as titanium minerals for use in pigments, iron ore, calcium carbonate slurry (used in paper), coal and construction materials for export.

Mining in Norway has mostly moved away from base metals, due to reserves being exhausted, to industrial minerals such as dimension stone, graphite, olivine and calcite. There are also significant coal reserves within Norway.

A focus on offshore hydrocarbon resources such as petroleum and natural gas in Norway has meant that the mainland has been under explored.

### 8.2 Iron Ore Mining in Scandinavia

Sweden's largest iron ore producer is LKAB, a state owned company, which operates two underground mines and produces the bulk of Sweden's annual production.

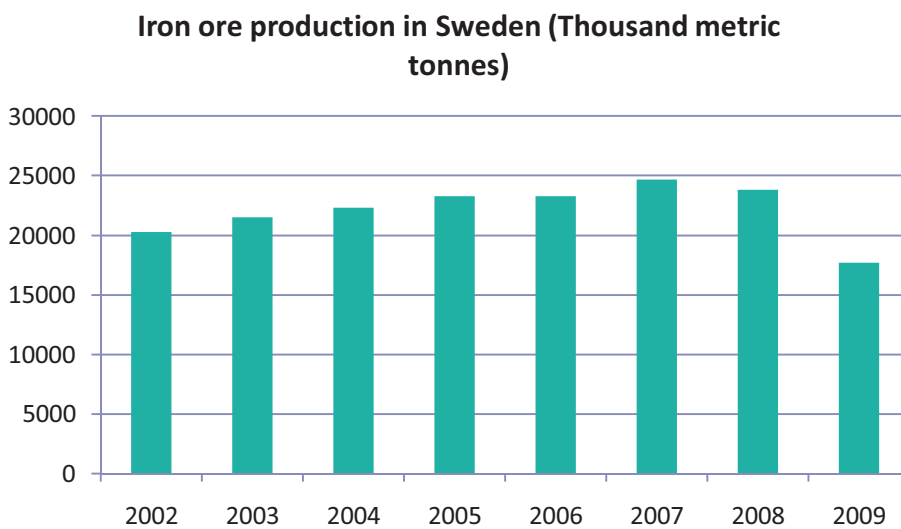
The largest iron ore deposit in Sweden is currently being mined by LKAB near the town of Kiruna and, as well as being one of the largest ore bodies in the world, is the largest underground iron ore

mine in the world. Mining in this deposit has been secured until 2035. Decades of mining have meant that the townsite itself will be moved over the next 40 to 50 years, with the town centre being moved to approximately four kilometres from where it is now.

In May 2010, LKAB were granted an environmental permit to open another iron ore mine in the village of Svappavaara which is also in the Kiruna region.

Mining in Sweden is supported by a robust rail network, developed over the past one hundred years, which allows deposits to be transported to Sweden's ports where the majority of iron ore products are exported.

The table below shows iron ore production in Sweden from 2002 to 2009.



Source: <http://www.indexmundi.com>

Compared to Sweden Norway has, historically, not produced large amounts of iron ore. The largest deposits of iron ore in Norway were in the Sor-Varanger region near the border with Russia and in the Caledonide Orogen region. Deposits within these regions have generally been exhausted.

Northern Iron, an ASX listed company, recently commenced work on the Sydvaranger Project which consists of three magnetite iron deposits and further prospects within the region that they currently operate within. This has led to an increase in iron ore production within Norway.

## 9. Valuation Approach Adopted

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

- Capitalisation of future maintainable earnings (“FME”)
- Discounted Cash Flow (“DCF”)
- Quoted Market Price Basis (“QMP”)
- Net Asset Value (“NAV”)
- Market Based Assessment
- Multiple of Exploration Expenditure (“MEE”)

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

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

- Net Tangible Assets on a going concern basis (“NTA”) as our primary valuation; and
- Quoted Market Price (“QMP”) as our secondary valuation.

We have chosen these methodologies for the following reasons:

- Being an exploration company, the core value of SCR is in the exploration assets it holds. We have instructed SRK Consulting (Sweden) AB (“SRK”) to act as independent specialist to value these assets and have considered these in the context of SCR’s other assets and liabilities on a Net Asset Value basis.
- The QMP basis is a relevant methodology to consider because SCR shares are listed on the ASX. This means there is a regulated and observable market where SCR shares can be traded. However, in order for QMP to be considered appropriate, the company’s shares should be liquid and the market should be fully informed as to SCR’s activities. We have considered these factors in section 10.2.
- Future Maintainable Earnings are not appropriate for exploration assets and sufficient information is not available for a Discounted Cash Flow valuation approach to be undertaken.



## 10. Valuation of SCR prior to the Proposed Transaction

### 10.1 Net Asset Valuation of SCR

The NAV methodology we applied is on a going concern basis method that estimates the market values of the net assets of an entity but does not take into account any realisation costs.

When performing a NAV valuation, we must determine the following:

- The assets and liabilities of the Company as at the date of valuation (or the closest available information); and
- The adjustments to be made to these assets and liabilities to reflect their market values.

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

	Unaudited 30-Jun-11 \$	Low Valuation \$	Preferred Valuation \$	High Valuation \$
<b>Assets</b>				
Cash and cash equivalents	128,430	128,430	128,430	128,430
Trade and other receivables	816,726	816,726	816,726	816,726
Property, plant & equipment	79,775	79,775	79,775	79,775
Exploration and evaluation assets	-	74,320,000	120,650,000	138,020,000
<b>Total tangible assets</b>	<b>1,024,931</b>	<b>75,344,931</b>	<b>121,674,931</b>	<b>139,044,931</b>
<b>Liabilities</b>				
Trade and other payables	1,856,466	1,856,466	1,856,466	1,856,466
Deferred consideration	3,874,100	3,874,100	3,874,100	3,874,100
Loans	2,140,150	2,140,150	2,140,150	2,140,150
<b>Total liabilities</b>	<b>7,870,716</b>	<b>7,870,716</b>	<b>7,870,716</b>	<b>7,870,716</b>
<b>Net assets</b>	<b>(6,845,785)</b>	<b>67,474,215</b>	<b>113,804,215</b>	<b>131,174,215</b>
Shares on issue (number)	78,160,621	78,160,621	78,160,621	78,160,621
Value per share (\$)	-	\$0.863	\$1.456	\$1.678

We have been advised that there has not been a significant change in the net assets of SCR since 30 June 2011 and that all assets and liabilities are recorded at their fair values as at 30 June 2011. The table above indicates the net asset value of a SCR share is between \$0.863 and \$1.678, with a preferred value of \$1.456.

The following adjustment was made to the net assets of SCR as at 30 June 2011 in arriving at our valuation:

#### Valuation of SCR evaluation and exploration assets

We instructed SRK to provide an independent specialist valuation of the mineral assets held by SCR. A copy of the SRK Report is attached at Appendix 3. The table below provides a summary of this valuation:

SRK Independent Valuation	Low value	Preferred value	High value
Scandinavian Resources Mineral Assets	\$m	\$m	\$m
Exploration and evaluation assets (USD)	77	125	143
Exchange rate (USD/AUD)	0.9652	0.9652	0.9652
<b>Exploration and evaluation assets (AUD)</b>	<b>74.32</b>	<b>120.65</b>	<b>138.02</b>

SRK considered a number of different valuation methods when valuing the mineral assets held by SCR. Due to the majority of licences held being in an early development stage SRK applied the Past Expenditure Method, the Yardstick Method and the Comparable Transaction Method to provide a range of appropriate values.

SRK has used the Past Expenditure Method to obtain the low value of US\$77 million and the Yardstick Method to obtain the high value of US\$143 million. SRK also applied the Comparable Transaction Method which provided a value of US\$117 million. From the values obtained SRK provided a preferred value of SCR's mineral assets of US\$125 million.

SRK provided a technical value of SCR's mineral assets. A technical value, as defined by the Valmin Code 2005, is an assessment of a mineral asset's future net economic benefit at the valuation date under a set of assumptions deemed most appropriate by an expert, excluding any premium or discount to account for such factors as market or strategic considerations. A market value comprises two components, being the technical value and a premium or discount relating to market, strategic or other considerations.

The preferred value provided by SRK was based largely on the Comparable Transaction Method. As this method is based on previous transactions in the market we believe this value already takes into account any discounts or premiums relating to market or strategic considerations. We therefore have no reason to believe that the preferred technical value provided by SRK does not also represent the preferred market value of SCR's mineral assets.

SRK's independent valuation report can be found at Appendix 3.

## 10.2 Quoted Market Prices for SCR Securities

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

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

RG 111.25 suggests that when considering the value of a company's shares for the purposes of approval under Item 7 of s611 the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

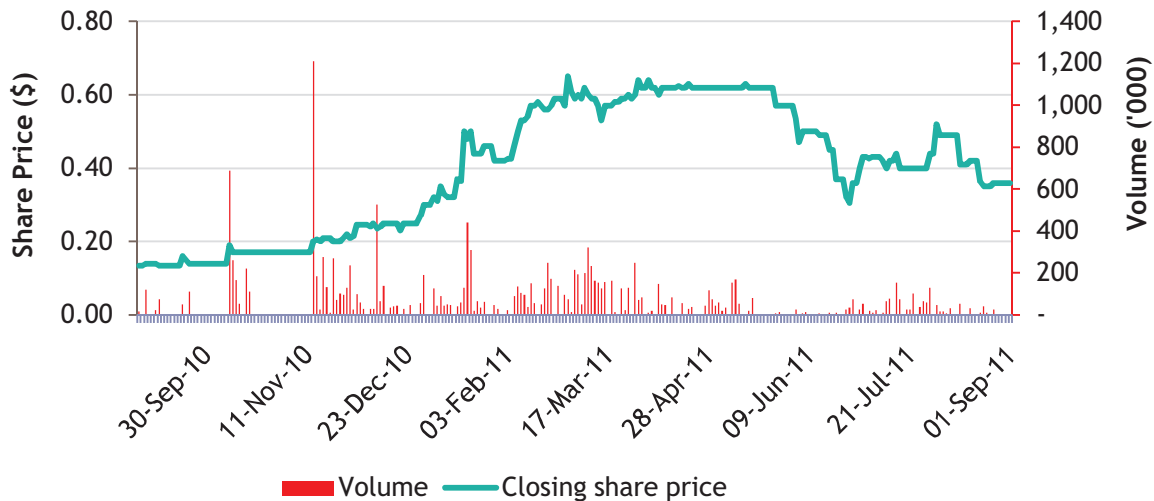
- control over decision making and strategic direction
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

Whilst OMH will not be obtaining 100% of SCR, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. RG 111.27 states that the expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in Section 12.

Therefore, our calculation of the quoted market price of a SCR share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

### Minority interest value

Our analysis of the quoted market price of a SCR share is based on the pricing prior to the announcement of the Transaction. As at the date of this report no announcement has been made to the market. Therefore, the following chart provides a summary of the share price movement over the year to 1 September 2011.



Source: Bloomberg

The daily price of SCR shares from 2 September 2010 to 1 September 2011 has ranged from a low of \$0.135 on 20 September 2010 to a high of \$0.65 on 5 April 2011.

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

Date	Announcement	Closing Share Price Following Announcement \$ (movement)	Closing Share Price Three Days After Announcement \$ (movement)
2-Aug-11	Cleansing Prospectus	0.52 (▲ 18%)	0.49 (▼ 6%)
1-Aug-11	4 <sup>th</sup> Quarter Activities & Cashflow Report	0.44 (-)	0.49 (▲ 11%)
29-Jul-11	JORC Resources Significantly Exceeds Targets	0.44 (▲ 10%)	0.49 (▲ 11%)

22-Jul-11	General Meeting	0.40 (-)	0.40 (-)
13-Jul-11	Kiruna Iron Project - Update	0.42 (▲ 5%)	0.40 (▼ 5%)
8-Jul-11	Notice of General Meeting	0.43 (-)	0.42 (▼ 2%)
8-Jun-11	Kiruna Iron - Acquisition of Strategic Iron Permits	0.50 (-)	0.49 (▼ 2%)
11-May-11	Kiruna Iron Project Drilling Update	0.62 (-)	0.62 (-)
2-May-11	3 <sup>rd</sup> Quarter Activities & Cashflow Report	0.62 (-)	0.62 (-)
18-Apr-11	Kiruna Iron Drilling Update	0.62 (▼ 1%)	0.62 (-)
12-Apr-11	Kiruna Iron Strategy Update	0.62 (-)	0.63 (▲ 2%)
14-Mar-11	Financial report for Half Year	0.57 (▼ 3%)	0.57 (-)
4-Mar-11	Kiruna Iron Project - Drilling at Rakkurijarvi Prospect	0.60 (▲ 2%)	0.60 (-)
23-Feb-11	Kiruna Iron Project - Drilling at Sautusvaara Prospect	0.59 (▲ 5%)	0.57 (▼ 3%)
10-Feb-11	Funding Update and Option Exercise	0.53 (-)	0.57 (▲ 8%)
8-Feb-11	Funding Update and Option Exercise & Investor Presentation	0.50 (▲ 9%)	0.54 (▲ 8%)
31-Jan-11	2 <sup>nd</sup> Quarter Activities & Cashflow Report	0.42 (-)	0.43 (▲ 2%)
20-Jan-11	Kiruna Iron Update	0.44 (▼ 12%)	0.46 (▲ 5%)
17-Jan-11	Response to ASX Price & Volume Query	0.50 (▲ 37%)	0.44 (▼ 12%)
29-Dec-10	Funding and Iron Exploration	0.27 (▲ 8%)	0.32 (▲ 19%)
22-Nov-10	2010 AGM Results & Presentation	0.21 (-)	0.20 (▼ 5%)
15-Nov-10	Anglo American and Rio Tinto	0.20 (▲ 18%)	0.21 (▲ 5%)
13-Oct-10	Notice of General Meeting 2010 AGM	0.17 (-)	0.17 (-)
11-Oct-10	High Grade Gold	0.19 (▲ 36%)	0.17 (▼ 11%)
8-Oct-10	Kiruna Iron Project Update	0.14 (-)	0.17 (▲ 21%)
1-Oct-10	Annual Report 2010	0.14 (-)	0.14 (-)

Source: Bloomberg

To provide further analysis of the market prices for a SCR share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 1 September 2011.

Share Price per unit	1-Sept-11	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.360				
Volume Weighted Average Price (VWAP)		\$0.355	\$0.416	\$0.407	\$0.480

Source: Bloomberg

The above volume weighted average prices are as at 1 September 2011.

An analysis of the volume of trading in SCR shares for the six months to 1 September 2011 is set out below:

	Share price Low	Share price High	Cumulative Volume Traded	As a % of Issued capital
1 Trading Day	\$0.360	\$0.360	-	0.00%
10 Trading Days	\$0.350	\$0.365	89,000	0.11%
30 Trading Days	\$0.350	\$0.520	686,048	0.88%
60 Trading Days	\$0.280	\$0.520	1,410,448	1.80%
90 Trading Days	\$0.280	\$0.630	2,188,382	2.80%
180 Trading Days	\$0.250	\$0.650	9,067,243	11.60%

Source: Bloomberg

This table indicates that SCR's shares display a low level of liquidity, with 11.60% of the Company's current issued capital being traded in a six month period. However, we note that together OMH and ERI hold approximately 41% of SCR's issued capital. If we were to exclude these shares then approximately 19.7% of the Company's current issued capital has been traded in a six month period which would represent a moderate level of liquidity. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

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

Based on our analysis above, it appears that there is not a deep market for SCR shares.

Our assessment is that a range of values for SCR shares based on market pricing is between \$0.35 and \$0.45, with a preferred value of \$0.40.

## Control Premium

The concept of a premium for control reflects the additional value that attaches to a controlling interest. In determining whether including a control premium is appropriate in this instance, we believe there are two key considerations. Firstly, we believe it is appropriate to consider the level of control currently held by OMH and what additional level of control/ability to influence the Company OMH would gain if the Proposed Transaction is approved and whether a premium for control is appropriate given the current position of the company.

We have reviewed the announced control premia paid by acquirers for target iron ore companies listed on the ASX since 2005. A summary of the control premia is noted in the table below:

Announce Date	Target Name	Acquirer Name	Deal Value (A\$ million)	Shareholding		
				Interest Post Transaction	Announced Premium	Implied Premium
<b>Effective Control Acquisitions</b>						
23/05/2011	Territory Resources Ltd	Exxaro Resources Ltd	122.06	100.0%	75.4%	N/A
21/12/2010	Giralia Resources NL	Atlas Iron Ltd	983.83	100.0%	52.5%	30.0%
10/03/2010	Aurox Resources Ltd	Atlas Iron Ltd	131.49	100.0%	128.6%	26.5%
16/10/2009	United Minerals Corp NL	BHP Billiton Ltd	191.82	100.0%	38.6%	N/A
7/09/2009	Warwick Resources Ltd	Atlas Iron Ltd	48.59	100.0%	60.1%	26.5%
20/08/2009	Polaris Metals NL	Mineral Resources Ltd	138.63	100.0%	109.2%	20.0%
14/03/2008	Midwest Corp Ltd	Sinosteel Corp	1,068.62	100.0%	36.0%	N/A
10/01/2008	Cliffs Asia Pacific Iron Ore Holdings Pty Ltd	Cliffs Natural Resources Inc	559.42	100.0%	16.8%	N/A
24/07/2006	Aztec Resources Ltd/Australia	Mount Gibson Iron Ltd	207.24	100.0%	36.5%	N/A
11/01/2005	Cliffs Asia Pacific Iron Ore Holdings Pty Ltd	Cliffs Natural Resources Inc	508.28	80.4%	36.5%	N/A
				<b>Average</b>	<b>63.7%</b>	<b>25.8%</b>
				<b>Median</b>	<b>52.5%</b>	<b>26.5%</b>

Source: Bloomberg

**Note:**

- (1) We have excluded the acquisition premium paid for the compulsory acquisition by Cliffs Natural Resources Inc of the remaining 14.8% shareholding interest in Cliffs Asia Pacific Iron Ore Holdings Pty Ltd as Cliffs Natural Resources Inc held an effective controlling interest in Cliffs Asia Pacific Iron Ore Holdings Pty Ltd prior to the transaction.

We have also included an analysis of the control premia paid for effective control acquisition transactions in the general mining industry of Australia since 2004 to date.

	Number of Transactions	Announced Total Value (US\$ Mil)	Announced Control Premium
2010-2011	9	7,001.26	40.7%
2009-2010	24	2,241.91	45.9%
2008-2009	10	172.47	43.2%
2007-2008	23	2,158.94	30.2%
2006-2007	21	1,092.89	25.3%
2005-2006	17	14,297.78	38.3%
2004-2005	7	25,836.97	29.0%
		<b>Average</b>	<b>35.9%</b>

Source: Bloomberg

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

- Nature and magnitude of non-operating assets;
- Nature and magnitude of discretionary expenses;
- Perceived quality of existing management;
- Nature and magnitude of business opportunities not currently being exploited;
- Level of controlling interest acquired;

- Ability to integrate the acquiree into the acquirer’s business;
- Level of pre-announcement speculation of the transaction; and
- Level of liquidity in the trade of the acquiree’s securities.

Based on the table above, we observe that significant control premia on a company’s share price are paid for Australian iron ore companies. These significant premiums, in part reflect the strategic value of the target to the acquirer above the conventional level of control premium paid. We also observed that a higher control premium is paid for iron ore transactions resulting in an effective control with a range of 36.0% to 128.6% with an average of 63.7% and median of 52.5%. We have also analysed the implied premiums. These premiums have been obtained from the targets’ Independent Expert Report and represent the control premium used when analysing the targets share price. From our analysis an average premium of 25.8% and a median of 26.5% has been used.

Across the general Australian mining industry, the average annual control premium paid for effective control transactions over 2005 to 2011 ranged between 25.3% and 45.9% with an average of 35.9%.

OMH currently has a 15.64% holding in SCR. If the Proposed Transaction is approved, OMH could obtain a maximum interest in SCR of 33.39%, which represents significant influence, but not necessarily an effective control over the Company.

Taking the factors above into consideration in applying a control premium to SCR’s quoted market share price we believe an appropriate range to be 20% - 30% which is consistent with our analysis of the implied premiums within the market. We have chosen this range as these premia are calculated based on an independent experts opinion on a specific transaction and are not influenced by the level of share trading of an entity’s securities. The announced market premias are calculated on a Company’s share price and can be potentially higher if a security has a low level of liquidity which could lead to its share price not being reflective of the underlying value. As SCR shares do not have a deep level of liquidity we believe this range is the most appropriate to use.

### Quoted market price including control premium

Applying the control premium to SCR’s quoted market price results in the following quoted market price value including a premium for control.

	Low	Preferred	High
Quoted Market Price value	\$ 0.35	\$ 0.40	\$ 0.45
Control premium	20%	25%	30%
<b>Quoted Market Price valuation including a premium for control</b>	<b>\$0.420</b>	<b>\$0.500</b>	<b>\$0.585</b>

Therefore, our valuation of a SCR share based on the quoted market price method and including a premium for control is between \$0.420 and \$0.585, with a preferred value of \$0.500.

### 10.3 Assessment of SCR Value

The results of the valuations performed are summarised in the table below:

	Low	Preferred	High
	\$	\$	\$
Net asset value (Section 10.1)	\$0.863	\$1.456	\$1.678
ASX market prices (Section 10.2)	\$0.420	\$0.500	\$0.585

We have based our valuation of a SCR share on the Net Asset Value methodology and consider the value of a SCR share to be between \$0.863 and \$1.678, with a preferred value of \$1.456. We note that there is a difference between the preferred value of a SCR share derived under each methodology used in the above table. If we exclude shares held by ERI and OMH, approximately 19.7% of the Company's current issued capital has been traded in the six month period prior to this report, which does not indicate a deep level of liquidity. This can result in the value derived under the ASX market price methodology not being considered as a reliable reflection of the value of the Company shares to Shareholders. We therefore believe it is appropriate to rely on the Net Asset Value methodology in assessing the value of a SCR share.



