

Forge Resources Ltd

(ACN 139 886 187)

Notice of General Meeting and Explanatory Memorandum

The General Meeting is to be held at 10.30am (Sydney time) on Friday 25 May 2012 at the offices of Forge Resources Ltd at Level 24, 56 Pitt Street, Sydney or immediately after the end of the meetings of shareholders to be held on the same day at the same place starting from 10.00am (Sydney time), whichever is later.

This is an important document and requires your immediate attention. If you are in any doubt as to how to deal with this document, please consult your financial, legal, tax or other professional adviser immediately. This document is accompanied by an independent expert's report.



Adviser to Forge Resources Ltd

IMPORTANT INFORMATION

This is an important document that should be read in its entirety. If you are in any doubt as to how to deal with this document, please consult your financial, legal, tax or other professional adviser immediately.

This document comprises a Notice of General Meeting and an Explanatory Memorandum, and is accompanied by an Independent Expert's Report. The Explanatory Memorandum and the Independent Expert's Report have been prepared to assist Shareholders in determining whether or not to vote in favour of the Resolutions at the General Meeting.

You are encouraged to attend the General Meeting, but if you cannot you are requested to complete and return the enclosed Proxy Form without delay.

KEY DATES

Date of this document	Tuesday 24 April 2012
Proxy Form to be received not later than	12.00pm (Sydney time) on Wednesday 23 May 2012
General Meeting of Forge Shareholders at the offices of Forge at Level 24, 56 Pitt Street, Sydney	10.00am (Sydney time) on Friday 25 May 2012 or immediately after the end of the meetings of shareholders to be held on the same day at the same place starting from 10.00am (Sydney time), whichever is later

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This document is accompanied by an Independent Expert's Report

LETTER FROM THE DIRECTORS OF FORGE

24 April 2012

Dear Forge Shareholder,

On behalf of my fellow Directors, it gives me great pleasure to present to you this Notice of Meeting and Explanatory Memorandum, and the opportunity to consider a transformative transaction for Forge Resources Ltd (“**Forge**”).

Background

Forge was admitted to the ASX in September 2010, when Forge stated that a critical part of its charter was to seek actively to acquire or participate in further resource and energy projects both in Australia and internationally.

On 29 September 2011, Forge announced a new initiative with project participation via a proposed Farm-In Agreement for the Eucla West Heavy Mineral Sand Project. The Eucla West Mineral Sands tenements cover an area of approximately 218 square kilometres on the western margin of the Eucla Basin. The Eucla Basin in southern Australia is emerging as an important global source of zircon and titanium from heavy mineral sands. Forge is positive about this project, however recognises it is an exploration project.

The Board believes the agreement with Atlas Iron Limited to acquire the Balla Balla Magnetite, Vanadium and Titanium Project (“**Balla Balla**”) in Western Australia, announced on 16 December 2011, is a far more significant step in the development of Forge. Balla Balla is a project which is very well advanced and has the prospects to be a company-transforming asset.

The Board of Forge believes the Balla Balla project is an exciting opportunity for Forge for four key reasons:

- **The advanced nature of the project minimising technical and resource risk:** The project is at the Definitive Feasibility Study stage and has a mineral reserve on an approved mining lease. The resource is well defined and with potential for extension. Processing is simple and well understood.
- **Compelling economics driven by low operating costs for magnetite production:** Key contributing factors to low operating costs include:
 - an ilmenite concentrate **by-product credit**;
 - the project **location and infrastructure** advantages; and
 - the ability to produce a relatively **coarse grained** magnetite concentrate, thus having relatively lower power and milling costs.
- **Competitive advantage for steel mill customers:** The steel mills able to process high vanadium and titanium iron ores enjoy a significant competitive advantage through either realising value from vanadium and titanium by-product revenue, or through direct use of vanadium and titanium in high quality and price steel production.
- **Growth in demand for Ti – V – magnetite:** Steel standards are increasing in China, driven by legislation, requiring alloying elements such as vanadium to meet these higher specifications.