## 11. Is the Proposed Transaction Fair?

In considering the Proposed Transaction, as outlined in section 4, we have performed an analysis to determine if the conversion price of the Convertible Loan and exercise price of the OMH Options is in excess of the current fair value of a SCR share on issue.

The tables below show a comparison of the value of a SCR share to the conversion price of the Convertible Loan and the exercise price of the OMH Options held by OMH and its associates.

	Low \$	Preferred \$	High \$
Assessed value of a SCR share	0.863	1.456	1.678

	Number	Exercise price	Total funds received
Shares to be issued on conversion of Convertible Loan	7,590,007	\$0.66	\$5,000,000
Unlisted options with expiry date of 1 February 2013	1,000,000	\$0.40	\$400,000
Listed options with expiry date of 31 October 2011	12,227,218	\$0.25	\$3,056,805
<b>Total</b>	<b>20,817,225</b>		<b>\$8,456,805</b>

Based on the tables above the Convertible Loan and the listed and unlisted Options held by OMH have a respective conversion price and exercise prices that are below our preferred value for a SCR share of \$1.456.

On this basis, we consider the Proposed Transaction to be not fair.

## 12. Is the Proposed Transaction Reasonable?

### 12.1 Alternative Proposal

We are unaware of any alternative proposal that might offer the non-associated Shareholders of SCR a premium over the value ascribed to that resulting from the Proposed Transaction. However, should the Proposed Transaction not be approved there are other options available to OMH which will ultimately result in the Convertible Loan being converted and the OMH Options being exercised.

### 12.2 Practical Level of Control

If the Proposed Transaction is approved then OMH and its associate's interest in SCR will increase from 15.64% to a maximum interest of 33.39%.

In assessing the practical level of control attained by OMH and its associates, we referred to RG 111.27 which deals with circumstances in which the allottee will acquire 20% or more, but does not obtain a practical measure of control or increases its practical control over that company. If the expert believes that the allottee has not obtained or increased its control over the company as a practical matter, then the expert could take this outcome into account in assessing whether the issue price is 'reasonable' if it has assessed the issue price as being 'not fair' applying the test in RG 111.11.

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

OMH's control of SCR following the Proposed Transaction will be significant when compared to all other shareholders, although ERI and its associates may also have a significant holding.

Therefore, in our opinion, while OMH will be able to significantly influence the activities of SCR to a greater extent than currently, it will not be able to exercise a similar level of control as if it held 100% of SCR. As such, OMH should not be expected to pay a similar premium for control as if it were acquiring 100% of SCR.

### 12.3 Advantages of Approving the Proposed Transaction

If the Proposed Transaction is approved, in our opinion, the potential advantages to Shareholders include those listed in the table below:

Advantage	Description
<p>Improved net tangible asset position through cash received from the exercise of options.</p>	<p>If the Proposed Transaction is approved, SCR's net tangible asset position will improve for the following reason:</p> <ul style="list-style-type: none"> <li>• Cash will be received of approximately \$3.5 million in the event that all options held by OMH and its associates are exercised in the future; and</li> <li>• SCR will not be required to repay the face value of the Convertible Loan if OMH and its associates elect to convert the convertible loan into shares.</li> </ul> <p>Cash received could be used to expand the Company's exploration and evaluation activities or fund existing working capital requirements.</p>
<p>No changes to current operating and financial arrangements</p>	<p>If the Proposed Transaction is approved, OMH could potentially increase their shareholding in SCR from 15.64% to 33.39%. However, we note that OMH has made no indication that they intend to change the business of the Company, inject further capital into the Company, alter the future employment of the present employees of the Company, or significantly change the financial or dividend policies of SCR.</p> <p>This implies that there will be no changes to the current operating and financing arrangements and SCR will be able to continue to develop its exploration assets in Sweden and Norway.</p>
<p>Improved capital structure</p>	<p>If the Proposed Transaction is approved and OMH and its associates will have the ability to convert the Convertible Loan and Options early, the Company's capital structure will be simplified and allow directors to have more flexibility in ensuring that the Company's share structure is optimised.</p>

## 12.4 Disadvantages of Approving the Proposed Transaction

If the Proposed Transaction is approved, in our opinion, the potential disadvantages to Shareholders include those listed in the table below:

Disadvantage	Description
The Proposed Transaction is not fair	As set out in Section 11 the Proposed Transaction is not fair. RG 111 states that an offer is reasonable if it is fair and by implication is not reasonable if it is not fair.
Dilution of Shareholders' interests	The Proposed Transaction will result in a dilution of existing SCR shareholders interest from 84.36% to 66.61%. The capacity of Shareholders to influence the operations of SCR will be reduced.
OMH will gain a significant level of control over SCR	If the Proposed Transaction is approved, OMH will acquire a maximum shareholding interest of 33.39%, meaning OMH will be able to influence any voting required on the activities of SCR. This maximum will reduce to 25.58% if Resolution 1 and Resolution 2 are approved and 30,188,334 shares are issued to ERI and its associates.

## 12.5 Other Considerations

In assessing the fairness and reasonableness of approving or rejecting the Proposed Transaction, we have considered the advantages and disadvantages of approving or rejecting the Proposed Transaction. Although the Proposed Transaction is considered not fair, we believe the Proposed Transaction is reasonable as Shareholders will not be disadvantaged if the Proposed Transaction is approved. In the following points explored below, we highlight that the rejection of the Proposed Transaction will merely defer the timing that the advantages and disadvantages of the Proposed Transaction highlighted in Section 12.3 and 12.4 respectively will occur.

### a) Dilution of Shareholders' interests

In section 4 of our Report, we outlined that Shareholders' interest in SCR will decrease from 84.36% to 66.61% if the Proposed Transaction is approved and OMH elect to convert the full value of the convertible loan and exercise their options for shares. However, in the event that the Proposed Transaction is rejected, Shareholders' interest will still be diluted if OMH pursues the following option:

- OMH could still increase its shareholding under the creeping provisions of the Act which allow it to convert its convertible loan or exercise its options to increase its shareholding in SCR by 3% every 6 months without shareholder approval.

Under the scenario that OMH exercises its rights under the creeping provisions, OMH will be able to convert the convertible loan and exercise all options already held to achieve a maximum interest of 33.39% within approximately 3 years. This scenario will most likely only occur in the event that SCR's share price falls below the conversion price of the convertible loan and the exercise price of the options held and OMH converts the convertible loan and exercise options held.

However, given the options are ‘in the money’, other option holders will most likely exercise their options which implies that OMH will be able to convert the convertible loan and exercise options under the creeping provisions at a faster pace.

Under this scenario, the same dilutionary impact to existing Shareholders’ interest will occur. If the Proposed Transaction is rejected, the dilution of Shareholders’ interests will be merely deferred to a future period.

Furthermore, it is important to note that the fully diluted position of the Company’s capital structure is no different pre and post the Proposed Transaction.

**b) Future net tangible asset position**

If the Proposed Transaction is rejected, the future net tangible asset position will be the same assuming OMH pursue either the creeping provisions which allow OMH to convert and exercise convertible loans and options held respectively or sell the listed options held to a third party who would not face restrictions on exercise.

**c) SCR share price reflects full dilution**

SCR has undergone several capital raisings through convertible loans and options over the last two years. The market is fully informed of OMH’s significant interest in the Company and is also aware that the convertible loan and options held by OMH are ‘in the money’. As such, in our opinion, the Company’s share price already reflects the effect of the potential share dilution from the conversion of the convertible loan and exercise of options.

**d) SCR share price unlikely to react to the rejection of the Proposed Transaction**

If the Proposed Transaction is rejected, it is unlikely that the SCR ASX share price will decline as the market will still be aware of the share overhang from the convertible loan and options existing in the market. The Proposed Transaction focuses on the approval of the issue of shares to OMH on the conversion of the convertible loan and exercise of options held. OMH may or may not convert or exercise their convertible loan or options immediately if the Proposed Transaction was approved.

**e) Level of control held by OMH**

If the Proposed Transaction is approved, OMH could potentially increase their shareholding in SCR from 15.64% to a maximum of 33.39%. We note that if the ERI Proposal is also approved as well as Ian Gregory converting 188,334 options held into SCR shares, ERI will be issued a total of 30,188,334 SCR shares. ERI and its associates holding in the share capital of SCR will be increased to 40.94% while OMH’s holding will be diluted to 25.58%. Therefore we believe that although OMH will have a significant holding in SCR, it will still hold less than ERI and its associates which will affect its influence over SCR.

### 13. Conclusion

We have considered the terms of the Proposed Transaction as outlined in the body of this report and have concluded that the Proposed Transaction is not fair but reasonable to the Shareholders of SCR.

### 14. Sources of information

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Audited financial statements of Scandinavian Resources Ltd for the year ended 30 June 2010;
- Reviewed financial statements of Scandinavian Resources Ltd for the half year ended 31 December 2010;
- Unaudited management accounts of Scandinavian Resources Ltd as at 30 June 2011;
- Signed Binding Term Sheet which sets out the terms upon which OM Holdings Ltd agrees to make a loan available to Kiruna Iron AB, a wholly owned subsidiary of Scandinavian Resources Ltd;
- Independent Valuation of Mineral Assets held by Scandinavian Resources Ltd prepared by SRK Consulting (Sweden) AB;
- Share registry information for Scandinavian Resources Ltd;
- Information in the public domain; and
- Discussions with Directors and Management of Scandinavian Resources Ltd.

### 15. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$38,000 (excluding GST and reimbursement of out of pocket expenses). Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

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

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Scandinavian Resources Ltd and OM Holdings Ltd and any of their respective associates with reference to ASIC Regulatory Guide 112 "Independence of Experts". In BDO Corporate Finance (WA) Pty Ltd's opinion it is independence of Scandinavian Resources Ltd and OM Holdings Ltd and their respective associates.

BDO Corporate Finance (WA) Pty Ltd prepared an Independent Expert's Report dated 1 September 2011 which was commissioned by Scandinavian Resources Ltd and provided an opinion as to whether the issue of shares and options as part of the HSAB Acquisition Agreement as well as the exercise of options by Equity & Royalty Investments Ltd is fair and reasonable to Shareholders. Other than this, neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within

the past two years any professional relationship with Scandinavian Resources Ltd, or their associates, other than in connection with the preparation of this report.

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

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## **16. Qualifications**

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

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

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

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty years experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 150 public company independent expert's reports under the Corporations Act or ASX Listing Rules. These experts' reports cover a wide range of industries in Australia. Sherif Andrawes is the Chairman of BDO in Western Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 13 years in the Audit and Assurance and Corporate Finance areas. Adam has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

## **17. Disclaimers and consents**

This report has been prepared at the request of Scandinavian Resources Ltd for inclusion in the Notice of Meeting which will be sent to all Scandinavian Resources Ltd Shareholders. Scandinavian Resources Ltd engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the potential issue of SCR shares to OMH upon the exercise of its Options and conversion of its Convertible Loan.

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

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

BDO Corporate Finance (WA) Pty Ltd has not independently verified the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or review of Scandinavian Resources Ltd or OM Holdings Ltd in accordance with standards issued by the Auditing and Assurance Standards Board. However, we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to OM Holdings Ltd. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

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

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

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent property valuations for properties held by Scandinavian Resources Ltd.

The valuers engaged for the property valuations, SRK Consulting (Sweden) AB, possess the appropriate qualifications and experience in the property industry to make such assessments. The approaches adopted and assumptions made in arriving at their valuations are appropriate for this report. We have received consent from the valuer for the use of their valuation report in the preparation of this report and to append a copy of their report to this report.

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

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully

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



**Sherif Andrawes**  
Director



**Adam Myers**  
Director



## Appendix 1 - Glossary of Terms

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Reference	Definition
The Act	The Corporations Act
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
The Company	Scandinavian Resources Ltd
Convertible Loan	A loan agreement between Kirun Iron Ltd, a wholly owned subsidiary of Scandinavia Resources Ltd, and OM Holdings Ltd whereby OM Holdings Ltd agreed to loan up to \$5 million to Kiruna Iron Ltd convertible into SCR fully paid ordinary shares at a conversion rate of one share for every \$0.66 drawn down, including interest, at any time before the final repayment date
DCF	Discounted Future Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
ERI	Equity and Royalty Investments Ltd (formerly Scandinavian Shield Ltd)
FME	Future Maintainable Earnings
FSG	Financial Services Guide
HSAB Acquisition Agreement	The Agreement for Scandinavian Resources Ltd to acquire all the issued capital of Hannans Scandinavia AB from Equity & Royalty Investments Ltd.
IOCG	Iron Oxide Copper Gold
IPO	Initial Public Offer
Kiruna	Kiruna Iron AB
NAV	Net Asset Value
OMH	OM Holdings Ltd
OMH Options	1,000,000 unlisted options exercisable at \$0.40 each on or before 1 February 2013 and 12,227,218 listed options exercisable at \$0.25 each on

	or before 31 October 2011. A total of 13,227,218 options
Our Report	This Independent Expert's Report prepared by BDO
Proposed Transaction	OM Holdings Ltd converting its convertible loan and exercising its options into a total of 20,817,225 SCR shares
SRK	SRK Consulting (Sweden) AB
VMS	Volcanic Massive Sulphide mineralisation
VWAP	Volume Weighted Average Price
SCR	Scandinavian Resources Ltd
Shareholders	Shareholders of Scandinavian Resources Ltd not associated with OM Holdings Ltd
RG 74	Acquisition agreed to by Shareholders
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)

## Appendix 2 - Valuation Methodologies

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

### 1 *Net asset value (“NAV”)*

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

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

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

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

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

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

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

### 2 *Quoted Market Price Basis (“QMP”)*

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

### 3 *Capitalisation of future maintainable earnings (“FME”)*

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

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

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

#### **4 Discounted future cash flows (“DCF”)**

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

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

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

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

#### **5 Market Based Assessment**

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

#### **6 Multiple of Exploration Expenditure (“MEE”)**

The Past Expenditure method is a method of valuing exploration assets in the resources industry. It is applicable for areas which are at too early a stage of prospectivity to justify the use of alternative valuation methods such as DCF. The Past Expenditure method is often referred to as the Multiple of Exploration Expenditure method.

Past expenditure, or the amount spent on exploration of a tenement, is commonly used as a guide in determining value. The assumption is that well directed exploration adds value to a property. This is not always the case and exploration can also downgrade a property. The Prospectivity Enhancement Multiplier (“PEM”) which is applied to the effective expenditure therefore commonly ranges from 0.5 to 3.0. The PEM generally falls within the following ranges:

- 0.5 to 1.0 where work to date or historic data justifies the next stage of exploration;
- to 2.0 where strong indications of potential for economic mineralisation have been identified; and
- to 3.0 where ore grade intersections or exposures indicative of economic resources are present.

## Appendix 3 - Independent Valuation

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# Valuation of Mineral Assets held by Scandinavian Resources

Prepared For

**BDO Corporate Finance (WA) Pty Ltd**

Report Prepared by



SRK Consulting (Sweden) AB  
SE365

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<b>SRK Legal Entity:</b>	SRK Consulting (Sweden) AB
<b>SRK Address:</b>	Trädgårdsgatan 13-15 931 31 Skellefteå Sweden
<b>Date:</b>	August, 2011
<b>Project Number:</b>	SE365
<b>SRK Project Director:</b>	Johan Bradley     Managing Director & Senior Consultant (Geology)
<b>SRK Project Manager:</b>	Johan Bradley     Managing Director & Senior Consultant (Geology)
<b>Client Legal Entity:</b>	BDO Corporate Finance (WA) Pty Ltd
<b>Client Address:</b>	38 Station Street Subiaco WA 6008 Australia

## Valuation of Mineral Assets held by Scandinavian Resources – EXECUTIVE SUMMARY

### INTRODUCTION

On 11 April, Scandinavian Resources (“SCR”), hereinafter also referred to as the “Company” or the “Client”, engaged BDO Corporate Finance (WA) Pty Ltd (BDO) to prepare two separate Independent Expert’s Reports in relation to proposals involving major shareholders in SCR. At the request of BDO in its role as independent expert, SRK was engaged on 9 July, as an independent specialist to provide BDO with an opinion on the technical valuation of mineral assets (the Assets) held by SCR.

In line with the requirements stipulated by BDO, SRK has prepared a Valuation Report in accordance with the “Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (“VALMIN Code 2005”). Specifically, SRK has prepared a Technical Valuation of the Assets, valid at 5 August 2011.

In the course of this work, SRK has completed a review of material project data, held discussions with Company staff and its consultants and carried out site visits to the key Assets to review the geology of these firsthand and assess the methods used by the Company to explore these.

SRK has reviewed details of the Company’s exploration permits, has confirmed that these are correctly reflected in public domain data on mineral tenure and reflected this appropriately in the valuation. Notwithstanding this, SRK has not conducted any legal due diligence on the ownership of the exploration permits or exploitation concessions themselves.

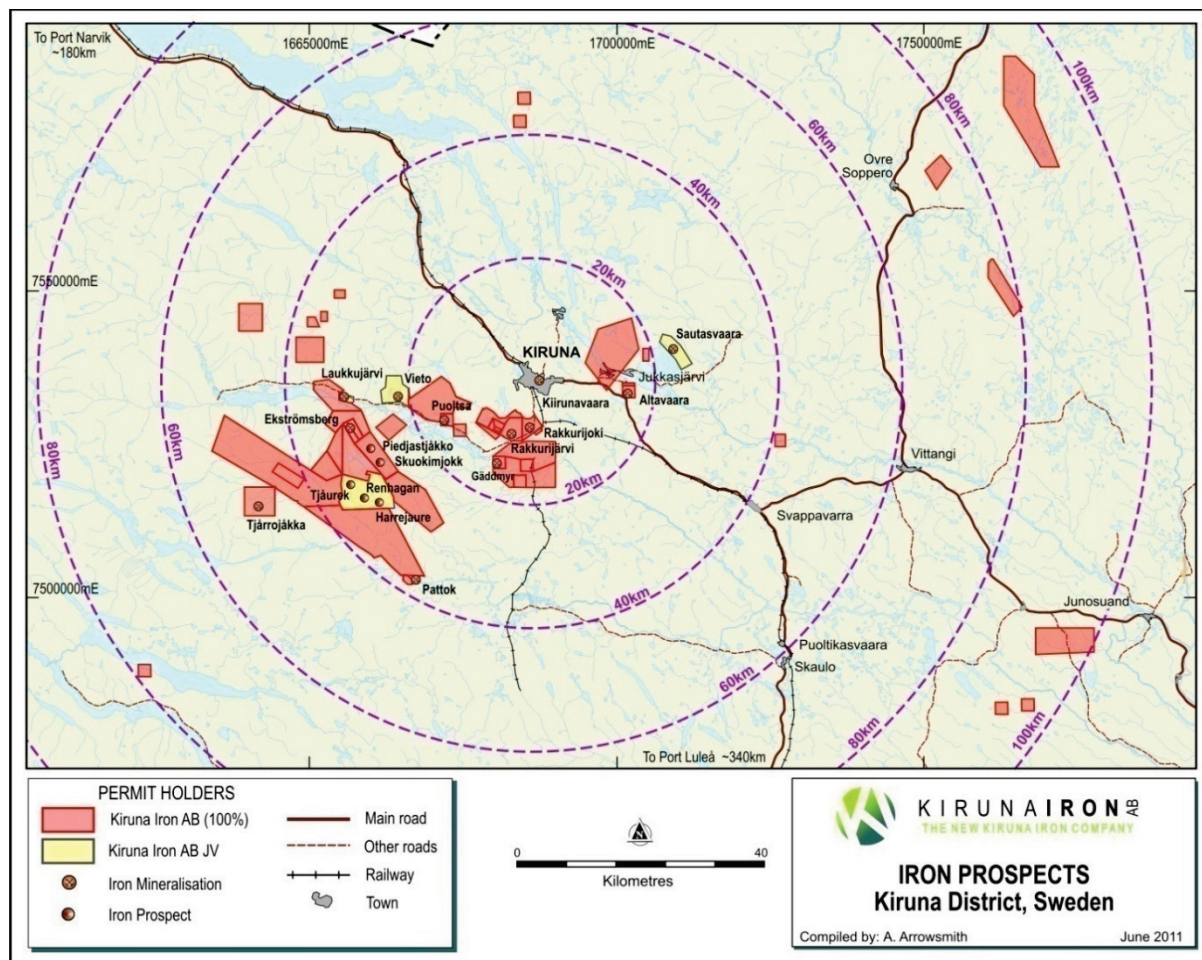
### Overview of SCR Assets

SCR has interests in a number of exploration projects in Sweden and Norway. The majority of the Assets held by SCR are at an early stage of development. The Assets can be grouped in order of materiality as follows:

- Assets with Resource Estimates;
- Exploration Targets with grade-tonnage ranges; and
- Early stage Exploration Targets without grade-tonnage ranges

The majority of the Company’s Assets by number, and the overwhelming majority by materiality, are located within 50km of the town of Kiruna (northern Sweden), with iron being the primary commodity of interest. Kiruna has an extensive mining history and is located close to the world class Kiirunavaara magnetite iron mine in the northern part of the Fennoscandian Shield.





**Figure 1: Company Assets and exploration permits relative to Kiruna town and local infrastructure**

The majority of the Assets in the Kiruna area are assumed to be skarn-type iron ore deposits and in a few cases apatite-magnetite Fe ore deposits (e.g. Tjärrojåkka).

The Mineral Resource Estimates and Exploration Target grade-tonnage ranges as presented below are a reproduction of those reported by SCR in its Australian Securities Exchange (ASX) Release of 29 July 2011. SRK has provided comment on these and has in each case adjusted the valuation to reflect SRK’s confidence in the estimates.

**Table 1: SCR Mineral Resource Statement (Indicated category Fe deposits), 29 July 2011**

JORC Compliant Indicated Mineral Resource Table\*

Prospect	Mt	Fe (%)	P (%)	S (%)
Sautusvaara South	32.0	37.4	0.06	1.63
Sautusvaara North	11.4	39.7	0.09	0.44
Ekströmsberg	30.4	52.0	Unavailable	Unavailable
<b>TOTAL</b>	<b>73.8</b>	<b>43.0</b>	-	-

**Table 2: SCR Mineral Resource Statement (Inferred category Fe deposits), 29 July 2011**JORC Compliant **Inferred** Mineral Resource Table\*

<b>Prospect</b>	<b>Mt</b>	<b>Fe (%)</b>	<b>P (%)</b>	<b>S (%)</b>
Rakkurijärvi	69.6	28.5	0.07	0.93
Rakkurijoki	74.5	39.7	0.28	0.89
Discovery Zone	10.9	38.7	0.05	0.95
Tributary Zone	4.9	28.6	0.05	1.08
Sautusvaara South	6.8	26.6	0.09	1.82
Sautusvaara North	1.0	44.8	0.05	0.46
Vieto	14.0	35.7	0.14	1.46
Ekströmsberg	41.6	52.0	Unavailable	Unavailable
Tjärrojäkka	52.6	51.0	Unavailable	Unavailable
Pattok	62.4	44.2	1.96	Unavailable
<b>TOTAL</b>	<b>338.3</b>	<b>39.0</b>	<b>-</b>	<b>-</b>

<b>Total</b>	<b>Mt</b>	<b>Fe (%)</b>
Indicated & Inferred	412.1	39.9

\*A cut-off grade of 20% Fe has been applied

**Table 3: SCR Mineral Resource Statement (Inferred category Cu-Au deposits), 29 July 2011**JORC Compliant **Inferred** Mineral Resource Table (Copper & Gold)

<b>Prospect</b>	<b>Tonnes (Mt)</b>	<b>Cu (%)</b>	<b>Au (g/t)</b>
Discovery Zone	10.9	0.31	0.08
Tjärrojäkka	5.0	0.60	N/A
<b>TOTAL</b>	<b>15.9</b>	<b>0.46</b>	<b>-</b>

**Table 4: SCR tonnage and grade ranges for exploration assets, modified from SCR's ASX release 29 July 2011.**JORC Compliant **Exploration Targets** Table

<b>Prospect</b>	<b>Tonnage Range (Mt)</b>	<b>Grade Range (% Fe)</b>
Puoltsa	30-40	33-36
Harrejaure	10-20	40-45
Laukkujärvi	4-8	30-35
Renhagen	20-30	30-35
Altavaara	10-20	23-30
Paljasjärvi	40-60	30-40
Leppäjoki	5-8	35-45
Tjäorika	15-30	45-55
Akosjegge	10-15	23-30
<b>TOTAL</b>	<b>150-230</b>	<b>30-40</b>

Reference to the terms “Mineral Resource” and “Exploration Targets” are in accordance with the definitions of such presented in the JORC Code. SRK notes that the tonnage and grade

ranges presented in Table 4 above are conceptual in nature, that there is either insufficient exploration data and/or interpretation to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

In addition to the assets discussed above, the Company owns numerous early stage exploration properties outside the Kiruna area, in northern Sweden and northern Norway. These assets are also discussed briefly in this report and considered in the valuation.

## Valuation

SRK's approach is to consider various valuation methodologies to give a range of appropriate values.

The methods used by SRK are as follows:

**Past Expenditure Method:** Applying a Prospectivity Multiplier, of either 1.0 or 2.0

**Yardstick Method:** Based on 1% of a market consensus long term price of contained metal as follows:

- **Iron** – US\$1.2/dmtu
- **Gold** – USD10/oz
- **Copper** – USD55/t

**Comparable Transaction Method:** Applying a value of USD1.0 per tonne contained iron, based on an analysis of the market capitalisation and total resource base of companies with purely iron ore assets.

A Confidence Factor (CF) has then been applied to the Yardstick and Comparable Transaction values to reflect SRK's opinion of the relative confidence in the particular estimate. All valuations presented herein have been adjusted to reflect SCR's ownership of the Assets.

Table 5 below presents a summary of the range of values by methodology for the Assets.

**Table 5: Valuation of SCR Assets by method**

Asset Name	Past Expenditure (USDm)	Comparable (USDm)	Yardstick (USDm)	SCR Ownership (%)
<b>Assets with Mineral Resource Estimates</b>				
Ekströmsberg	16.7	11.2	13.5	100%
Pattok	2.3	11.0	13.2	100%
Rakkurijärvi/Discovery/Tributary	8.8	20.4	26.1	100%
Rakkurijoki	18.8	23.7	28.4	100%
Sautusvaara South	5.2	9.3	11.2	75%
Sautusvaara North	2.0	3.4	4.0	75%
Tjärrojäkka	5.9	13.4	16.1	100%
Vieto	4.1	3.4	4.0	75%
<b>Sub-total</b>	<b>63.6</b>	<b>95.7</b>	<b>116.6</b>	
<b>Exploration Targets with grade-tonnage ranges</b>				
Åkosjegge	0.2	0.3	0.4	100%
Altavaara	0.6	1.9	2.3	100%
Tjäorika	0.4	1.5	1.8	75%
Renhagen	2.2	3.0	3.7	75%
Harrejaure	0.9	2.4	2.9	75%
Laukkujärvi	1.7	0.6	0.7	75%
Leppäjoki	0.0	0.2	0.3	100%
Paljasjärvi	0.5	7.0	8.4	100%
Puoltsa	3.0	6.0	7.1	100%
<b>Sub-total</b>	<b>9.5</b>	<b>22.9</b>	<b>27.5</b>	
<b>Early Stage Exploration Targets</b>				
Other Kiruna Projects	2.2			100%
Näsberg-Våtmyrberget Projects	0.0			100%
Caledonides Projects	1.5			100%
Finnmark Projects	1.4			100%
Other	0.1			100%
<b>Sub-total</b>	<b>5.2</b>			
<b>Less expenditure to acquire 100% of Projects (Scandinavian Iron)</b>	<b>(1.5)</b>	<b>(1.5)</b>	<b>(1.5)</b>	
<b>Total</b>	<b>76.8</b>	<b>117.1</b>	<b>142.6</b>	

SRK considers that the Technical Value of the proportion of the Assets held by SCR lies in the range USD77m to USD143m. SRK's preferred value is **USD125m**, which reflects a value closest to the Comparable Transaction valuation and also incorporates consideration of the Past Expenditure valuation of the Early Stage Exploration Target asset group.

It is generally accepted in the exploration industry that the valuation of exploration properties is a subjective process and is greatly influenced by the prevailing market conditions. SRK is confident that the opinions presented are reasonable and that the overall valuation is a fair reflection of the Technical Value of the Assets on 5 August 2011.

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## Valuation of Mineral Assets held by Scandinavian Resources

### 1 INTRODUCTION

#### 1.1 Background

On 11 April, Scandinavian Resources (“SCR”), hereinafter also referred to as the “Company” or the “Client”, engaged BDO Corporate Finance (WA) Pty Ltd (BDO) to prepare two separate Independent Expert’s Reports in relation to proposals involving major shareholders in SCR. At the request of BDO in its role as independent expert, SRK was engaged on 9 July, as an independent specialist to provide BDO with an opinion on the technical valuation of mineral assets (the Assets) held by SCR.

#### 1.2 Terms of Reference

SRK was provided with a letter from BDO on 9 July, indicating brief Terms of Reference. Specifically, SRK has:-

- Completed a review of material project data, management information and recent exploration reports, including a review of existing resource estimates where possible;
- Reviewed the current status of the exploration permits and the requirements for these to be maintained;
- Held discussions with Company staff and consultants in Malå and Kiruna;
- Visited the Company’s offices and drill core archive to inspect drill core first hand;
- Carried out a site visit to key Assets in the Kiruna area between 25 and 29 July and in addition, confirmed the location of certain drill collars from both historical and on-going drilling;
- Determined an appropriate valuation method or methods;
- Carried out the valuation itself; and
- Prepared a report in accordance with the VALMIN Code summarising the results of the above and containing an appropriate value.

#### 1.3 Requirements and Compliance

In line with the requirements stipulated by BDO, SRK has prepared a Valuation Report in accordance with the “Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (“VALMIN Code 2005”).

The VALMIN Code defines a Technical Value as an assessment of future net economic benefit and a Fair Market Value as one which adds or subtracts from a Technical Value a premium or discount relating to market, strategic or other conditions. SRK has prepared a Technical Valuation of the Assets.



Reference to the terms “Mineral Resource” and “Exploration Targets” are in accordance with the definitions of such presented in the JORC Code.

#### 1.4 Limitations

In preparing this report, SRK has relied on information provided by SCR. SRK has no reason to believe that this information is materially misleading, incomplete or contains material errors. SCR has been provided with a draft of this report to enable the correction of any factual errors and notation of any material omissions. The content of this report as expressed by SRK is based on the assumption that all the data provided by SCR is complete and correct to the best of SCR’s knowledge.

The Mineral Resource Estimates and Exploration Target grade-tonnage ranges as presented in this report are a reproduction of those reported by SCR in its Australian Securities Exchange (ASX) Release of 29 July 2011. SRK does not take responsibility as a Competent Person as defined by the JORC Code in respect of the estimates presented herein.

SRK notes that in all cases where Mineral Resources are quoted by the Company, insufficient information was made available to SRK to facilitate a full audit of these. In some instances this was due to the fact that these were in the process of being updated by the Company’s consultants, while in others cases, the final reports supporting the estimates lacked sufficient detail in key areas. SRK has provided comment on these and has in each case adjusted the valuation to reflect its confidence in the estimates. SRK cautions that the valuations presented below may differ if audited Mineral Resource Statements produced in due course are different to those presented by the Company.

Further, SRK has not audited data relating to the pre-Mineral Resource Assets, but has rather attempted to verify that the information has been prepared in accordance with industry norms and as such, is of acceptable quality and reliability. Where this is not the case, SRK has provided comment and has made an appropriate adjustment to the valuation to reflect this.

SRK has reviewed details of the Company’s exploration permits and has confirmed that these are correctly reflected in public domain data on mineral tenure issued by the relevant permitting authorities in Sweden and Norway. Notwithstanding this, SRK has not conducted any legal due diligence on the ownership of the exploration permits or exploitation concessions themselves.

## 2 MINERAL TENURE

Table 2-1 and Table 2-2 below present a summary of the Company's mineral tenure by permit type and location.

**Table 2-1: Summary of Company valid mineral tenure by type and country**

Country	Exploration Permits	Mining Concession Applications	Mining Concessions Valid
Sweden	69	1	0
Norway	696	0	0
<b>Totals</b>	<b>765</b>	<b>1</b>	<b>0</b>

**Table 2-2: Summary of Company mineral tenure by status and location**

Project Area	Valid Exploration Permits	Exploration Permits Under Extension Application	Exploration Permits Under Application
Kiruna Area	58	0	8
Swedish Caledonides	7	0	1
Skellefte field	4	0	0
Norwegian Projects	696	0	0
<b>Totals</b>	<b>765</b>	<b>0</b>	<b>9</b>

Sections 2.1 and 2.2 below present a brief summary of the key aspects of mineral tenure under current Swedish and Norwegian Mining Law.

### 2.1 Mineral Tenure in Sweden

There are four types of permits necessary to develop a deposit from the exploration stage to the development stage in Sweden. These are: exploration permits, exploitation concessions, environmental permits and building permits. Exploration permits are granted initially for three years, with possible extensions of up to 15 years. Annual fees for the first three year period are SEK4, SEK6, and SEK10/ha in each successive year.

An exploitation concession (Bearbetnings koncession) gives the holder the right to exploit a proven, extractable mineral deposit for a period of 25 years, which may be extended. The exploitation concession is the next step in mine permitting after the granting of an exploration permit.

There is no requirement to legally survey the boundaries of exploitation concessions in Sweden; instead boundaries are assigned Swedish RT90 coordinates by the Inspector of Mines on granting.

Mineral Royalty in Sweden is 0.20%.

## 2.2 Mineral Tenure in Norway

Minerals are either owned by the State or by private landowners. The following permits and licenses are necessary to develop a deposit from the exploration stage to the development stage for State owned minerals in Norway: 1) exploration permit, 2) pilot extraction permit for extraction of up to 2,000m<sup>3</sup> of material, should the Company wish to carry out bulk sampling, 3) extraction permit for a commercially viable deposit, 4) operating licence if more than 10,000m<sup>3</sup> of material is to be extracted, 5) environmental permit and 6) building permit.

Exploration permits are initially granted for seven years, with possible extensions of up to three years. The exploration area shall be no larger than 10km<sup>2</sup>. Compensation is payable to the landowner for damages, e.g. loss of agricultural land. An extraction permit for a commercially viable deposit is valid for 10 years with possible extensions of 10 years at a time. An operating licence may only be granted to the holder of an extraction permit. The period of validity of the operating licence is set out in an agreement with the landowner.

Certain administrative fees are charged to process the aforementioned permits and license. Exploration fees payable annually to the State for the second and third calendar years are NOK10/ha, this increases to NOK30/ha for the fourth and fifth years and then further to NOK50/ha for the sixth and seventh years. If an exploration permit is extended beyond the seventh year, then an annual fee of NOK 50/ha is required to be paid to the State for each explored unit.

A fee of NOK100/ha is payable annually to the State to retain an extraction permit. The annual charge per extraction area shall not be less than NOK1,000.

Mineral Royalty in Norway is 0.20%. Special exploration, pilot extraction, extraction permits and operating licences are required in Finnmark (a county in the northeast of Norway inhabited by Sami, the indigenous reindeer herders). Minerals extracted on Sami owned land are subject to an additional 0.25% mineral royalty.

Certain specific requirements are applicable in cases where minerals are owned by the landowner.

Permit boundaries are assigned co-ordinates in the UTM system EUREF 89 (WGS 84) by Bergvesenet, the Norwegian Directorate of Mining.

## 2.3 Agreements

SRK notes that the Company has entered into certain agreements with other exploration companies, as discussed in the Company's ASX Release of 29 July 2011 and summarised below:

- *75% interest in the Tasman Joint venture properties (Vieto, Sautusvaara, Renhagen, Harrejaure and Tjåorika) with the opportunity to increase this interest to 90% after funding a feasibility study on one of the deposits.*
- *100% interest in the projects (Rakkurijärvi, Rakkurijoki, Discovery and Tributary Zone) acquired from Anglo America and Rio Tinto, announced to ASX on 15 November 2010 which is scheduled to settle on or before 6 December 2011; and*

- *100% interest in the projects (Ekströmsberg, TjärrojåkkaPattok, and Åkosjegge) acquired from Grängesberg Iron AB announced to ASX on 8 June 2011, which is subject to settlement in two remaining tranches on 15 August 2011 and 15 November 2011.*

SRK has reviewed the terms of these agreements at a high level and has made the appropriate adjustments to the valuation in order to properly reflect the proportion of the assets currently owned by the Company.

## 2.4 SRK Comments

For the purpose of this valuation, exploration permits are all that are required to provide the Company with exclusive mineral rights to the properties in question.

SRK is not aware of any environmental liabilities associated with any of the exploration permits held by the Company and discussed in this report.

### 3 ASSET DESCRIPTIONS AND LOCATIONS

#### 3.1 Overview of SCR Assets

SCR has interests in a number of exploration projects in Sweden and Norway. The majority of the Assets held by SCR are at an early stage of development. The Assets can be grouped in order of materiality as follows:

- Assets with Resource Estimates;
- Exploration Targets with grade-tonnage ranges; and
- Early stage Exploration Targets without grade-tonnage ranges

Table 3-1 below presents the Assets by development stage and region/country, while Figure 3-1 illustrates the location of these project areas in the Nordic Region. The majority of the Company's Assets by number, and the overwhelming majority by materiality, are located in the Kiruna area, with iron being the primary commodity of interest.

**Table 3-1: Summary of Assets by development stage and location**

<b>Development Stage</b>	<b>Kiruna Area (Sweden)</b>	<b>Caledonides (Sweden)</b>	<b>Skellefte field / Våtmyrberget (Sweden)</b>	<b>Norrland &amp; Finnmark (Norway)</b>
Assets with Mineral Resource Estimates	10	0	0	0
Exploration Targets with grade-tonnage ranges	9	0	0	0
Early stage Exploration Targets	10	2	5	11
<b>Total</b>	<b>29</b>	<b>2</b>	<b>5</b>	<b>11</b>



**Figure 3-1: Company key project areas in the Nordic Region**

## 3.2 Kiruna Area

This section of the report presents a brief introduction to the Kiruna area in the context of mining and exploration history, including geological setting. This is followed by a short description of the Assets, in order of materiality, as mentioned above.

### 3.2.1 Mining and previous exploration

The town of Kiruna has a population of approximately 24,000 and has all the services commensurate with its size. The area has more than one hundred years iron ore mining history and is located close to the world class Kiirunavaara magnetite iron mine.

The Kiirunavaara deposit was discovered in 1696 and developed into large-scale production in 1890. The Kiirunavaara orebody is classified as an apatite-iron ore deposit and is over 4,000m in strike length, averages 80m in width and extends to a depth of over 1,500m. Current production is in the order of 26 Mt of magnetite ore per year. The mine is owned and operated by LKAB, a Swedish State owned company.

Between 1963 and 1972 the Swedish government commissioned a regional investigation into the iron ore resources of Norbotten County which became known as the Iron Ore Inventory Programme. The investigation involved regional and detailed mapping, geophysical ground measurements (magnetic, gravimetric, Slingram and Self-potential) and over 100,000m of diamond drilling, covering 23 map sheets at a scale of 1:50,000.

The majority of the Company's material Assets in the Kiruna area were either discovered and / or first described in detail during exploration carried out in this period. A certain amount of drill core from these programmes is retained at the National Drill Core Archive at the Swedish Geological Survey (SGU) in Malå.

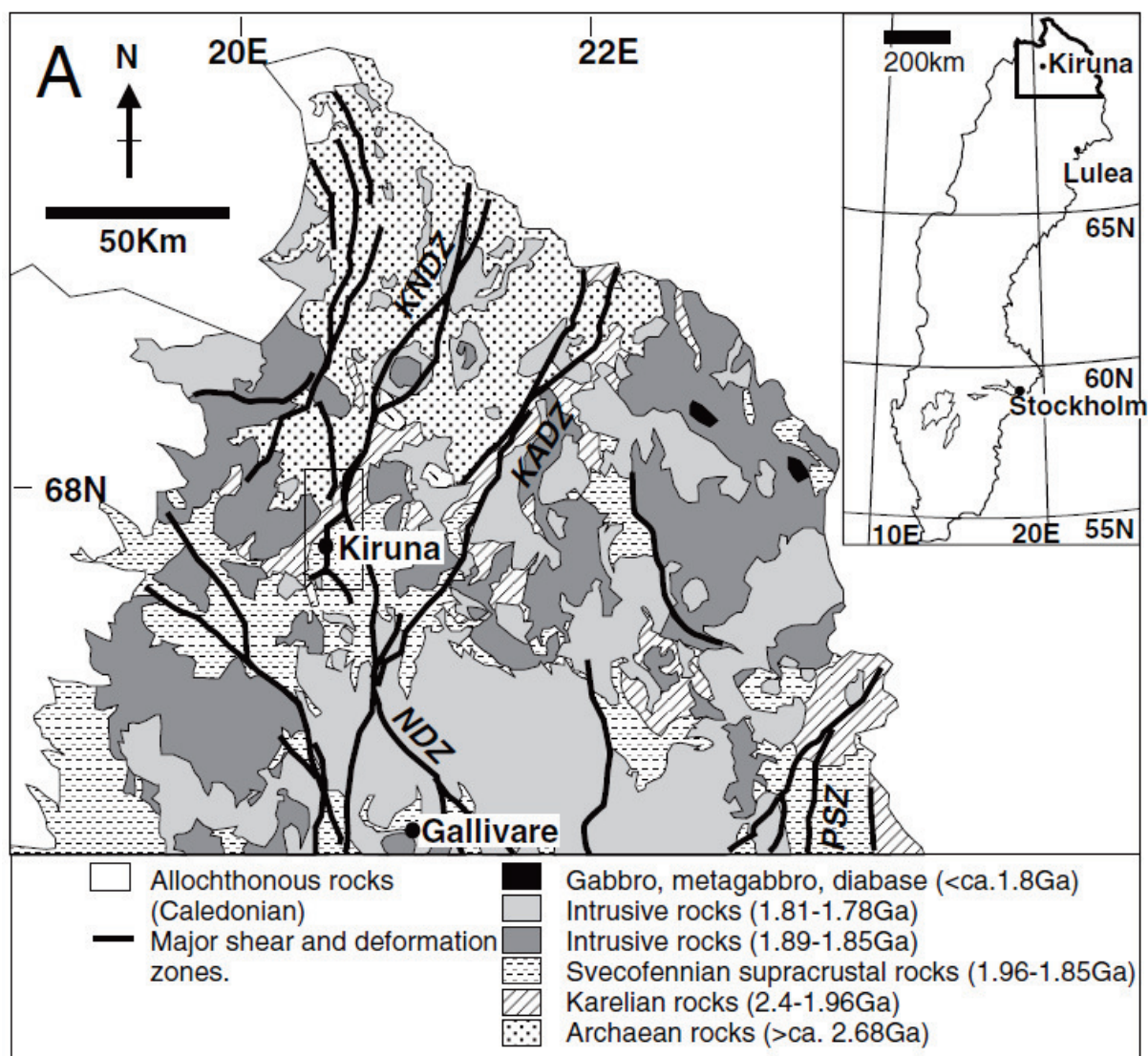
### **3.2.2 Climate and fieldwork in the Kiruna area**

Snow cover extends from late October to mid-April with a maximum snow thickness varying from 0.6 to 2.0 meters.

During the summer months (June-August) temperatures are mostly between 5°C and 20°C, and during the winter months (November-April) between - 5°C and - 30°C. The sun remains below the horizon for twenty days in winter and the sun does not set for twenty days in summer.