Proposed funding transaction

On 19 March 2012, Forge announced that it had signed definitive documentation with Todd Capital Limited (“**Todd**”) whereby Todd has agreed that it will, via related bodies corporate, enter into an unincorporated Joint Venture (“**JV**”) with Forge for the development of the Balla Balla Magnetite – Vanadium – Titanium Project in Western Australia. Todd is a wholly-owned subsidiary of The Todd Corporation Limited, a private New Zealand based company with a diversified portfolio of business interests.

As part of the proposed transaction, Todd has agreed to provide \$45.5 million of a \$50 million funding package for Forge. The proposed funding transaction is subject to certain conditions including Foreign Investment Review Board (FIRB) approval, Forge shareholder approval and other third party approvals including consent from Atlas Iron Limited. The funding transaction will comprise the following components (for which shareholder approval is being sought):

- Forge, via a wholly-owned subsidiary, will complete the acquisition of a 75% interest in the Balla Balla Magnetite – Vanadium – Titanium Project from Atlas Iron Limited and Todd will purchase a direct 25% interest in the Balla Balla project. The aggregate purchase price will be approximately \$40 million (of which Todd will pay 25% and Forge will pay 75%) plus a capped royalty payment structure based on tonnage sold (which will be assumed by Todd and Forge in 25/75 proportions).
- Forge and Todd will enter into an unincorporated JV for the Balla Balla project.
- Forge will issue an aggregate of 25 million fully paid ordinary shares at an issue price of \$0.50 per share, of which 16 million will be issued to Todd and 9 million shares will be placed to sophisticated/institutional investors.
- Todd will receive 6.5 million options to subscribe for additional fully paid ordinary shares of Forge, with each option having an expiry date 2 years from the date of issue and an exercise price of \$0.50 per share.
- Todd will provide a Forge subsidiary (at the Balla Balla JV level) with \$27.5 million of senior secured debt secured over Forge's interests in the Balla Balla project. The debt will have an initial 2 year term, which can be rolled 6 monthly at the option of Todd up to a maximum 10 year term. During the first 2 years, interest will accrue at 15% per annum compounded annually, and during each rollover period it will accrue at 5% per annum plus BBSW (bank bill swap rate) for the rollover period. If the JV Option (described below) is exercised and completed, the entire loan amount will become repayable and the \$36.4 million purchase price will be used to offset the outstanding loan amount by \$36.4 million. The outstanding debt will also become repayable upon first drawdown of project finance.
- Forge will grant an option to Todd whereby, subject to certain conditions (including Forge securing project finance on the Balla Balla project) Todd has the ability to acquire from Forge an additional 7.5% interest in the unincorporated joint venture for the Balla Balla project for a purchase price of \$36.4 million (the "**JV Option**"). The JV Option will expire on the earliest of: project finance being obtained and drawn for the Balla Balla project; the date on which the Todd senior secured project-level debt facility is due to be repaid; and the end of 10 years.
- Forge will issue 24 million fully paid ordinary shares to (or for the benefit of) Forge's Chairman, Mr Nicholas Curtis. A key consideration for Todd in making and proceeding with its investment

is that Mr Curtis be Chairman of Forge and appropriately incentivised to oversee the successful development of the Balla Balla project.

At closing of the proposed transaction, Todd will be entitled to have one nominee appointed to the Forge Board. In addition, Forge will grant Todd a top-up right to subscribe for additional shares in order to maintain its percentage interest in Forge in circumstances where there is a third party share issue.

This funding transaction will enable Forge to complete the purchase of Balla Balla from Atlas Iron Limited and provide Forge with additional working capital to advance both Balla Balla and the Eucla West mineral sands project in Western Australia.

It has also been agreed between Forge and Todd that Forge shall undertake the marketing of the magnetite concentrate and titanium concentrate products from the Balla Balla JV via an exclusive marketing agreement (on terms to be agreed).

Todd's proposed investment represents both a confirmation of the exciting opportunity which Forge's proposed flagship Balla Balla Magnetite – Vanadium – Titanium Project represents, as well as a vote of confidence in Forge's ability to develop a significant resources business under the stewardship of Mr Curtis.