### **3.2.3 Geological Setting**

The Kiruna projects are located in the northern part of the Fennoscandian Shield. The Archaean basement (>2.68Ga) is overlain by Proterozoic rocks of Karelian (~2.4-1.96Ga) and Svecofennian (~1.96-1.75Ga) ages. The Karelian rocks have been formed in a rift-related tectonic setting and are overlain by Svecofennian supracrustal metavolcanic and epiclastic rocks. The Svecofennian supracrustal rocks are made up of the older Porphyry Group of rocks comprised of metamorphosed low-Ti andesite, basalt and intercalations of felsic tuffaceous rock. The younger Porphyry/Kiirunavaara Group of rocks are comprised of metamorphosed high-Ti basalt, minor trachyandesite and rhyolite. The Haparanda and Perthite calc-alkaline and alkali-calcic monzonite granite suites intrude rocks of the Porphyry/Kiirunavaara Group and are associated with deformation and metamorphism of the supracrustal sequence, with conditions peaking at upper greenschist or lower amphibolites facies during the Svecofennian Orogeny from 1.9 to 1.8Ga (Skiöld, 1987).



**Figure 3-2: Geological map showing the location of Kiruna in relation to Norrbotten and Sweden (modified from Smith *et al.* 2007).**

The Norrbotten province is characterised by regionally developed scapolitisation, albitisation, which is most intense in areas of major crustal deformation, and mineral deposits dominated by iron and copper. Ore deposits within the area are also spatially related to zones of deformation suggesting a possible genetic relationship between the formation of the deposits and a tectonic event. The Kiruna Project is located on two limbs of a major shear zone.

The Norrbotten district in Sweden is an important mining district hosting some of the world's largest apatite-iron orebodies, Kiirunavaara and Malmberget, and the Aitik Cu-Au deposit. Whilst the area has been classified as an iron oxide copper gold (IOCG) district by many, a definitive genetic link between spatially related iron-oxide and copper deposits of Norbotten is yet to be established. The Kiirunavaara apatite-iron ore deposit is the type locality for Kiruna sub-type IOCG deposits.

The geology of the Kiruna Project area consists largely of Palaeoproterozoic supracrustal rocks belonging to the Porphyry/Kiirunavaara Group including trachyandesitic lavas (formally named syenite porphyry), pyroclastic rhyodacite (formally named quartz-bearing porphyry),



minor andesitic-basaltic mafics, and the south western portion of the Kiruna project is dominated by greenstones of the older Porphyrite Group.

### 3.2.4 Deposit types

The majority of the Assets in the Kiruna area are assumed to be skarn-type iron ore deposits and in a few cases apatite-magnetite Fe ore deposits (e.g. Tjärrojåkka). Deposits of IOCG-type are found in mid-Proterozoic aged stratigraphy (Kiruna Porphyry Group) and are best represented by the Kirunavaara apatite-magnetite Fe deposit.

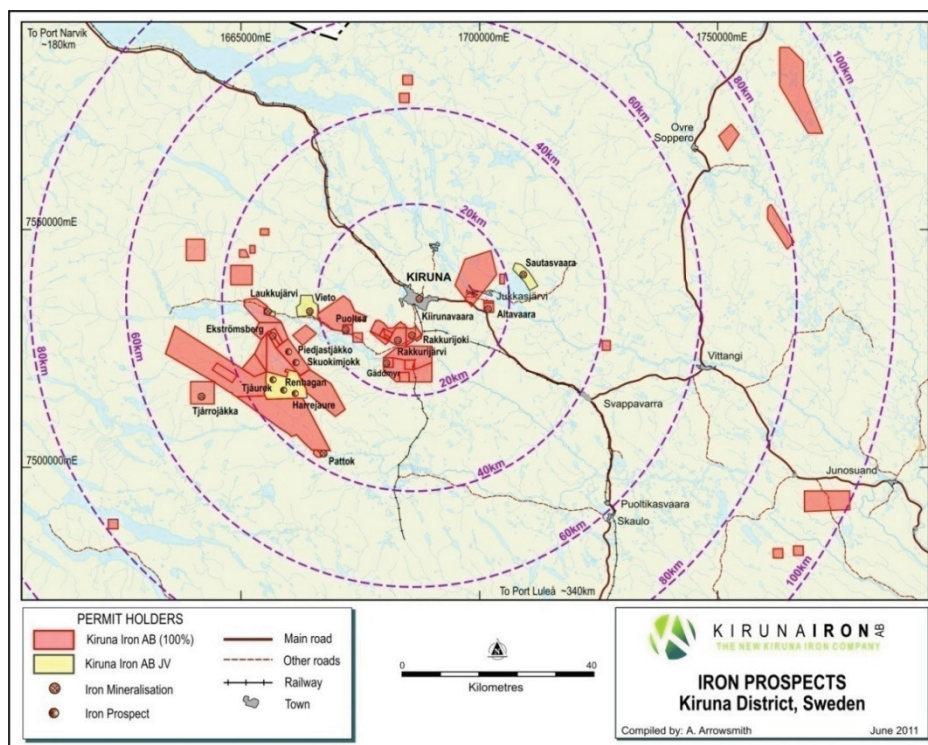
Other regional deposit types include:

- Volcanogenic massive sulphide (VMS), as exemplified by the Viscaria deposit (historic production of 12.4 Mt grading 2.3% Cu), located 6 km west of Kiruna.
- Shear-hosted epigenetic Au represented by the Pahtohavare Au, Cu deposit with historic production of 1.7 Mt grading 1.9% Cu and 0.9 g/t Au.

### 3.3 Description of Assets with Mineral Resource Estimates

The Company's Assets in the Kiruna area (collectively known as the Kiruna Iron Project assets) are located within a radius of approximately 50km from Kiruna town centre (Figure 3-3). Paved road and rail access is reasonable and power connections serve homes and businesses in the towns and settlements. There is an airport at Kiruna and a heli-port at Nikkaluokta.

Figure 3-3 below illustrates the location of the Company's exploration permits and key Assets in relation to the town of Kiruna and local infrastructure.



**Figure 3-3: Company Assets and exploration permits relative to Kiruna town and local infrastructure**

The following Mineral Resource statements have been extracted from SCR's ASX Release of 29 July 2011.

**Table 3-2: SCR Mineral Resource Statement (Indicated category Fe deposits), 29 July 2011**

JORC Compliant **Indicated** Mineral Resource Table\*

Prospect	Mt	Fe (%)	P (%)	S (%)
Sautusvaara South	32.0	37.4	0.06	1.63
Sautusvaara North	11.4	39.7	0.09	0.44
Ekströmsberg	30.4	52.0	Unavailable	Unavailable
<b>TOTAL</b>	<b>73.8</b>	<b>43.0</b>	-	-

**Table 3-3: SCR Mineral Resource Statement (Inferred category Fe deposits), 29 July 2011**

JORC Compliant **Inferred** Mineral Resource Table\*

Prospect	Mt	Fe (%)	P (%)	S (%)
Rakkurijärvi	69.6	28.5	0.07	0.93
Rakkurijoki	74.5	39.7	0.28	0.89
Discovery Zone	10.9	38.7	0.05	0.95
Tributary Zone	4.9	28.6	0.05	1.08
Sautusvaara South	6.8	26.6	0.09	1.82
Sautusvaara North	1.0	44.8	0.05	0.46
Vieto	14.0	35.7	0.14	1.46
Ekströmsberg	41.6	52.0	Unavailable	Unavailable
Tjärrojäkka	52.6	51.0	Unavailable	Unavailable
Pattok	62.4	44.2	1.96	Unavailable
<b>TOTAL</b>	<b>338.3</b>	<b>39.0</b>	-	-

Total	Mt	Fe (%)
Indicated & Inferred	412.1	39.9

\*A cut-off grade of 20% Fe has been applied

**Table 3-4: SCR Mineral Resource Statement (Inferred category Cu-Au deposits), 29 July 2011**

JORC Compliant **Inferred** Mineral Resource Table (Copper & Gold)

Prospect	Tonnes (Mt)	Cu (%)	Au (g/t)
Discovery Zone	10.9	0.31	0.08
Tjärrojäkka	5.0	0.60	N/A
<b>TOTAL</b>	<b>15.9</b>	<b>0.46</b>	-

A short description of each of the Assets listed in the tables above is presented below, along with comments by SRK.

### 3.3.1 Sautusvaara (North & South)

The descriptions of Sautusvaara set out below were largely extracted from the report; *Reed G. C., (2010): Sautusvaara Project Mineral Resource Estimate June 2010.*

### **Location and Access**

The project lies close to the town of Kiruna in the county of Norrbotten (Figure 3-3). The approximate RT90 coordinate for the centre of the Sautusvaara 'nr 1' claim is 1 708 600 mE and 7 540 800 mN. The project is located on the flanks of the Palo-Sautusvaara hill with an average license elevation of approximately 420 metres above sea level (masl). The site is well serviced by both road and rail. The Kiruna to Luleå rail line which transports iron ore on a daily basis passes 15 km south of the licence.

### **History**

The Sautusvaara project was discovered in 1896 as a magnetic anomaly. The project was explored in various campaigns by the SGU comprising trenching, diamond drilling and ground geophysics until the 1980's. In 2002, the project was claimed by Lundin Mining AB (then as South Atlantic Ventures Ltd), with the Norrbotten 'nr 112' and 'nr 127' claims who held this for three years.

The project was acquired by SCR in June 2010 from Tasman Metals Ltd, a TSX Venture Exchange (TSXV) listed company. Whilst the Sautusvaara Project was held by Tasman Metals Ltd, NI43-101 compliant reports, inclusive of Mineral Resource Estimates, were completed on both the Sautusvaara South and Sautusvaara North deposits by Mr. Geoffrey Reed of ReedLeyton Consulting ("ReedLeyton"). These estimates were subsequently updated and reported in compliance with the JORC Code by ReedLeyton in June 2010 and again in July 2011.

### **Local Geology & Mineralisation**

The Sautusvaara project is a typical example of the "skarn iron ores of the Greenstone Group" class, lying within a typical high level stratigraphic setting, immediately below conglomerates of the Kiirunavaara Porphyry Group. Skarn mineralogy is well developed. Iron ore mineralisation at Sautusvaara extends for approximately 2,500 metres along strike in a NW-SE direction and the deposit consists of two ore bodies separated by faults, referred to as North and South Sautusvaara respectively.

### **Mineral Resource Estimate (MRE)**

SRK was provided with two block models, separately for Sautusvaara North and South, an exploration drilling database and a set of geological wireframes. The estimate was accompanied by grade and tonnage reports, which SRK has reviewed.

In total, 82 diamond drillholes were included in the database, representing 16,919 m of drilling and comprising 5,500 assay intervals averaging 1 m in thickness. Of these holes, 76 contained assayed intervals. Five of the holes were recently drilled by SCR; the other 71 were drilled between 1963 and 1967. Table 3-5 shows the breakdown of meterage drilled per year, along with the number of holes containing assays.

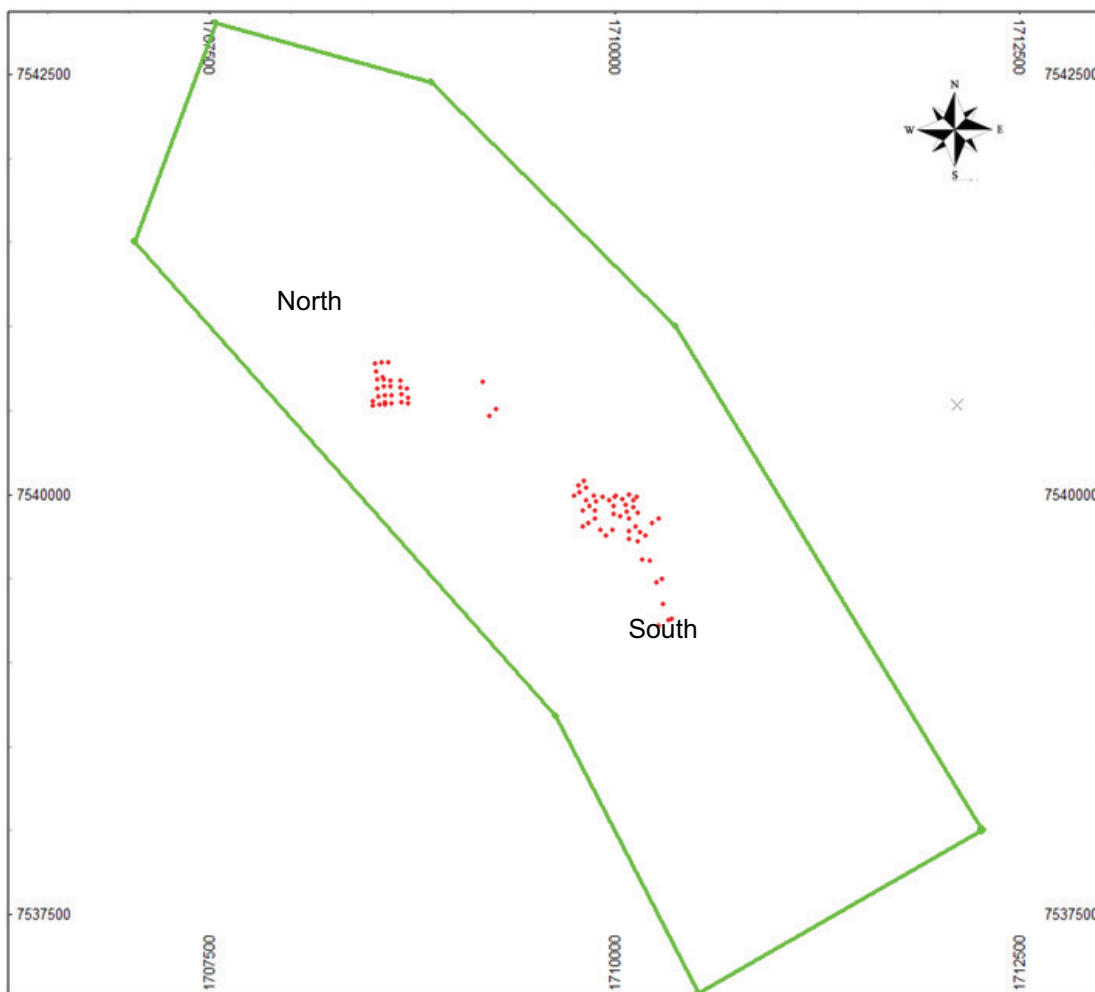
**Table 3-5: Meterage of drilling per year**

Year	1963	1964	1965	1966	1967	2011 <sup>1</sup>

<b>No. Of holes</b>	2	12	26	28	9	5
<b>Meterage</b>	312	2,741	5,013	5,304	2,151	1,399
<b>No. of holes with Assays</b>	2	11	24	26	8	5

<sup>1</sup> Holes drilled by SCR

The average drill spacing is 100x50 m in the southern portion of Sautusvaara South, and 40x50 m in the northern portion of Sautusvaara South. Sautusvaara North was mainly drilled on a 40x40 m grid, with differing azimuths and dips with the change in the interpreted orientation of the mineralisation.



**Figure 3-4: Location of Sautusvaara drilling relative to the exploration permit boundary (Sautusvaara nr. 1)**

Grade tonnage curves were produced in order to visualise the distribution of grade with increasing cut-off grades, as shown in Figure 3-5 and Figure 3-6.

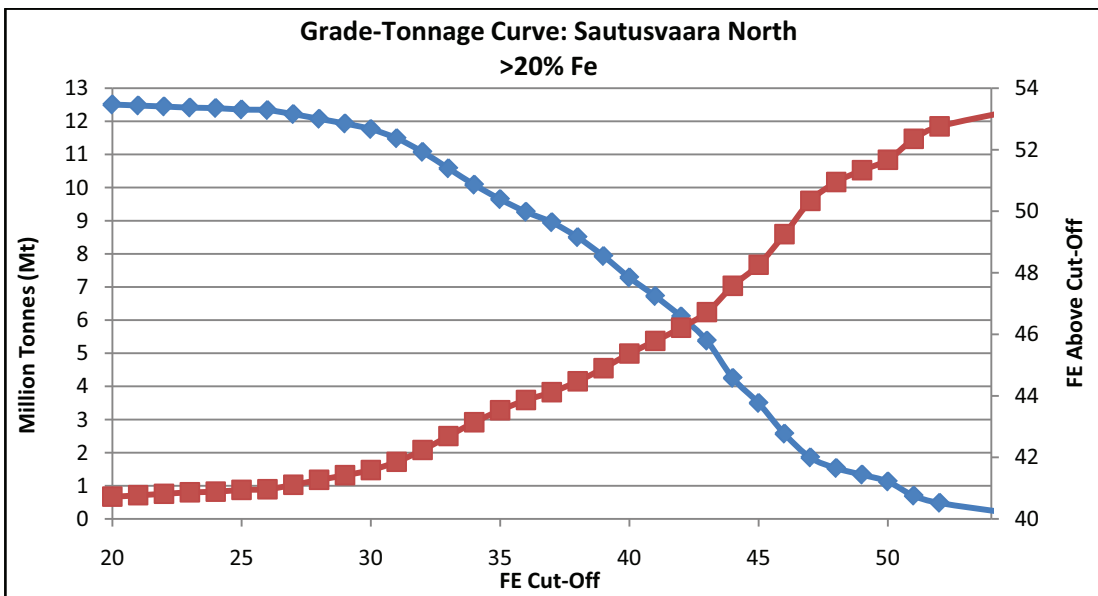


Figure 3-5: Fe% Grade-Tonnage curve for Sautusvaara North >20% Fe

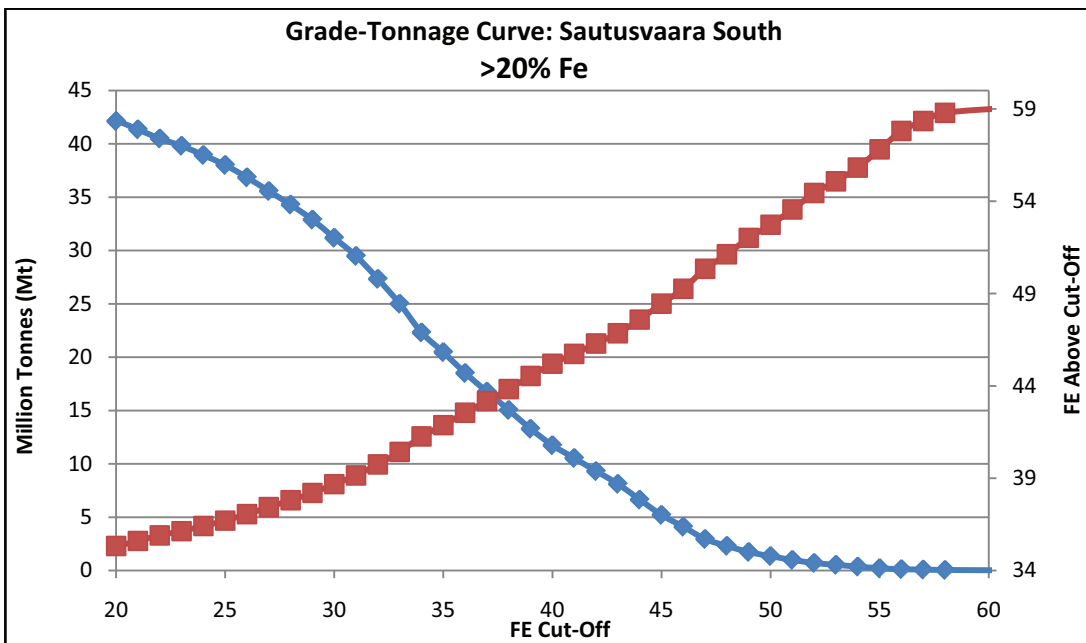


Figure 3-6: Fe% Grade-Tonnage curve for Sautusvaara South >20% Fe

**Metallurgical Testwork**

The document “2011 07 Draft Sighter Test Work Report Scandinavian Res” was produced by SMI Technology Transfer in July 2011, and outlines testwork performed on samples from Sautusvaara, including Davis Tube Recovery (DTR), comminution, and head assay tests. These were performed on composite samples of drill core from two holes, comprising 10 individual samples over a combined interval of 99m and weighing a total of 48kg.

DTR testwork produced good quality concentrates assaying >69% Fe, < 1.5% SiO<sub>2</sub>, < 1.4% S, and P below the limit of detection. Fe recoveries ranged between 72 and 96% dependent on the Fe head-grade.

Comminution tests showed a range of crushing and grinding characteristics reflecting ore variability. In terms of crushing index, the data suggests a single population with a consistent variation in crushing index with element geochemistry. However, the grinding behaviours reflect at least two grinding domains in the orebody, with controls that are probably mineralogical in nature.

### 3.3.2 Ekströmsberg

The descriptions of Ekströmsberg contained in the following sections were largely extracted from the report; *JORC code resources in the Ekströmsberg, Tjärrojåkka and Pattok prospect, Norrbotten, Sweden by Behre Dolbear International Limited (2011)*.

#### **Location and Access**

The Ekströmsberg iron deposit is located 30km west-southwest of Kiruna and 25km east-southeast of Nikkaluokta (Figure 3-3). The Kalixfors main-line railway station is 30km to the east. Access is along an asphalt road between Kiruna and Nikkaluokta, from a settlement at Laukkuluspa across a lake and onto a track suitable for four-wheel drive vehicles.

The area is on a whale-back ridge at about 600 masl and rock outcrops are most common on the ridge and on the southern slope, towards a wide marshy, muskeg-covered valley. Vegetation is sparse, with stunted brushwood and dwarf birch.

#### **History**

Mineralisation was first discovered in 1818. Geological mapping, ground magnetics and one diamond drill hole were completed between 1897 and 1900, followed by further mapping and ground magnetics with 12 drill holes between 1950 and 1954 by SGU.

Between 1965 and 1969, detailed magnetic and gravity surveys were completed and a further 35 diamond drill holes were drilled totalling 7,539m. 25 trial pits and trenches were also dug to expose the magnetite-bearing horizons. In all, SGU drilled 48 holes totalling 9,510m.

#### **Local Geology and Mineralisation**

The Ekströmsberg deposit is hosted by pyroclastic rhyodacite which is locally sericite-altered. The orebody contains intercalations of trachy-andesitic lava which are orientated parallel with the direction of the orebodies. The mineralised area at Ekströmsberg measures approximately 1.5km in length and 150 to 160m in width and contains a 50m-wide magnetite lens; though in the southern part the lens narrows. The mineralisation consists of magnetite-martite-hematite, strikes NW and dips vertically, or sub-vertically to the west. Behre Dolbear reported that martite, a non-magnetic alteration product of magnetite, concentrates in the supergene, oxidized portions of the magnetite zone above 100m depth.

#### **Mineral Resource Estimate**

A manual polygonal grade-tonnage estimate for Ekströmsberg was prepared by the SGU (Frietsch *et al.*) in 1974, who reported a total historic resource of 36 Mt grading 56% Fe, to a depth of 300m. This included a magnetite resource of 19 Mt with a mean grade of 55% Fe, a martite resource of 7 Mt with a mean grade of 57% Fe and a hematite resource of 10 Mt with a mean grade of 56% Fe. A cut-off of 20% Fe was used and intercepts were projected mid-way between drill holes.

In its report, Behre Dolbear state “examination of the polygons and representative drill core in 2008 confirmed continuity of the estimated blocks and allows the estimate to be categorised as an Indicated resource.”

Behre Dolbear reports 30.4 Mt grading 52% Fe in the Indicated category and 41.6 Mt grading 52% Fe in the Inferred category, applying a cut-off of 20% Fe and minimum width of 2m, to 300m below surface.

### **Metallurgical Testwork**

Document number “J475-RP-000-003-0” was produced by Mineral Engineering, Perth in December 2010, and outlines metallurgical testwork performed on samples collected from the Vieta, Laukkujarvi and Ekströmsberg deposits, including Davis Tube Recovery, head assay, and magnetic susceptibility tests that were undertaken. The report indicates that samples were selected from 102 individual drill core samples, representing an intersection of 103.1m in length from one drillhole.

Magnetic susceptibility tests on samples from Ekströmsberg shows mixed populations of oxides, with a high proportion of the samples containing non-magnetic Fe.

The Ekströmsberg samples showed very high Fe grades (the majority >59%), with low S, Al<sub>2</sub>O<sub>3</sub> and SiO<sub>2</sub>, but high P (0.3-3%). Some of this material can be classified as Direct Shipping Ore (DSO) potential, with the need to refine the P grades. The lower grade samples still exhibited high P grades.

In total, 49 composites (including samples from other projects) were chosen for DTR testwork. Some were rejected due to the extreme low Fe content. The results show a consistent 70% Fe concentrate grade can be achieved from the majority of samples, demonstrating that even the lowest magnetite grades were easily upgraded. The Ekströmsberg non-magnetite samples showed low recovery, as expected, but still produced a high grade concentrate. The Al<sub>2</sub>O<sub>3</sub> and SiO<sub>2</sub> grades were considered acceptable.

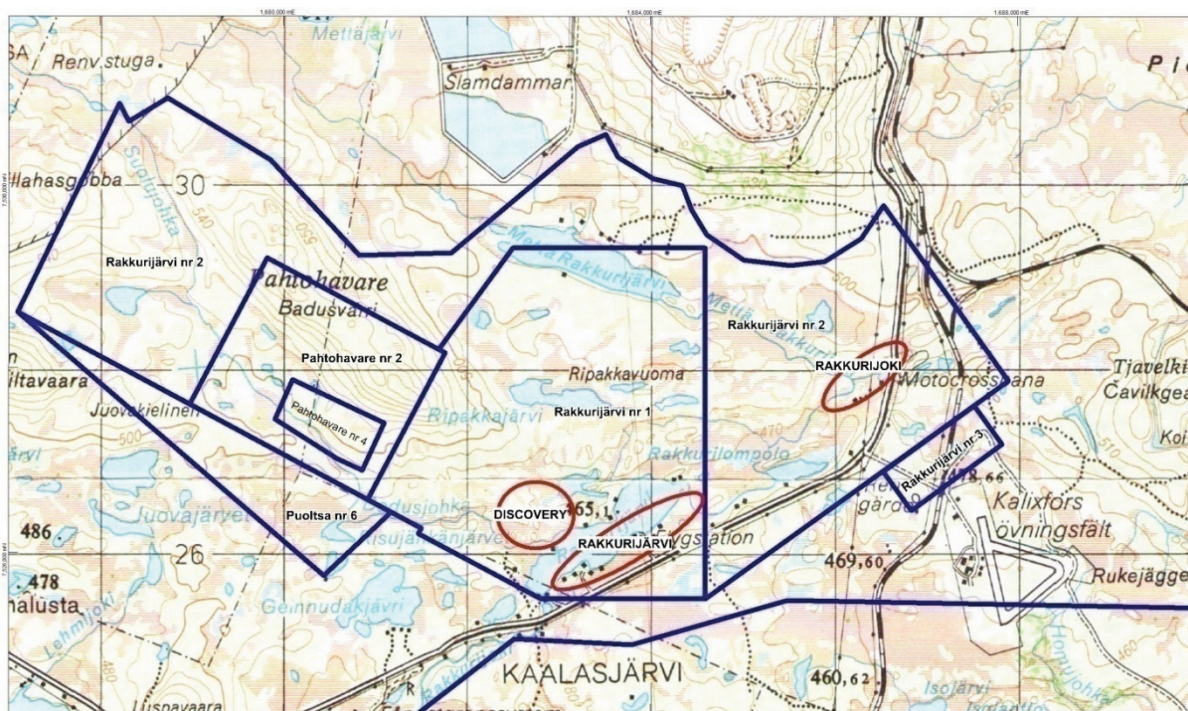
Ekströmsberg produced good quality concentrate, with marginal P grades. The upgrading of the para-magnetic iron oxides has yet to be determined.

### **3.3.3 Rakkurijärvi and Rakkurijoki**

The descriptions of Rakkurijärvi and Rakkurijoki set out below were largely extracted from the technical review report prepared by Laurikko in 2007 and Smith *et al.* 2007.

#### **Location and Access**

The Rakkurijärvi and Rakkurijoki project area is easily accessible by paved road from Kiruna town centre, which lies roughly 6km north of the project area (Figure 3-3 and Figure 3-7).



**Figure 3-7: Location of the Rakkuri project exploration permits main deposits covered by the Rakkurijärvi exploration permits, relative to local infrastructure**

Several prospects are covered by the exploration permits of the Rakkuri project. These prospects are as follows:

- Rakkurijoki
- Rakkurijärvi
- Rakkurijärvi Discovery Zone
- Rakkurijärvi Tributary Zone
- Pahtohavare

### **History**

The Rakkurijoki deposit has been known for over 100 years, with the first recorded exploration campaign carried out in the late 19th century. The deposits at Rakkurijärvi have been known to exist since the 1960's, when the SGU and LKAB carried out drilling in the area as part of the Swedish Iron Ore Inventory program.

The small Pahtohavare Cu-Au deposit was mined using underground methods by LKAB during the 1990's, producing 1.7 Mt grading 1.9% Cu and 0.9 g/t Au.

Rio Tinto, Anglo American and Lundin Mining were all active in the Rakkuri project area, through various exploration campaigns, principally over the last 10 years and following the discovery of Cu-Au mineralisation in the "Discovery Zone".

### **Local Geology and Mineralisation**

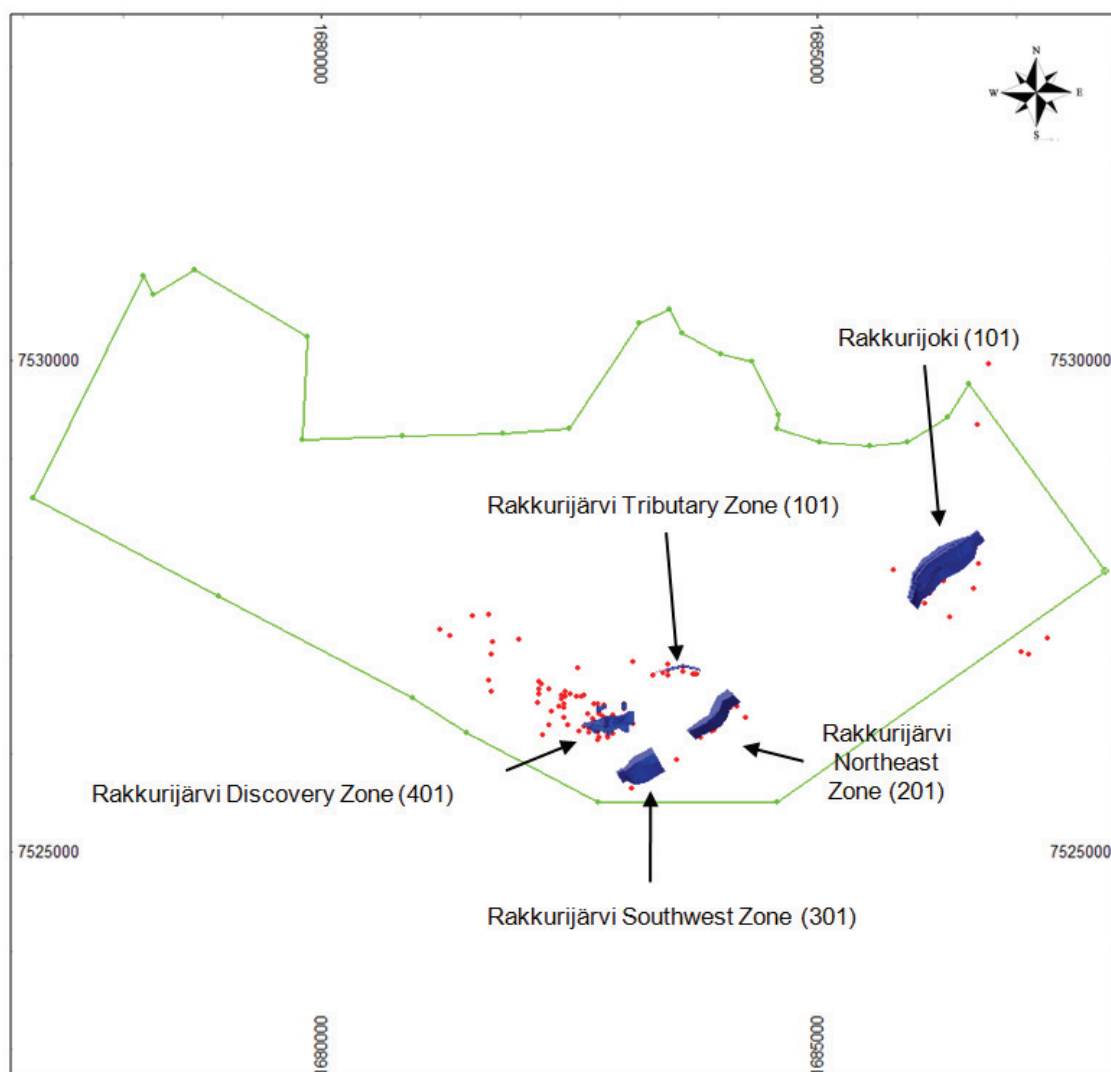
The Rakkurijärvi and Rakkurijoki prospects consist of a group of mineralised magnetite and lithic breccias within the ca. 2.05- to 1.90-Ga Proterozoic supracrustal sequence of the Kiruna



district. Cu and Au, largely in the form of chalcopyrite, and other sulphide assemblages, are hosted in brecciated magnetite and metavolcanic rocks. The deposit is hosted by brecciated greenschist facies metavolcanic rocks within and adjacent to an east-northeast–trending shear zone. Reconnaissance bulk-rock chemistry of the host volcanic rocks is consistent with an intermediate volcanic protolith, but much of the original character of the rocks is masked by albitization and incipient iron, sodic, and potassic alteration.

### **Mineral Resource Estimate**

The most recent Mineral Resource Estimate (MRE) for the Rakkuri project (including the Rakkurijärvi and Rakkurijoki deposits) was produced by GeoVista in July 2011. SRK was provided with five block models, an exploration drilling database, and a set of geological wireframes. The estimate was accompanied by spreadsheet based grade and tonnage reports and a draft report outlining some details of the estimate. SRK has reviewed the estimate based mainly on the model and grade-tonnage reports.



**Figure 3-8: Rakkurijärvi no.1, Rakkurijärvi no.2, Pahtohavare no.2, and Pahtohavare no.4 exploration licences combined showing drillhole collars and mineralisation wireframes**

(Note: the drilling outside the licence towards the southeast is within licence Rakkurijärvi no.3)

In total, 137 diamond drillholes were included in the database, with a total meterage of 26,463 m, with 3,964 assay intervals (662 modern) averaging 1.5 m thickness. Of the drilled holes, 99 contained assayed intervals and only 13 were modern holes drilled by SCR; the other 86 were drilled between 1965 and 2006. Table 3-7 shows the breakdown of meterage drilled per year, along with the number of holes containing assays.

**Table 3-6: Meterage of drilling per year**

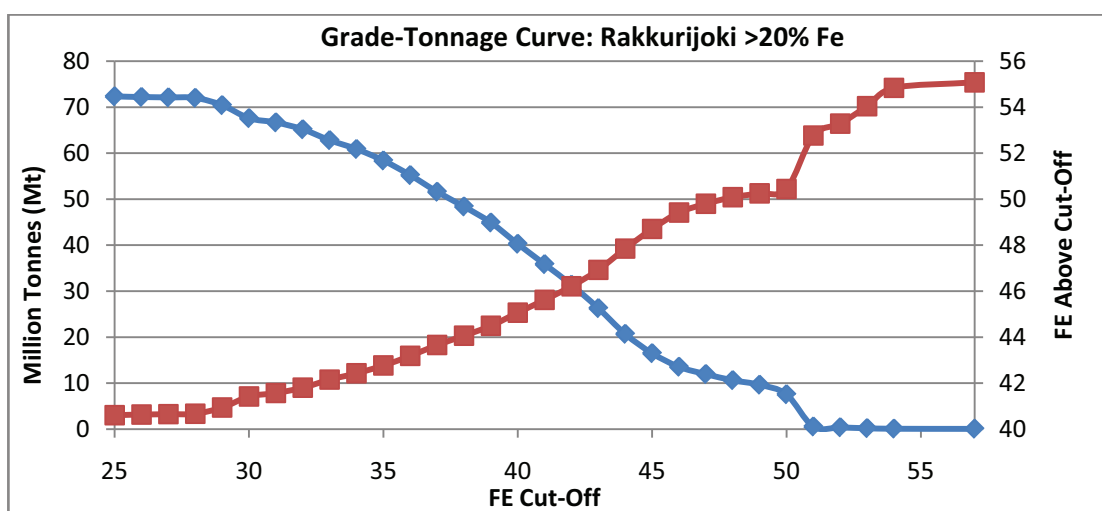
Year	Unknown Historic	1969	1970	1972	1973	1979	1999	2000	2001	2002	2003	2004	2005	2006	2011 <sup>1</sup>
No. Of holes	15	6	2	3	3	4	4	3	9	12	12	27	20	4	13
Meterage	3,571	736	250	501	523	745	618	681	1,619	1,701	2,400	4,128	3,352	1,329	4,308
No. of holes with Assays	11						4	3	6	12	9	26	15	3	10

<sup>1</sup> Holes drilled by SCR

The drill spacing is approximately 200x150 m at Rakkurijoki, 100m along strike (only one hole per section) at Rakkurijärvi Northwest, 100x100 m at Rakkurijärvi Southeast, 150x50 m at Rakkurijärvi Tributary Zone, and 50x50 m at Rakkurijärvi Discovery Zone.

The Rakkurijärvi Southwest, Rakkurijärvi Northeast and Rakkurijoki mineralisation all follow a similar trend of 60° azimuth and 70-90° dip to the southeast. The Rakkurijärvi Tributary Zone trends east-west with a gentle fold dipping vertically. The Rakkurijärvi Discovery Zone has a more complex structure with a general strike of 100°, varying dip of between 20-90° with a plunging feature trending 45° towards the east. The drilling includes fanning from a single collar and vertical holes.

Grade-tonnage curves were produced in order to visualise the distribution of grade with increasing cut-off grades, as shown in Figure 3-9 to Figure 3-13.



**Figure 3-9: Fe% Grade-Tonnage curve for Rakkurijoki >20%**

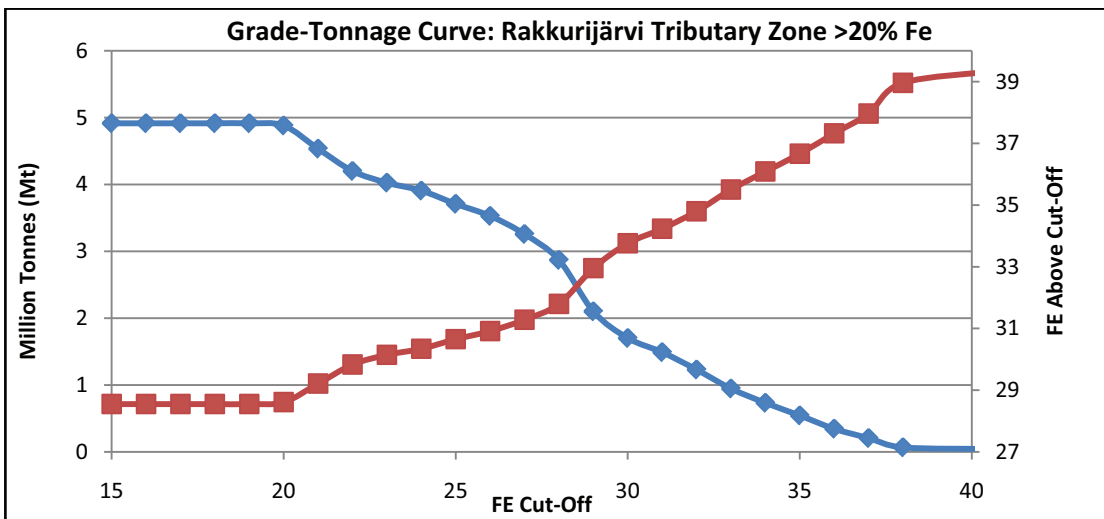


Figure 3-10: Fe% Grade-Tonnage curve for Rakkurijärvi Tributary Zone >20%

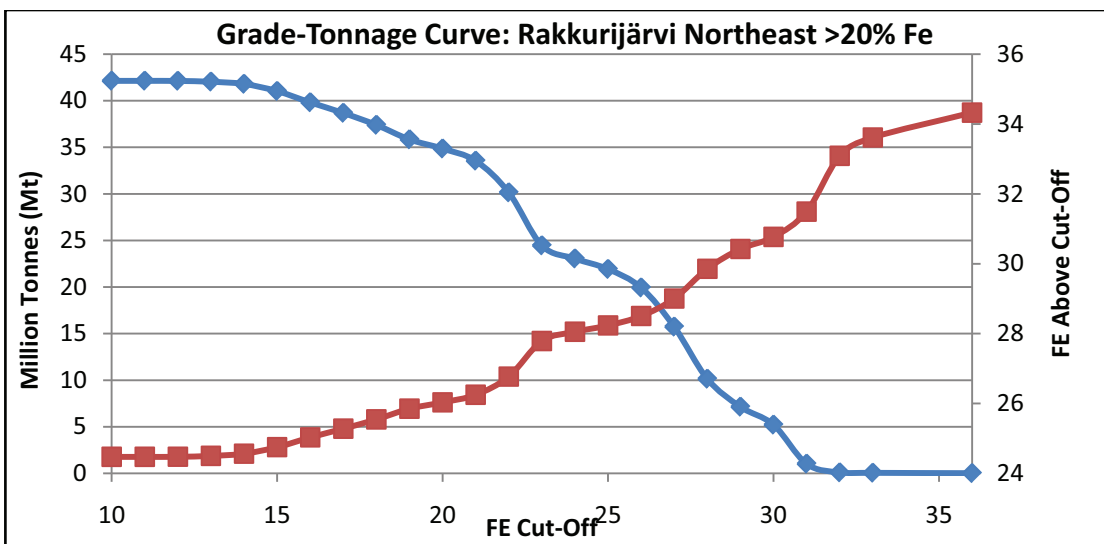


Figure 3-11: Fe% Grade-Tonnage curve for Rakkurijärvi Tributary Northeast >20%

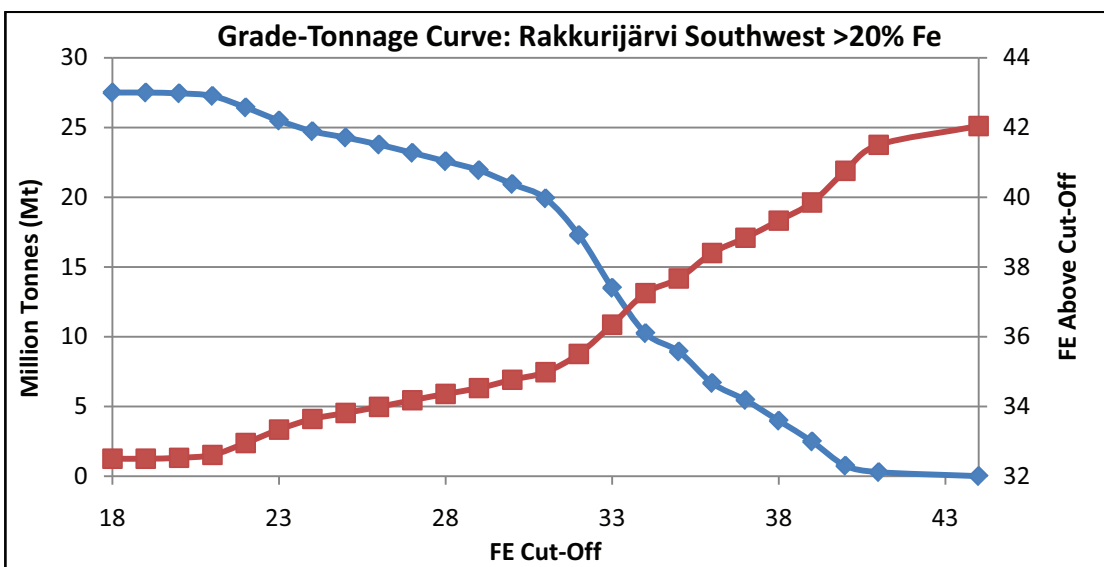


Figure 3-12: Fe% Grade-Tonnage curve for Rakkurijärvi Tributary Southwest >20%

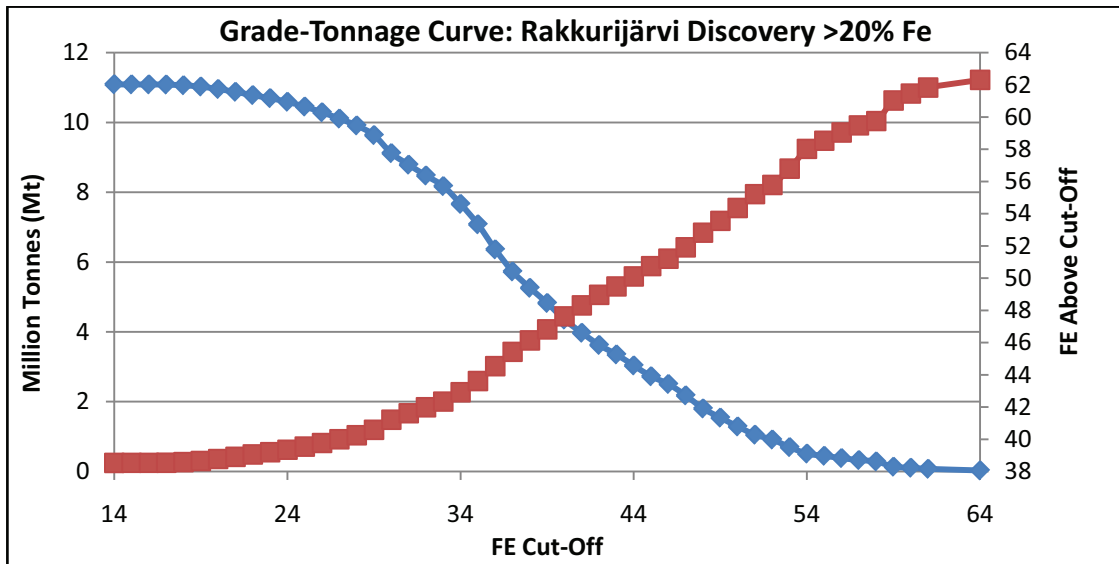


Figure 3-13: Fe% Grade-Tonnage curve for Rakkurijärvi Discovery >20%

### 3.3.4 Tjärrojåkka

The descriptions of Tjärrojåkka contained in the following sections were largely extracted from the report; *JORC code resources in the Ekströmsberg, Tjärrojåkka and Pattok prospect, Norrbotten, Sweden by Behre Dolbear International Limited (2011)*.