The resolutions put forward for shareholders' consideration in the attached Notice of General Meeting and Explanatory Memorandum, if approved, shall satisfy a key condition to the proposed funding transaction. If all of the conditions to the funding transaction are satisfied, Forge will be able to complete the Balla Balla acquisition from Atlas Iron Limited and enter into a joint venture with Todd in the development of this opportunity with the aim of creating value for all shareholders.

Shareholders are also being asked to approve the issue to Forge's adviser, Riverstone Advisory Pty Ltd, of 1 million options to subscribe for fully paid ordinary shares of Forge. Each option will have an expiry date 3 years from the date of issue and an exercise price of \$0.50 per share. Shareholder approval is sought as Riverstone Advisory Pty Ltd is indirectly owned by two of Forge's Directors, Mr Nicholas Curtis and Mr Harold Ou Wang. Neither the funding transaction or the Balla Balla acquisition is conditional upon shareholder approval of these options.

Favourable outlook for resource and energy markets

The resource and energy markets are currently experiencing favourable trading and economic conditions. Forge believes that there will be continuing favourable demand and pricing for the potential production output from the Balla Balla project,

- *Magnetite* is an iron ore product. Forge believes that the continued strong demand for iron ore will be supported by various factors including: the continued urbanisation and industrialisation in developing world countries and regions such as China, India, Russia and the Middle East; and the lack of competition on the supply end which has caused steelmaker clients to steadily lose negotiating power.
- *Vanadium* is predominantly used in the manufacturing of high quality steel. Vanadium consumption in China is increasing, in two respects: first, consumption is increasing in line with higher steel production and second, Chinese use of vanadium per tonne of steel is increasing to move in line with developed economies such as the United States.

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- *Ilmenite* is a titanium-bearing mineral that, directly or indirectly supplies more than 90% of the feedstock to the large titanium pigment industry as well as to the very significant and growing titanium sponge/metal market, plus some smaller industrial applications.

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I encourage you to read in full the details within the Notice of General Meeting and Explanatory Memorandum (including the accompanying Independent Expert's Report). The independent expert has concluded that the proposed funding transaction is **not fair but reasonable** to Forge shareholders not associated with the proposed funding transaction.

The Recommending Directors of Forge (being myself and Mr Emmanuel Correia) unanimously recommend that Forge shareholders vote in favour of all of the Forge shareholder resolutions at the General Meeting, in the absence of a superior proposal.

Yours sincerely,



Dr Matthew James
Managing Director



NOTICE OF GENERAL MEETING

Notice is given that a General Meeting of Shareholders of Forge Resources Ltd ("**Forge**" or the "**Company**") will be held on **Friday 25 May 2012 at 10.00am (Sydney time) at Level 24, 56 Pitt Street, Sydney** or immediately after the end of the meetings of shareholders to be held on the same day at the same place starting from 10.00am (Sydney time), whichever is later.

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

The Directors have determined that, pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth), the persons eligible to vote at the General Meeting are those who are registered holders of Shares as at 7.00pm (Sydney time) on **Wednesday 23 May 2012**.

Terms and abbreviations used in this Notice of General Meeting are defined in the Glossary to the Explanatory Memorandum.

RESOLUTION 1: ISSUE OF SHARES TO TODD

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

"That, subject to and conditional on the other resolutions in this Notice of General Meeting being passed (other than Resolutions 9 and 10), for the purposes of ASX Listing Rule 7.1, item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for Forge to issue to TIO (NZ) Limited (incorporated as a wholly-owned subsidiary of The Todd Corporation Limited) or to another wholly-owned subsidiary of The Todd Corporation Limited 16,000,000 fully paid ordinary shares in Forge at an issue price of \$0.50 per share, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of General Meeting."