#### **Location and Access**

Tjärrojåkka is located 25km southwest of Ekströmsberg and 50km west-southwest of Kiruna at 730 masl (Figure 3-3). Access to Tjärrojåkka is generally by helicopter during the summer months and snow scooter in winter.

#### **History**

A total of 62 drill holes have been completed, amounting to 14,678m. Airborne magnetic and radiometric data were collected in the 1980s, with flight lines at 30m above ground on north-south lines spaced 200m apart and sampled at 35m along the lines. Gravity highs were found to be related to bedrock syenites and high potassium/thorium ratios were observed over Tjärrojåkka and Ekströmsberg.

#### **Local Geology and Mineralisation**

The Tjärrojåkka area is dominated by extrusive and intrusive rocks of basic to intermediate composition. The intermediate volcanic rocks belong to the Porphyrite Group and are associated with volcanoclastic rocks and later quartz-monzodioritic intrusions. The bedrock has been affected by several stages of alteration related to metamorphic and mineralisation processes. The most widespread alteration occurs within and adjacent to major deformation zones and mineral occurrences, and is characterised by scapolite, K-feldspar, epidote, and albite.

The apatite-iron ore at Tjärrojåkka consists of a massive core (60-70% Fe and 0.5-1.3%P) surrounded by an ore breccia (25-60% Fe and 0.4-3%P) with low grade copper ( $\pm$  Mo, Au & Ag) mineralisation, whereas the copper ( $\pm$  gold) deposit forms an elongated body of disseminated copper sulphides with magnetite-apatite veining in the footwall. In view of the spatial relationship between the Tjärrojåkka apatite-iron ore and copper ( $\pm$  gold) deposits, Tjärrojåkka has been classified as IOCG-type by Edfelt (2007).

#### **Mineral Resource Estimate**

At Tjärrojåkka, the iron and copper deposits are 400m apart. A historic estimate was prepared by the SGU (Frietsch *et al.*) in 1975 based on a manual polygonal method. The original estimate reports a magnetite-hematite resource of 52.6 Mt grading 51.5% Fe. The SGU also produced a historic estimate of the Tjärrojåkka copper deposit of 5 Mt grading 0.6% Cu, at a cut-off of 0.4% Cu.

Behre Dolbear have accepted these estimates based on their own observations on surface and in drill core.

### 3.3.5 Vieto

The descriptions of Vieto set out below were largely extracted from a Technical Report by ReedLeyton, May 2009.

### **Location and Access**

The Vieto project lies roughly 20km west of Kiruna. Approximate RT90 coordinates for the centre of the Vieto permit are 1 663 950 mE and 7 533 500 mN (Figure 3-3). The average license elevation is approximately 540 masl. The local topography is rolling, with a strong glacial influence that has imparted a south westerly grain that is apparent in the elongated shapes of the lakes and hills. The Vieto project lies between elevations of 500 and 600 masl in an area of low wooded hills and swamps.

The village of Aitejakk lies to the immediate east of the license boundary, whilst the larger town of Kiruna is located 18 km to the east of the project area. A paved road provides access to within 1km of the site, and from there the project is easily access by a well maintained forestry track. The closest rail head is at Kiruna, 20km to the east.

### **History**

Iron ore was discovered at Vieto in 1914. It was investigated with geophysics, trenching and drilling until 1969. A resource was estimated on the basis of this drilling in late 1979.

### **Local Geology and Mineralisation**

Iron ore at Vieto is hosted by the Kiruna Greenstone Group, within the southern part of a larger coherent greenstone area, close to the contact with the felsic porphyries of the Kirunavaara Porphyry Group. The local host sequence consists of limestone/marble, mafic tuff, graphite schist, pillow lava and subordinate mafic subvolcanic intrusive.

### **Mineral Resource Estimate**

The most recent Mineral Resource Estimate (MRE) for the Vieto deposit was produced by Minarco in July 2011. SRK was provided with one block model, an exploration drilling database, and a set of geological wireframes. The estimate was accompanied by spreadsheets containing grade and tonnage data, which SRK has reviewed.

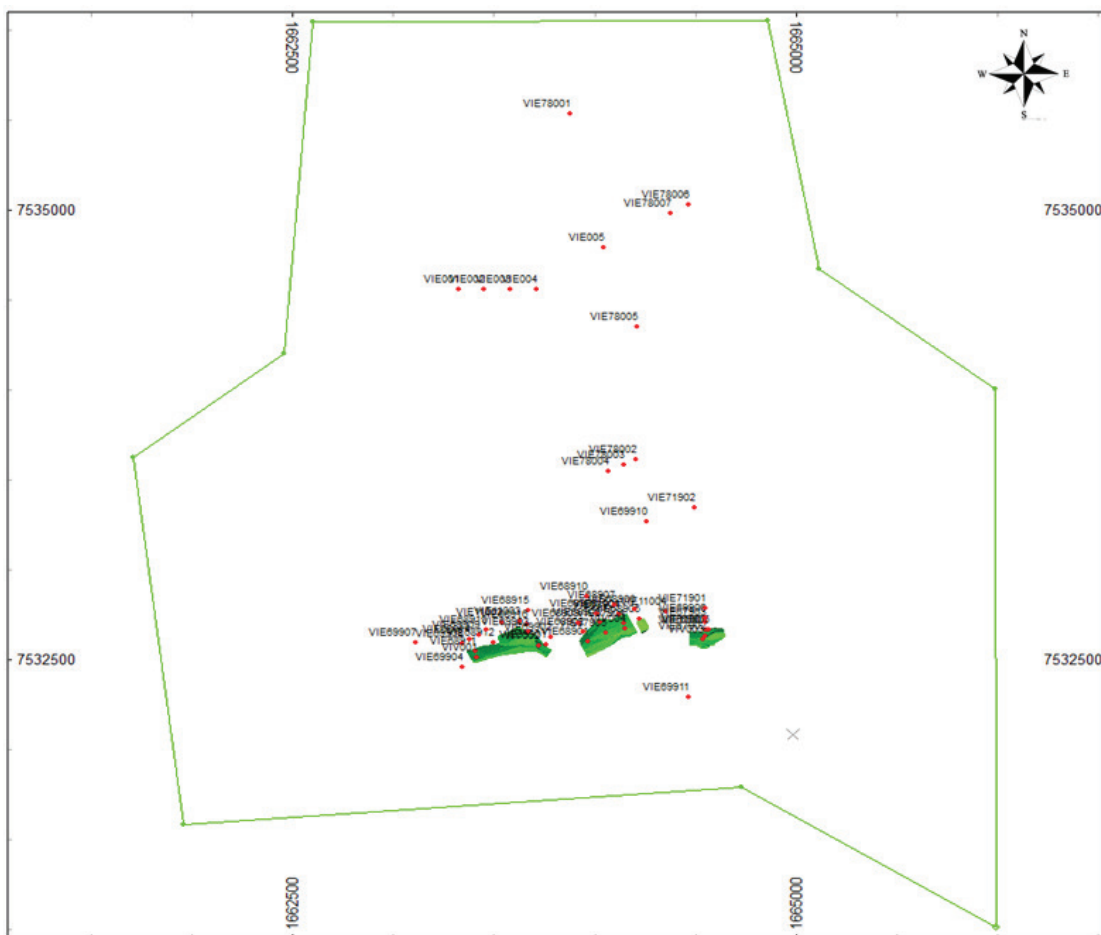
In total, 55 diamond drillholes were included in the database, with a total meterage of 9,119 m, with 927 assay intervals (210 modern) averaging 1.4 m thickness. Of the drilled holes, 30 contained assayed intervals and only 5 were modern holes drilled by SCR; the other 25 were drilled between 1919 and 1987. Table 3-7 shows the breakdown of meterage drilled per year, along with the number of holes containing assays.

The drill spacing is 100x50 m but reduces to 50x50 m in areas of increased complexity. The azimuth of drilling changes with the interpreted orientation of the mineralisation, between 160-200° towards the southwest/southeast, with an average dip of 55°.

**Table 3-7: Meterage of drilling per year**

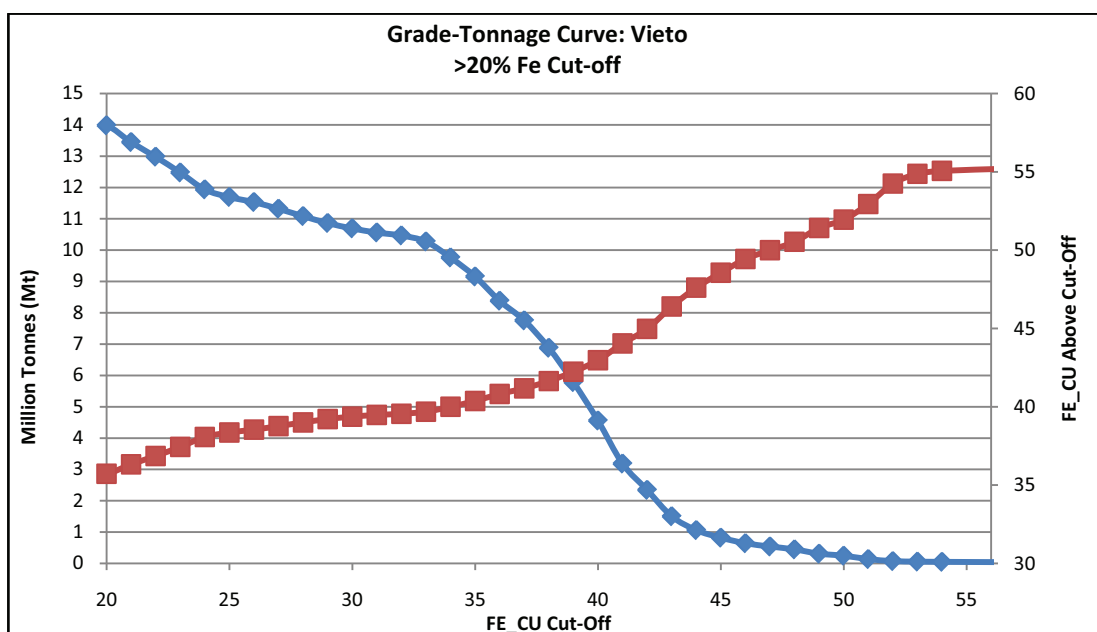
<b>Year</b>	<b>1919</b>	<b>1967</b>	<b>1968</b>	<b>1969</b>	<b>1971</b>	<b>1978</b>	<b>1987</b>	<b>2011<sup>1</sup></b>
<b>No. Of holes</b>	4	5	16	11	2	7	5	5
<b>Meterage</b>	369	740	3,303	1,400	289	1,055	959	1,006
<b>No. Of holes with Assays</b>		5	15	5				5

<sup>1</sup> Holes drilled by SCR



**Figure 3-14: Vieto exploration permit boundary relative to drill collars and mineralisation wireframes**

A grade tonnage curve was produced in order to visualise the distribution of grade with increasing cut-off grades as shown in Figure 3-15 below. Two populations of data are observed, which represent the low and high grade populations domained separately.



**Figure 3-15: Fe% Grade-Tonnage curve for Vieto >20%**

### **Metallurgical Testwork**

Document number “J475-RP-000-003-0” was produced by Mineral Engineering, Perth in December 2010, and outlines metallurgical testwork performed on samples from Vieto, including Davis Tube Recovery, head assay, and magnetic susceptibility tests. The tests were performed on selected samples from 45 individual drill core samples representing a total intersection of 44.5m from a single drillhole.

Magnetic susceptibility tests confirmed that the vast majority of Fe-rich samples for Vieto were magnetic, presumed to be predominantly magnetite.

The head assay results showed elevated S and P values for Vieto, along with a mixture of Fe grades from <10% to >58%, with an average grade of 32%. It was clear therefore that the ore would require beneficiation to create a saleable product.

In total, 49 composites (including samples from other projects) were chosen for DTR testwork, some were ejected due to the extreme low Fe content. The results show a consistent 70% Fe concentrate grade can be achieved from the majority of samples. This showed that even the lowest magnetite grades were easily upgraded. The Al<sub>2</sub>O<sub>3</sub> and SiO<sub>2</sub> grades were considered acceptable. Vieto showed some samples with high S concentrate grades, but acceptable P grades.

### **3.3.6 Pattok**

The descriptions of Pattok contained in the following sections were largely extracted from the report; *JORC code resources in the Ekströmsberg, Tjärrojåkka and Pattok prospect, Norrbotten, Sweden by Behre Dolbear International Limited (2011)*.

#### **Location and Access**

Pattok lies on the northeast flank of the Pattok mountain roughly 40km southwest of Kiruna. Access is via helicopter during the summer months and snow scooter during winter.



***History***

Mineralisation was discovered in 1960 by SGU during follow-up of airborne magnetic surveys and has been tested by 23 diamond drill holes, totalling 5,164m.

***Geology and Mineral Resource Estimate***

The host rocks at Paddock are reported by the SGU to be andesitic to basaltic greenstones with layers of volcanics with low content of quartz.

The SGU report a historic resource estimate (Ambros et al. 1973) of 68.0Mt at 45.1% Fe and 1.99% P to a depth of 250m, which Behre Dolbear classified as Inferred.

### 3.4 Description of Exploration Targets with tonnage and grade ranges.

SCR reports that these Assets have been subjected to diamond drill testing, ground geophysics and historic interpretation by the Geological Survey of Sweden, which has then been subject to review by Mr Thomas Lindholm of GeoVista AB.

SRK notes that the tonnage and grade ranges presented in Table 3-8 below are conceptual in nature, that there is either insufficient exploration data and/or interpretation to define a Mineral Resource and it is uncertain if further exploration will result in the determination of a Mineral Resource.

**Table 3-8: SCR tonnage and grade ranges for exploration assets, modified from SCR's ASX release 29 July 2011.**

JORC Compliant **Exploration Targets** Table

<b>Prospect</b>	<b>Tonnage Range (Mt)</b>	<b>Grade Range (% Fe)</b>
Puoltsa	30-40	33-36
Harrejaure	10-20	40-45
Laukkujärvi	4-8	30-35
Renhagen	20-30	30-35
Altavaara	10-20	23-30
Paljasjärvi	40-60	30-40
Leppäjoki	5-8	35-45
Tjäorika	15-30	45-55
Akosjegge	10-15	23-30
<b>TOTAL</b>	<b>150-230</b>	<b>30-40</b>

A description of each of the Assets listed in Table 3-8 above is presented below, along with comments by SRK.

#### 3.4.1 Puoltsa

Puoltsa is located approximately 15km southwest of the town of Kiruna (Figure 3-3) and is accessible via the paved road to Nikkaluokta and from there by forest tracks.

Puoltsa was discovered in 1960 by the SGU, who measured the magnetic vertical field and the gravity field and drilled a total of 46 holes in the 1960's. The mineralisation is classified as a skarn iron ore, with magnetite as the major iron mineral. The deposit is intersected by several types of dykes and intrusions.

In 1973, the SGU (Hallgren *et al.*) estimated a historic resource of 31.54 Mt at 34,3 % Fe to a depth of approximately 200 m. SCR subsequently drilled 7 diamond drill holes at the property, for a total of 1714.1m.

The grade tonnage ranges for Puoltsa have been estimated by the Company's geophysical consultants GeoVista, on the basis of recent and historic drilling in combination with historic ground gravity and airborne magnetics.

Metallurgical testwork on drill core samples by Mineral Engineering (2010) indicates that the Puoltsa ore comprises a vanadiferous Fe-magnetite mineralisation. The report also suggests that the majority of samples from Puoltsa contained high Fe grades along with strong magnetic susceptibility signatures, indicating the majority of Fe mineralisation is magnetite.

The Al<sub>2</sub>O<sub>3</sub> and SiO<sub>2</sub> grades vary greatly, and some samples prove that additional beneficiation work would be essential. Both S and P levels were low in the majority of samples.

The DTR testwork for the Puoltsa samples produced positive results, with a very high recovery, and consistent 70% Fe concentrate grades. This is due to the high proportion of Fe present as magnetite and the fact that the P, S, Al<sub>2</sub>O<sub>3</sub> and SiO<sub>2</sub> grades were all low. The results show that the Puoltsa ore is readily upgraded to a high quality concentrate via magnetic separation alone.

### 3.4.2 Harrejaure, Renhagen & Tjåorika

The Renhagen, Harrejaure and Tjåorika projects are located 33 km west-southwest of Kiruna (Figure 3-3) and covered by a single exploration permit, Harrejaure nr1. Access in the summer is via helicopter and by snow scooter during the winter months.

Outcropping mineralisation was first discovered at Renhagen in 1949 by the SGU and followed up by ground magnetic and trenching. The SGU undertook magnetic and gravity measurements between 1962 and 1963, and completed 5 diamond drill holes for a total of 891m in 1968. A BHP Billiton JV project drilled two drill holes in 2002. A historic resource for Renhagen was presented by the SGU in 1971 who reported 4.8 Mt with 42% Fe and 6.5 Mt with 28% Fe, to a depth of 175m. Geovista carried out modelling of geophysical data in 2010, and SCR has drilled 7 holes totalling 1236m.

The Harrejaure iron occurrence was discovered in the 1940's as a result of an airborne magnetic survey. A northwest trending magnetic anomaly was identified over a distance of greater than 1000m. The mineralisation has been tested by "Rederiaktiebolaget Nordstjernen" who drilled 18 holes over 1.7 km of strike. The reported historical resource for Harrejaure is 5 Mt of ore with 65.5% Fe, 0.015% P and 0.03% S. In 2011 SCR completed ground magnetic and gravity surveys at Harrejaure which identified coincident magnetic and gravimetric anomalies. In addition, SCR has drilled 5 holes as part of a programme of 6 holes for a total of 1,005m.

The Tjåorika iron occurrence was discovered in the 1950s by a private Swedish exploration company and was subsequently investigated by "Rederiaktiebolaget Nordstjernen" who carried out geophysical measurements and drilled 4 holes. A historic resource estimate has not been derived for the Tjåorika project. However, the SGU estimated a conceptual exploration target for Tjåorika, of 2.5 million tonnes of ore with 57% Fe.

### 3.4.3 Laukkujärvi

The Laukkujärvi project is located approximately 30km west of Kiruna, just north of the paved road toward Nikkaluokta (Figure 3-3).

The Laukkujärvi magnetite mineralisation was discovered 1898. SGU measured the magnetic vertical field and the gravity field in the between 1950 and 1970 and drilled 5 drillholes on the iron occurrence. The mineralization occurs within the Kiruna Greenstones and is classified as a skarn iron ore. The southernmost lens is largely altered to martite. Chalcopyrite mineralisation occurs within the iron mineralisation (best section 22 m with 0.38% Cu) and within conglomerate and porphyries c. 500 m west of the iron deposit (best section 12.07 m with 1.1% Cu and 0.1 g/t Au).

A historic estimate was produced by the SGU (1973) who reported 6 Mt at 25-30% Fe, 0.07-

0.3% P and 1-2% S to a depth of 100 m. Geovista carried out an interpretation and modelling exercise of ground magnetic, airborne magnetic and regional gravity in 2010.

Metallurgical testwork from drill core samples was carried out by Mineral Engineering (2010). Magnetic susceptibility tests confirmed that the vast majority of Fe-rich samples for Laukkujärvi were magnetic, presumed to be predominantly magnetite. Head assays showed mixed results, with one sample containing very high Fe (45-51%), with low P (0.02-0.04%), S (0.009-0.1%), but high Al<sub>2</sub>O<sub>3</sub> (4%) and SiO<sub>2</sub> (16%), and another sample with extremely low Fe (2-9%), which was considered waste material. The high grade sample still required beneficiation to account for the high Al<sub>2</sub>O<sub>3</sub> and SiO<sub>2</sub>. Davis Tube test work results confirmed all samples had acceptable P and S grades from Laukkujärvi, suggesting that a saleable concentrate could be produced through magnetic separation alone.

#### **3.4.4 Altavaara**

Altavaara is located 15 km east of Kiruna and 2 km south of the village of Jukkasjärvi. The deposit was discovered in 1897 and explored in several campaigns through ground geophysics and diamond drilling.

Three deposits are known in the Altavaara area, namely; Altavaara North, South and East. The South and East deposits are reported by the Company to be insignificant in size.

Five holes were drilled between 1916 and 1917. The cores from this drilling campaign were stored at LKAB in Kiruna and they were re-assayed 1964. Another four holes were drilled in 1964 after the area had been investigated with geophysics. One of these holes was drilled in the Altavaara North deposit.

The historical investigations and a compilation of results are presented in the SGU report BRAP00885 (Eriksson and Espersen 1965). The SGU produced a historic estimate and reported Altavaara North to contain 7.1 Mt at 25.8% Fe.

The Company's geophysical consultants GeoVista carried out modeling and interpretation of historic ground magnetic and gravity data which was supported by density measurements on historic drill core.

#### **3.4.5 Paljasjärvi**

Paljasjärvi is located 90 km northeast of Kiruna and 12 km east of the road between Vittangi and Karesuando. The magnetic anomaly associated with the mineralisation is located between the ridge formed by Rangasvaara, next to Sautustunturi and the small creek Sautusjoki.

Paljasjärvi is a skarn iron ore typical of the upper part of the Karelian greenstones consisting of magnetite together with serpentine, pyroxene, amphibole and minor amounts of pyrite. The ore horizon is about 3,800m long, and dips steeply towards the east. Historic drilling suggests the mineralisation is approximately 30m wide.

The Paljasjärvi deposit was explored by Jonson & Co in 1963, who drilled 7 drillholes for a total of 830m, estimating a tonnage and grade of 45Mt at 40% Fe to a depth of 300m.

The Paljasjärvi area was recently flown by the Geological Survey of Finland (GTK), although the date and technical specifications of the survey are not known. Through modelling of this

data and utilising the results of historic drilling as control, the Company's geophysical consultant (GeoVista) has derived a grade and tonnage range for Paljasjärvi (Table 3-8).

### **3.4.6 Åkosjegge**

The Åkosjegge prospect is 35km northwest of Jokkmokk and 17km southwest of Porjus.

Mineralisation occurs in an east-northeast striking zone with magnetite-skarn layers.

In 1969, SGU conducted magnetic and gravimetric measurements at Åkosjegge and the results revealed a 2.5km long and 100m to 400m wide magnetic anomaly. The gravimetric anomaly is broader and has a width of 600m to 800m. The SGU produced a tonnage estimate of approximately 75Mt at Åkosjegge, based purely on the results of ground geophysics.

### **3.4.7 Leppäjoki**

SRK has not been presented with information regarding the interpretation of historic data, or recent work carried out at Leppäjoki.

### 3.5 Early stage Exploration Targets

Table 3-9 provides a summary of the early stage exploration projects within the SCR portfolio, and the methods of exploration performed to date. This includes work carried out by the Company and previous exploration. The Norwegian projects are divided into the two regions of Finnmark and Nordland. The Swedish projects are divided into the Swedish Caledonides, Kiruna District and Våtmyrberget (Skellefteå region).

**Table 3-9: Summary of SCR early stage exploration projects**

Country	Region	Asset / Project Name	Diamond Drilling	Trenching / Test Pits	Ground Geophysics	Historic Production	
Sweden	Kiruna	Karenisvare			√		
		Gäddmyr	√		√		
		Hotnjos/Leavka (?)	√		√		
		Saivo			√		
		Maunisvaara					
		Piedjastjåkka/Skuokimjokk			√		
		Rappakojärvi			√		
		Staggotjåkka			√		
		Eustillako			√		
		Tervakoski					
	Våtmyrberg /Skellefte field	Langtraskberget 2					
		Våtmyrberget					
		Näsberg			√		√
		Våtmyrberget			√		
		Granberg / Näsberg	√				
	Caledonides	Unna Gaissa	√				
		Ankarvarvatnet	√	√	√		
Daningen				√			
Särksjön		√			√		
Norway	Nordland	Husvika	√			√	
		Famnvatnet/Rössvatnet	√	√	√		
		Övre Elsvatnet	√	√			
	Finnmark	Notsynene & Neiden					
		Gjeddevann/ Kobbfoss	√			√	
		Gorvessjavri					
		Njivlojavri					
		Geassamaras	√			√	
		Kåfjord/ Raipas	√			√	√
		Vilgesrassa					
		Fiskarfjellet					
		Vaddas	√				√
		Birtavarre	√				√
Sørdalshøgda/Sørdalshøgda-South/Hårskoltan/Holmvasshøgda	√						

The majority of the projects are very early stage exploration targets, with limited exploration data. Some of the projects have been mined historically on a small scale and others have historic grade-tonnage estimates. These are not considered of material importance to the valuation, and have not been described in detail due to the lack of supporting information. Further, while some of these early stage projects show promise in terms of exploration potential, SRK has not considered this as part of the valuation in this instance and has instead based the valuation of these assets purely on an estimate of historic expenditure, using the Company's exploration budgets as a guide to the Prospectivity Multiplier, as discussed below.

## 4 VALUATION OF MINERAL ASSETS HELD BY SCR

### 4.1 Methodology

SCR has interests in a number of exploration projects in Sweden and Norway. This section presents a valuation of these Assets which is valid at 5 August 2011. The majority of the licences held by SCR are at an early of development. Valuations of such projects are subjective and SRK's approach is to consider various valuation methodologies and so derive a range of appropriate values.

The methods used by SRK in this case were as follows:

**Past Expenditure Method:** This considers (a) exploration expenditure by SCR through a review of management information and (b) historical expenditure that has increased knowledge of the asset and added value to it, and values this in terms of how much this work would likely cost in today's terms. A Prospectivity Multiplier (PM), of either 1.0 or 2.0 has been applied to this past expenditure to reflect SRK's opinion of prospectivity, with a factor of 2.0 applied to Kiruna area projects and 1.0 to all others projects. While planned future expenditure has not been included, SCR's exploration budget for the next 12 months has been used to guide the relative Prospectivity Multiplier applied to each area. In general, SRK considers this methodology to provide a minimum value for each Asset.

**Yardstick Method:** Where a Mineral Resource Estimate is available for an asset, or a grade-tonnage range has been presented for an Exploration Target, a value per tonne of contained metal has been assigned. A Confidence Factor (CF) has been applied to this, to reflect SRK's opinion on the relative confidence of the particular estimate. Assets with Mineral Resource Estimates have been assigned Confidence Factors of between 0.3 and 0.9. Grade-tonnage ranges associated with Exploration Targets have been assigned Confidence Factors of between 0.1 and 0.5 based on the quantity and quality of available supporting data.

The majority of the Assets valued in this way target iron as the primary commodity of interest. However, there are also two Assets for which copper and gold mineralisation has also been estimated. The following values per tonne of contained metal have been used by SRK:

- **Iron** – US\$1.2/dmtu (being 1% of a market consensus long term price of US\$120/dmtu);
- **Gold** – USD10/oz (being 1% of a market consensus long term price of USD1,000/oz);
- **Copper** – USD55/t (being 1% of a market consensus long term price of USD5,500/t)

The Yardstick methodology often gives the maximum value of an asset at this stage of exploration.

**Comparable Transaction Method:** Based on an analysis of values of iron ore assets and companies, SRK has applied a value of USD1.0 per tonne contained iron where the Asset has either a Mineral Resource Estimate or an Exploration Target grade-tonnage range. SRK has derived the value of USD1.0 per tonne based on analysis of the market capitalisation and total resource base of eight companies with purely iron ore assets. All of the companies used in this analysis are at exploration/pre-production stage, with the exception of Ferrexpo plc which is currently in production. Table 4-1 presents a summary of the information used, all of which is available in the public domain. The median of the values presented below gives a value of USD0.92/t whereas the average is USD1.07/t and as such SRK has used USD1.0



per tonne contained iron for purposes of the comparable transaction valuation methodology.

**Table 4-1: Comparable Transactions**

Company	Market Cap (USDm) <sup>1</sup>	Resource Tonnes (Mt) <sup>2</sup>	Grade (Fe %)	Contained Fe (Mt)	Value (USD/t)
Afferro Mining	156	2,665	34%	904	0.17
African Minerals	3,359	12,751	31%	3,971	0.85
Bellzone Mining	458	2,390	27%	643	0.71
Ferrexpo	4,154	8,341	32%	2,702	1.54
London Mining	690	2,055	34%	696	0.99
Northland Resources	561	560	32%	178	3.15
Sundance Resources	1,597	2,528	42%	1,061	1.50
Zanaga Iron Ore	569	2,010	35%	702	0.81

1: Market capitalisation as at 02 August 2011.

2: Resource Tonnages apportioned by ownership status

As with the Yardstick Method, a Confidence Factor (CF) has then been applied to reflect SRK's opinion of the relative confidence in the particular estimate. This methodology generally gives a value which lies between the Past Expenditure and Yardstick methods.

All valuations presented herein have been adjusted to reflect SCR's ownership of the Assets. All Assets are 100% owned by SCR with the exception of Vieto, Sautusvaara (North and South), Renhagen, Harrejaure, Tjåorika and Laukkujärvi which are 75% owned by SCR. The Project areas of Åkosjegge, Ekströmsberg, Pattok and Tjårrojåkka are currently assumed to be 100% owned by SCR, however, SCR is committed to incur further costs in November 2011 of USD1.5m to increase its ownership to 100% and as such, this amount has been deducted from the overall valuation presented below.

SRK has not been presented with any details of the agreement between SCR and Anglo American / Rio Tinto for Assets belonging to the Rakkuri Project, which the Company report is scheduled to settle on or before 6 December 2011. SRK has assumed SCR currently retains 100% ownership of these Assets and has not deducted any amount from the overall valuation.

## 4.2 Valuation

### 4.2.1 Valuation of Assets with Mineral Resource Estimates

#### *Sautusvaara South*

Estimated historical spend on this asset amounts to some USD2.6M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD5.2M.

As noted above, this asset is estimated to contain resources of 38.8Mt with a mean grade of 35.5% Fe and containing some 13.8Mt of iron. SRK has applied a CF of 0.90 to this estimate to give a Comparable Transaction valuation of some USD9.3M and a Yardstick valuation of some USD11.2M based on 75% ownership of this asset.

**Sautusvaara North**

Estimated historical spend on this asset amounts to some USD1.0M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD2.0M.

As noted above, this asset is estimated to contain resources of 12.4Mt with a mean grade of 40.1% Fe and containing some 5.0Mt of iron. SRK has applied a CF of 0.90 to this estimate to give a Comparable Transaction valuation of some USD3.4M and a Yardstick valuation of some USD4.0M based on 75% ownership of this asset.

**Ekströmsberg**

Estimated historical spend on this asset amounts to some USD8.3M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD16.7M.

As noted above, this asset is estimated to contain resources of 72.0Mt with a mean grade of 52.0% Fe and containing some 37.4Mt of iron. SRK has applied a CF of 0.30 to this estimate to give a Comparable Transaction valuation of some USD11.2M and a Yardstick valuation of some USD13.5M based on 100% ownership of this asset.

**Rakkurijärvi/Discovery/Tributary**

Estimated historical spend on this asset amounts to some USD4.4M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD8.8M.

As noted above, this asset is estimated to contain resources of 85.4Mt with a mean grade of 29.8% Fe and containing some 25.5Mt of iron. In addition, this asset includes a resource estimate for copper and gold of some 10.9Mt with a mean grade of 0.31% Cu and 0.08g/t Au and containing some 34,200t copper and 26,300oz of gold. SRK has applied a CF of 0.80 to these estimates to give a Comparable Transaction valuation of some USD20.4M and a Yardstick valuation of some USD26.1M based on 100% ownership of this asset.

**Rakkurijoki**

Estimated historical spend on this asset amounts to some USD9.4M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD18.8M.

As noted above, this asset is estimated to contain resources of 74.5Mt with a mean grade of 39.7% Fe and containing some 29.6Mt of iron. SRK has applied a CF of 0.80 to this estimate to give a Comparable Transaction valuation of some USD23.7M and a Yardstick valuation of some USD28.4M based on 100% ownership of this asset.

**Tjärrojäkka**

Estimated historical spend on this asset amounts to some USD2.9M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD5.9M.

As noted above, this asset is estimated to contain resources of 52.6Mt with a mean grade of 51.0% Fe and containing some 26.8Mt of iron. In addition, this asset includes a resource estimate for copper of some 5.0Mt with a mean grade of 0.60% Cu and containing some 30,000t copper. SRK has applied a CF of 0.50 to these estimates to give a Comparable Transaction valuation of some USD13.4M and a Yardstick valuation of some USD16.1M

based on 100% ownership of this asset.

### ***Vieta***

Estimated historical spend on this asset amounts to some USD2.1M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD4.1M.

As noted above, this asset is estimated to contain resources of 14.0Mt with a mean grade of 35.7% Fe and containing some 5.0Mt of iron. SRK has applied a CF of 0.90 to this estimate to give a Comparable Transaction valuation of some USD3.4M and a Yardstick valuation of some USD4.0M based on 75% ownership of this asset.

### ***Pattok***

Estimated historical spend on this asset amounts to some USD1.1M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD2.3M.

As noted above, this asset is estimated to contain resources of 62.4Mt with a mean grade of 44.2% Fe and containing some 27.6Mt of iron. SRK has applied a CF of 0.40 to this estimate to give a Comparable Transaction valuation of some USD11.0M and a Yardstick valuation of some USD13.2M based on 100% ownership of this asset.

## **4.2.2 Valuation of Exploration Targets with tonnage-grade ranges**

### ***Puoltsa***

Estimated historical spend on this asset amounts to some USD1.5M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD3.0M.

SCR consider this asset to have an Exploration Target tonnage and grade range of 30-40Mt at 33-36% Fe. Assuming the mid-point of this target range and applying a CF of 0.50, SRK estimates a Comparable Transaction valuation of some USD6.0M and a Yardstick valuation of some USD7.1M based on 100% ownership of this asset.

### ***Renhagen***

Estimated historical spend on this asset amounts to some USD1.1M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD2.2M.

SCR consider this asset to have an Exploration Target tonnage and grade range of 20-30Mt at 30-35% Fe. Assuming the mid-point of this target range and applying a CF of 0.50, SRK estimates a Comparable Transaction valuation of some USD3.0M and a Yardstick valuation of some USD3.7M based on 75% ownership of this asset.

### ***Harrejaure***

Estimated historical spend on this asset amounts to some USD0.4M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD0.9M.

SCR consider this asset to have an Exploration Target tonnage and grade range of 10-20Mt at 40-45% Fe. Assuming the mid-point of this target range and applying a CF of 0.50, SRK estimates a Comparable Transaction valuation of some USD2.4M and a Yardstick valuation of some USD2.9M based on 75% ownership of this asset.

***Tjåorika***

Estimated historical spend on this asset amounts to some USD0.2M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD0.4M.

SCR consider this asset to have an Exploration Target tonnage and grade range of 15-30Mt at 45-55% Fe. Assuming the mid-point of this target range and applying a CF of 0.20, SRK estimates a Comparable Transaction valuation of some USD1.5M and a Yardstick valuation of some USD1.8M based on 100% ownership of this asset.

***Laukkujärvi***

Estimated historical spend on this asset amounts to some USD0.9M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD1.7M.

SCR consider this asset to have an Exploration Target tonnage and grade range of 4-8Mt at 30-35% Fe. Assuming the mid-point of this target range and applying a CF of 0.40, SRK estimates a Comparable Transaction valuation of some USD0.6M and a Yardstick valuation of some USD0.7M based on 75% ownership of this asset.

***Altavaara***

Estimated historical spend on this asset amounts to some USD0.3M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD0.6M.

SCR consider this asset to have an Exploration Target tonnage and grade range of 10-20Mt at 23-30% Fe. Assuming the mid-point of this target range and applying a CF of 0.50, SRK estimates a Comparable Transaction valuation of some USD1.9M and a Yardstick valuation of some USD2.3M based on 100% ownership of this asset.

***Paljasjärvi***

Estimated historical spend on this asset amounts to some USD0.3M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD5.0M.

SCR consider this asset to have an Exploration Target tonnage and grade range of 40-60Mt at 30-40% Fe. Assuming the mid-point of this target range and applying a CF of 0.40, SRK estimates a Comparable Transaction valuation of some USD7.0M and a Yardstick valuation of some USD8.4M based on 100% ownership of this asset.

***Åkosjegge***

Estimated historical spend on this asset amounts to some USD0.1M. SRK has applied a PM of 2.0 to this asset to give a Past Expenditure value of some USD0.2M.

SCR consider this asset to have an Exploration Target tonnage and grade range of 10-15Mt at 23-30% Fe. Assuming the mid-point of this target range and applying a CF of 0.10, SRK estimates a Comparable Transaction valuation of some USD0.3M and a Yardstick valuation of some USD0.4M based on 100% ownership of this asset.

***Leppäjoki***

Estimated historical spend on this asset amounts to some USD0.004M. SRK has applied a

PM of 2.0 to this asset to give a Past Expenditure value of some USD0.01M.

SCR consider this asset to have an Exploration Target tonnage and grade range of 5-8Mt at 35-45% Fe. Assuming the mid-point of this target range and applying a CF of 0.10, SRK estimates a Comparable Transaction valuation of some USD0.2M and a Yardstick valuation of some USD0.3M based on 100% ownership of this asset.

#### **4.2.3 Valuation of early stage Exploration Targets**

For early stage exploration assets, SRK has applied only a Past Expenditure valuation method.

##### ***Kiruna Projects***

Estimated historical spend on these assets amounts to some USD1.1M. SRK has applied a PM of 2.0 to these assets to give a Past Expenditure value of some USD2.2M.

##### ***Våtmyrberget Projects***

Estimated historical spend on these assets amounts to some USD0.01M. SRK has applied a PM of 1.0 to these assets to give a Past Expenditure value of some USD0.01M.

##### ***Caledonide Projects***

Estimated historical spend on these assets amounts to some USD1.5M. SRK has applied a PM of 1.0 to this asset to give a Past Expenditure value of some USD1.5M.

##### ***Finnmark Projects***

Estimated historical spend on these assets amounts to some USD1.4M. SRK has applied a PM of 1.0 to this asset to give a Past Expenditure value of some USD1.4M.

##### ***Other Projects***

Estimated historical spend on these assets amounts to some USD0.1M. SRK has applied a PM of 1.0 to this asset to give a Past Expenditure value of some USD0.1M.

#### **4.3 Valuation Summary**

Table 4-2 below presents a summary of the range of values by methodology for the Assets, with percentage ownership applied to reflect the value held by SCR.

The table has been split to show sub-totals for; Assets with Mineral Resource Estimates, Exploration Targets with grade-tonnage ranges and early stage Exploration Targets.

**Table 4-2: Valuation of SCR Assets by method**

Asset Name	Past Expenditure (USDm)	Comparable (USDm)	Yardstick (USDm)	SCR Ownership (%)
<b>Assets with Mineral Resource Estimates</b>				
Ekströmsberg	16.7	11.2	13.5	100%
Pattok	2.3	11.0	13.2	100%
Rakkurijärvi/Discovery/Tributary	8.8	20.4	26.1	100%
Rakkurijoki	18.8	23.7	28.4	100%
Sautusvaara South	5.2	9.3	11.2	75%
Sautusvaara North	2.0	3.4	4.0	75%
Tjärrojåkka	5.9	13.4	16.1	100%
Vieto	4.1	3.4	4.0	75%
<b>Sub-total</b>	<b>63.6</b>	<b>95.7</b>	<b>116.6</b>	
<b>Exploration Targets with grade-tonnage ranges</b>				
Åkosjegge	0.2	0.3	0.4	100%
Altavaara	0.6	1.9	2.3	100%
Tjäorika	0.4	1.5	1.8	75%
Renhagen	2.2	3.0	3.7	75%
Harrejaure	0.9	2.4	2.9	75%
Laukkujärvi	1.7	0.6	0.7	75%
Leppäjoki	0.0	0.2	0.3	100%
Paljasjärvi	0.5	7.0	8.4	100%
Puoltsa	3.0	6.0	7.1	100%
<b>Sub-total</b>	<b>9.5</b>	<b>22.9</b>	<b>27.5</b>	
<b>Early Stage Exploration Targets</b>				
Other Kiruna Projects	2.2			100%
Näsberg-Våtmyrberget Projects	0.0			100%
Caledonides Projects	1.5			100%
Finnmark Projects	1.4			100%
Other	0.1			100%
<b>Sub-total</b>	<b>5.2</b>			
<b>Less expenditure to acquire 100% of Projects (Scandinavian Iron)</b>	<b>(1.5)</b>	<b>(1.5)</b>	<b>(1.5)</b>	
<b>Total</b>	<b>76.8</b>	<b>117.1</b>	<b>142.6</b>	

It is generally accepted in the exploration industry that the valuation of exploration properties is a subjective process and is greatly influenced by the prevailing market conditions. The observations, comments and results of technical analyses presented in this report represent SRK's opinions as at the date of this report. SRK is confident that the opinions presented are reasonable and that the overall valuation is a fair reflection of the Technical Value of the Assets on 5 August 2011.

SRK considers that the Technical Value of the proportion of the Assets held by SCR lies in the range of USD77m to USD143m. SRK's preferred value is **USD125m**, which reflects a value closest to the Comparable Transaction valuation and also incorporates consideration of the Past Expenditure valuation of the Early Stage Exploration Target asset group.

## 5 DECLARATIONS

SRK is part of the international consulting group, SRK Consulting (Global) Limited (the SRK Group). The SRK Group comprises over 1,200 staff, offering expertise in a wide range of resource engineering disciplines. The SRK Group's independence is ensured by the fact that it holds no equity in any project. The SRK Group has a demonstrated track record in undertaking independent assessments, project evaluations and audits, Mineral Experts Reports, Competent Persons' Reports, Independent Valuation Reports and independent feasibility studies to bankable standards on behalf of exploration and mining companies and financial institutions worldwide.

Contributors to this report are listed in Table 5-1 below.

**Table 5-1: Contributors to this report**

<b>Name</b>	<b>Qualifications</b>	<b>Affiliations</b>	<b>Involvement</b>
Johan Bradley	BA(Hons), MSc	FGS CGeol, EurGeol	Report Author
Dr Mike Armitage	BSc, PhD	MIMMM, CEng	Peer Reviewer

Neither SRK or the contributors to this report listed in Table 5-1 above have any business relations with either SCR or BDO, other than the carrying out of individual consulting assignments as engaged.

Neither SRK nor the contributors to this report listed in Table 5-1 above nor their immediate families have any interests in SCR. SRK has no pecuniary interest, association or employment relationship with SCR or BDO.

SRK is being paid a fee according to its normal per diem rates and out of pocket expenses in the preparation of this report. SRK's fee is not contingent upon the outcome of the transaction upon which this report is based.

This report and its conclusions are effective as at 5 August, 2011.

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**For and behalf of SRK Consulting (Sweden) AB**

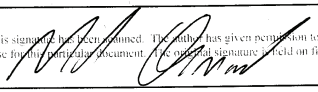
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Johan Bradley  
Managing Director & Senior Consultant  
(Geology),  
SRK Consulting (Sweden) AB

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Mike Armitage  
Chairman and Corporate Consultant  
(Resource Geology),  
SRK Consulting (Sweden) AB

## Abbreviations

JORC	Joint Ore Reserves Committee of the Australian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia.
SGU	Swedish Geological Survey
SEK	Swedish Krona
NOK	Norwegian Krone
Ga	Billion years

## Units

T	Metric tonnes
Kt	Thousand Tonnes
Mt	Million metric tonnes
SG	Specific Gravity
DTR	Davis Tube Recovery
Fe	Iron (element)
Cu	Copper (element)
S	Sulphur (element)
P	Phosphorous (element)
Au	Gold (element)
Co	Cobalt (element)

The Directors  
Scandinavian Resources Ltd  
Ground Floor  
28 Ord Street  
West Perth WA 6005

Dear Sirs

### **Purpose of Report & Consent**

The report below has been prepared by GeoVista AB for Scandinavian Resources Ltd (**SCR**) in relation to a Notice of Meeting and accompanying Expert's Reports prepared for the purpose of seeking various shareholder approvals.

This report provides a list of permits held by SCR and which are relevant to the valuation report prepared by SRK Consulting (Sweden) AB which is included as Appendix 3 to BDO's Independent Expert's Report accompanying SCR's Notice of Meeting. It has been prepared for the purpose of satisfying the requirements of paragraph 68 of the Valmin Code.

GeoVista AB consents to the public release of this report.

### **Independence**

GeoVista AB does not have an interest in SCR, its subsidiaries or the permits considered in this report. GeoVista AB have acted as consulting geoscientists and permit managers to SCR and its subsidiaries in Sweden and Norway and confirms it is familiar with the legal, environmental, landowner laws, regulations and policies that need to be managed by mining and exploration companies.

GeoVista AB has been contracted to lodge SCR's permits and will charge SCR a fee for preparing this report.

### **Responsibility for Information Contained in this Report**

GeoVista AB has made its own enquiries in relation to general matters pertaining to the validity of the Permits.

### **Sweden permits**

The result of our enquiries confirms that SCR has made valid applications for permits in Sweden, details of which are set out in the attached Appendix. We are not aware of any matter that would restrict SCR from exploration activities on the permits (including native title) if the activities are carried out in accordance with the Swedish mining and environmental laws.

---

#### **GeoVista AB**

P.O. Box 276  
S-971 08 LULEÅ  
Sweden

Visitors address: Stationsgatan 46  
e-mail: [info@geovista.se](mailto:info@geovista.se)  
[www.geovista.se](http://www.geovista.se)

Tel: +46-920-603 60  
Fax: +46-920-21 18 01

### **Norway permits**

The results of our enquiries confirm that SCR has made valid applications for Preclaims in Norway and that there are no outstanding annual fees. Details of the Preclaims are set out in the attached Appendix. We are not aware of any matter that would restrict SCR from exploration activities on the permits (including native title) if the activities are carried out in accordance with the Norwegian mining and environmental laws.

### **Special Conditions & Encumbrances**

After due enquiry of our own records and available Government information, it is GeoVista AB's opinion that there are no special conditions attaching to any of SCR's exploration permits that would restrict exploration activities if the exploration activities are carried out in accordance with the mining and environmental laws.

### **Litigation**

GeoVista AB is not aware of any litigation, pending or actual in relation to the Company's permits in Norway.

In Sweden, appeals have been lodged against the granting of the exploration permits Kaalasjärvi nr 1 and Tervakoski nr 3. GeoVista AB is not aware of any other litigation, pending or actual in relation to the Company's permits in Sweden.

### **Restrictions**

GeoVista AB is not aware of any restrictions that would prohibit SCR from exploring its Permits if the exploration activities are carried out in accordance with the Swedish and Norwegian mining and environmental laws.

If you have any questions you are welcome to contact us.

GeoVista AB



Thomas Lindholm

Appendix: Permit list



## Appendix – Permit List

Luleå 2011-09-20

Project	Permit Name	Note	Owner	Country	Area (ha)	Status	Grant Date	Expiry Date	Application Date	Minimum Annual Exploration Expenditure	Annual Fees Due
Kiruna	Ahmakerö nr 2		Kiruna Iron AB (100%)	Sweden	1387	Granted	19/11/2008	19/11/2011		Nil	
	Åkosjegge nr 1	1	Scandinavian Iron AB (100%)	Sweden	414.29	Granted	27/11/2007	27/11/2013		Nil	
	Altavaara		Kiruna Iron AB (100%)	Sweden	397.62	Granted	10/02/2010	10/02/2013		Nil	
	Altavaara Norra		Kiruna Iron AB (100%)	Sweden	88.07	Granted	5/11/2010	5/11/2013		Nil	
	Årosjokk nr 1	1	Scandinavian Iron AB(100%)	Sweden	1834.45	Granted	15/01/2009	15/01/2012		Nil	
	Ekströmsberg nr 4	1	Scandinavian Iron AB(100%)	Sweden	66.07	Granted	1/08/2007	1/08/2013		Nil	
	Ekströmsberg nr 5	1	Scandinavian Iron AB(100%)	Sweden	520.61	Granted	21/12/2007	21/12/2013		Nil	
	Eustiljåkk nr 1	1	Scandinavian Iron AB(100%)	Sweden	240	Granted	10/03/2009	10/03/2012		Nil	
	Eustillako		Kiruna Iron AB (100%)	Sweden	1851.23	Granted	20/01/2011	20/01/2014		Nil	
	Eustilvaras		Kiruna Iron AB (100%)	Sweden	168.78	Granted	27/01/2011	27/01/2014		Nil	
	Gäddmyr nr 1		Kiruna Iron AB (100%)	Sweden	397.82	Granted	24/02/2010	24/02/2013		Nil	
	Gäddmyr nr 2		Kiruna Iron AB (100%)	Sweden	397.62	Granted	24/02/2010	24/02/2013		Nil	
	Gäddmyr nr 3		Kiruna Iron AB (100%)	Sweden	397.72	Granted	24/02/2010	24/02/2013		Nil	
	Gordon-Kitchener nr 1		Kiruna Iron AB (100%)	Sweden	397.42	Granted	9/02/2010	9/02/2013		Nil	
	Gordon-Kitchener nr 2		Kiruna Iron AB (100%)	Sweden	397.82	Granted	9/02/2010	9/02/2013		Nil	
	Hårås nr 1		Kiruna Iron AB (100%)	Sweden	321.26	Granted	19/11/2008	19/11/2011		Nil	
	Harrejaure nr 1	2	Tasmet AB (100%)	Sweden	4068.64	Granted	17/01/2008	17/01/2014		Nil	
	Holmajärvi nr 1		Kiruna Iron AB (100%)	Sweden	3945.63	Granted	22/09/2010	22/09/2013		Nil	
	Holmajärvi Södra		Kiruna Iron AB (100%)	Sweden	1061	Granted	5/11/2010	5/11/2013		Nil	
	Honkavaara		Kiruna Iron AB (100%)	Sweden	5999.76	Granted	18/01/2011	18/01/2014		Nil	
	Kajpak nr 1	1	Scandinavian Iron AB(100%)	Sweden	1631.47	Granted	15/01/2009	15/01/2012		Nil	
	Kalixfors nr 2		Kiruna Iron AB (100%)	Sweden	2812.13	Granted	20/08/2010	20/08/2013		Nil	

Project	Permit Name	Note	Owner	Country	Area (ha)	Status	Grant Date	Expiry Date	Application Date
	Lainiojärvi nr 1		Kiruna Iron AB (100%)	Sweden	1190	Granted	5/11/2010	5/11/2013	Nil
	Lannavaara nr 7		Kiruna Iron AB (100%)	Sweden	1866.4	Granted	14/10/2010	14/10/2013	Nil
	Laukujärvi nr 3	2	Tasmet AB (100%)	Sweden	246.86	Granted	22/08/2008	22/08/2011	Ext. appl. lodged 2011-08-16
	Luppovare nr 1		Kiruna Iron AB (100%)	Sweden	874	Granted	19/11/2008	19/11/2011	Nil
	Luppovare nr 2		Kiruna Iron AB (100%)	Sweden	11550.61	Granted	4/02/2009	4/02/2012	Nil
	Luppovare nr 3		Kiruna Iron AB (100%)	Sweden	9524.71	Granted	7/04/2009	7/04/2012	Nil
	Masugnsbyn		Kiruna Iron AB (100%)	Sweden	3895	Granted	7/10/2010	7/10/2013	Nil
	Maunuvaara nr 2		Kiruna Iron AB (100%)	Sweden	397.62	Granted	18/02/2010	18/02/2013	Nil
	Maunuvaara nr 3		Kiruna Iron AB (100%)	Sweden	397.72	Granted	15/02/2010	15/02/2013	Nil
	Pahtohavare nr 2		Kiruna Iron AB (100%)	Sweden	337.34	Granted	20/01/2009	20/01/2012	Nil
	Pahtohavare nr 4		Kiruna Iron AB (100%)	Sweden	58.5	Granted	9/06/2009	9/06/2012	Nil
	Paljasjärvi nr 2		Kiruna Iron AB (100%)	Sweden	7550	Granted	25/02/2011	25/02/2014	Nil
	Pattok nr 1010	1	Scandinavian Iron AB (100%)	Sweden	147	Granted	29/04/2010	29/04/2013	Nil
	Piedjastjåkko nr 1		Kiruna Iron AB (100%)	Sweden	2168.17	Granted	19/11/2008	19/11/2011	Nil
	Piedjastjåkko nr 4		Kiruna Iron AB (100%)	Sweden	4258.31	Granted	29/01/2009	29/01/2012	Nil
	Piedjastjåkko nr 5		Kiruna Iron AB (100%)	Sweden	1250.33	Granted	29/01/2009	29/01/2012	Nil
	Piedjastjåkko nr 6		Kiruna Iron AB (100%)	Sweden	1107.93	Granted	12/04/2011	12/04/2014	Nil
	Puoltsa nr 4		Kiruna Iron AB (100%)	Sweden	397.72	Granted	1/02/2010	1/02/2013	Nil
	Puoltsa nr 5		Kiruna Iron AB (100%)	Sweden	397.62	Granted	1/02/2010	1/02/2013	Nil
	Puoltsa nr 6		Kiruna Iron AB (100%)	Sweden	219.12	Granted	7/03/2011	7/03/2014	Nil
	Rakkurijärvi nr 1	3	Kiruna Iron AB (100%)	Sweden	1100.63	Granted	17/04/1998	17/04/2011	Nil
	Rakkurijärvi nr 2		Kiruna Iron AB (100%)	Sweden	1742.18	Granted	5/02/2007	5/02/2014	Nil
	Rakten nr 1		Kiruna Iron AB (100%)	Sweden	281.5	Granted	19/11/2008	19/11/2011	Nil
	Rakten nr 2		Kiruna Iron AB (100%)	Sweden	268.5	Granted	14/01/2009	14/01/2012	Nil
	Ratek nr 1	1	Scandinavian Iron AB(100%)	Sweden	2463.43	Granted	15/01/2009	15/01/2012	Nil

Project	Permit Name	Note	Owner	Country	Area (ha)	Status	Grant Date	Expiry Date	Application Date
Kiruna	Salvotjåkka		Kiruna Iron AB (100%)	Sweden	231.66	Granted	22/09/2010	22/09/2013	Nil
	Sautusvaara nr 1	2	Tasmet AB (100%)	Sweden	1218.37	Granted	18/06/2007	18/06/2013	Nil
	Staggotjåkka		Kiruna Iron AB (100%)	Sweden	1686.95	Granted	22/09/2010	22/09/2013	Nil
	Tjärrojåkka nr 104	1	Scandinavian Iron AB(100%)	Sweden	2500	Granted	30/03/2009	30/03/2012	Nil
	Tjatitjvaratj nr 1		Kiruna Iron AB (100%)	Sweden	324.5	Granted	14/01/2009	14/01/2012	Nil
	Ultevis nr 1		Kiruna Iron AB (100%)	Sweden	1006.25	Granted	16/01/2009	16/01/2012	Nil
	Vieto nr 1	2	Tasmet AB (100%)	Sweden	1543.09	Granted	20/02/2008	20/02/2014	Nil
	Gäddmyr nr 4		Kiruna Iron AB (100%)	Sweden	2830.83	Granted	2/08/2011	2/08/2014	Nil
	Kaalasjärvi nr 1	4	Kiruna Iron AB (100%)	Sweden	621.96	Granted	1/09/2011	1/09/2014	Nil
	Lannavaara nr 8		Kiruna Iron AB (100%)	Sweden	749.25	Granted	19/08/2011	19/08/2014	Nil
	Pirttivuopio nr 1		Kiruna Iron AB (100%)	Sweden	150.00	Granted	30/08/2011	30/08/2014	Nil
	Rakkurijärvi nr 3		Kiruna Iron AB (100%)	Sweden	63.48	Granted	17/08/2011	17/08/2014	Nil
	Saivo nr 2		Kiruna Iron AB (100%)	Sweden	202.10	Granted	27/06/2011	27/06/2014	Nil
	Salmijärvi nr 1		Kiruna Iron AB (100%)	Sweden	573.80	Granted	15/08/2011	15/08/2014	Nil
	Tervakoski nr 3	4	Kiruna Iron AB (100%)	Sweden	340.00	Granted	27/06/2011	27/06/2014	Nil
Tornefors nr 1		Kiruna Iron AB (100%)	Sweden	51.89	Granted	15/08/2011	15/08/2014	Nil	
Villenjärvi nr 1		Kiruna Iron AB (100%)	Sweden	255.25	Granted	22/08/2011	22/08/2014	Nil	
Näsberg-Våtmyrberget	Våtmyrberget nr 1		Scandinavian Resources AB (100%)	Sweden	2028.05	Granted	1/07/2008	1/07/2012	Nil
	Våtmyrberget nr 2		Scandinavian Resources AB (100%)	Sweden	2158	Granted	1/10/2008	1/10/2011	Nil
	Våtmyrberget nr 3		Scandinavian Resources AB (100%)	Sweden	414.47	Granted	1/10/2008	1/10/2011	Nil
	Våtmyrberget nr 4		Scandinavian Resources AB (100%)	Sweden	2109	Granted	8/10/2010	8/10/2013	Nil
	Långträskberget nr 1		Scandinavian Resources AB (100%)	Sweden	229	Granted	1/10/2008	1/10/2011	Nil
Caledonides	Daningen nr 2		Scandinavian Resources AB (100%)	Sweden	2293.48	Granted	19/11/2009	19/11/2012	Nil
	Daningen nr 3		Scandinavian Resources AB (100%)	Sweden	909	Granted	12/01/2011	12/01/2014	Nil

Project	Permit Name	Note	Owner	Country	Area (ha)	Status	Grant Date	Expiry Date	Application Date
Caledonides	Marmere nr 1		Scandinavian Resources AB (100%)	Sweden	470	Granted	1/07/2008	1/07/2012	Nil
	Ropen nr 2		Scandinavian Resources AB (100%)	Sweden	400	Granted	19/11/2009	19/11/2012	Nil
	Särksjön nr 2		Scandinavian Resources AB (100%)	Sweden	400	Granted	24/02/2010	24/02/2013	Nil
	Särksjön nr 3		Scandinavian Resources AB (100%)	Sweden	700	Granted	29/09/2010	29/09/2013	Nil
	Stekenjokk nr 7		Scandinavian Resources AB (100%)	Sweden	1708.56	Granted	28/10/2010	28/10/2013	Nil
	Unna Gaisartjåkko nr 2		Scandinavian Resources AB (100%)	Sweden	2400	Granted	12/01/2011	12/01/2014	Nil
	Famnvatnet 1-91		Scandinavian Resources AB (100%)	Norway	2.275	Granted	17/10/2008	17/10/2015	Nil
	Famnvatnet 96-348		Scandinavian Resources AB (100%)	Norway	6.325	Granted	29/10/2009	29/10/2016	Nil
	Famnvatnet 349-564		Scandinavian Resources AB (100%)	Norway	5.4	Granted	2/11/2009	2/11/2016	Nil
	Famnvatnet 565-575		Scandinavian Resources AB (100%)	Norway	1.35	Granted	26/08/2010	26/08/2017	Nil
Caledonides	Bleikvassli 10-45		Scandinavian Resources AB (100%)	Norway	3.6	Granted	15/07/2010	15/07/2017	Nil
	Bleikvassli 46-47		Scandinavian Resources AB (100%)	Norway	1.2	Granted	21/03/2011	21/03/2018	Nil
	Gjetarfjellet		Scandinavian Resources AB (100%)	Norway	0.45	Granted	29/09/2010	29/09/2017	Nil
	Husvika 1-2		Scandinavian Resources AB (100%)	Norway	1.15	Granted	7/06/2011	7/06/2018	Nil
	Ravnåsen		Scandinavian Resources AB (100%)	Norway	0.7	Granted	21/03/2011	21/03/2018	Nil
	Øvre Elsvatnet 1-17		Scandinavian Resources AB (100%)	Norway	0.425	Granted	16/09/2009	16/09/2016	Nil
Finnmark	Neiden 1-7, Notsynene 1-8		Kiruna Iron AB (100%)	Norway	12	Granted	14/05/2011	14/05/2018	Nil
	Gjeddevann 1		Scandinavian Resources AB (100%)	Norway	0.9	Granted	21/03/2011	21/03/2018	Nil
	Gjeddevann 2-6		Scandinavian Resources AB (100%)	Norway	3.35	Granted	14/05/2011	14/05/2018	Nil
	Gjeddevann 7-8		Scandinavian Resources AB (100%)	Norway	1.6	Granted	7/06/2011	7/06/2018	Nil
	Njivlojávri 1-2,		Scandinavian Resources AB (100%)	Norway	2	Granted	21/03/2011	21/03/2018	Nil
	Gorvvesjávri 1-2,		Scandinavian Resources AB (100%)	Norway	1.65	Granted	15/05/2011	15/05/2018	Nil

Project	Permit Name	Note	Owner	Country	Area (ha)	Status	Grant Date	Expiry Date	Application Date
	Geassámaras 1		Scandinavian Resources AB (100%)	Norway	0.6	Granted	21/03/2011	21/03/2018	Nil
	Kåfjord 1-7		Scandinavian Resources AB (100%)	Norway	5.4	Granted	7/06/2011	7/06/2018	Nil
	Raipas 1-3		Scandinavian Resources AB (100%)	Norway	1.3	Granted	14/05/2011	14/05/2018	Nil
	Birtavarre 1-10		Scandinavian Resources AB (100%)	Norway	7.6	Granted	7/06/2011	7/06/2018	Nil
	Ringvassøya 1-3		Scandinavian Resources AB (100%)	Norway	2.25	Granted	14/05/2011	14/05/2018	Nil
	Ringvassøya 4		Scandinavian Resources AB (100%)	Norway	1	Granted	15/07/2011	15/07/2018	Nil
	Vaddas 1-10		Scandinavian Resources AB (100%)	Norway	7.3	Granted	16/07/2011	16/07/2018	Nil

#### Applications

	Korpilombolo nr 1		Scandinavian Resources AB (100%)	Sweden	5398,75	Application		22/08/2011	
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#### Notes

- 1 Transaction with Grängesberg Iron entered into on 7 June 2011
- 2 Joint Venture with Tasman Metals entered into on 15 June 2010
- 3 Valid until the application for a mining concession for the area has been decided upon
- 4 Appeal lodged against the granting of exploration permit