Voting exclusion statement: Forge will disregard any votes cast on this resolution by The Todd Corporation Limited, any subsidiary of The Todd Corporation Limited (including TIO (NZ) Limited) and any of their respective associates (each a "**Todd entity**"). In addition, Forge will disregard any votes cast on this resolution by: (a) any other person who may participate in the proposed issue of securities and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed; and (b) any associate of a person referred to in the preceding paragraph (a).

However, Forge need not disregard a vote if: (a) it is cast by a person as the proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or (b) 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. Notwithstanding this, Forge will disregard any vote cast on this resolution by any Todd entity.

In addition, Forge will disregard any votes cast on this resolution by Mr Nicholas Curtis, Mr Harold Ou Wang and their respective associates.

RESOLUTION 2: ISSUE OF OPTIONS TO TODD

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

"That, subject to and conditional on the other resolutions in this Notice of General Meeting being passed (other than Resolutions 9 and 10), for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for Forge to issue to TIO (NZ) Limited (incorporated as a wholly-owned subsidiary of The Todd Corporation Limited) or to another wholly-owned subsidiary of The Todd Corporation Limited 6,500,000 options to subscribe for fully paid ordinary shares in Forge, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of General Meeting."

Voting exclusion statement: Forge will disregard any votes cast on this resolution by The Todd Corporation Limited, any subsidiary of The Todd Corporation Limited (including TIO (NZ) Limited) and any of their respective associates. In addition, Forge will disregard any votes cast on this resolution by: (a) any other person who may participate in the proposed issue of securities and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed; and (b) any associate of a person referred to in the preceding paragraph (a). However, Forge need not disregard a vote if: (a) it is cast by a person as the proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or (b) 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.

In addition, Forge will disregard any votes cast on this resolution by Mr Nicholas Curtis, Mr Harold Ou Wang and their respective associates.

RESOLUTION 3: ISSUE OF SHARES TO TODD UPON EXERCISE OF OPTIONS

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

"That, subject to and conditional on the other resolutions in this Notice of General Meeting being passed (other than Resolutions 9 and 10), for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for Forge to issue to TIO (NZ) Limited (incorporated as a wholly-owned subsidiary of The Todd Corporation Limited) or to another wholly-owned subsidiary of The Todd Corporation Limited fully paid ordinary shares in Forge upon the exercise of options referred to in Resolution 2, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of General Meeting."

Voting exclusion statement: Forge will disregard any votes cast on this resolution by The Todd Corporation Limited, any subsidiary of The Todd Corporation Limited and any of their respective associates. In addition, Forge will disregard any votes cast on this resolution by Mr Nicholas Curtis, Mr Harold Ou Wang and their respective associates.

RESOLUTION 4: BALLA BALLA PROJECT

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

"That, subject to and conditional on the other resolutions in this Notice of General Meeting being passed (other than Resolutions 9 and 10):

- (a) for the purposes of ASX Listing Rule 10.1 and for all other purposes, approval is given for the disposal by Forge Resources Swan Pty Ltd (being a wholly-owned*

subsidiary of Forge) ("**Forge Resources Swan**") to Balla Two (Mining) Pty Ltd (incorporated as a wholly-owned subsidiary of The Todd Corporation Limited) or to another wholly-owned subsidiary of The Todd Corporation Limited (in each case "**Todd JV Party**") of a 25% ownership interest in the Balla Balla magnetite project in Western Australia;

- (b) for all relevant purposes, approval is given for Forge Resources Swan Pty Ltd and certain of its related bodies corporate to enter into various Joint Venture Documents with certain wholly-owned subsidiaries of The Todd Corporation Limited in connection with an unincorporated joint venture to be established in relation to the Balla Balla project;
- (c) for the purposes of ASX Listing Rule 10.1 and 11.2 and for all other purposes, approval is given for:
- (i) Forge Resources Swan to grant a charge to Todd JV Party over its interest in the Balla Balla project joint venture to be established between the parties, as part of a Cross Security Deed between the joint venture parties;
 - (ii) any subsequent disposals by Forge Resources Swan or by another subsidiary of Forge to Todd JV Party or to another wholly-owned subsidiary of The Todd Corporation Limited of ownership interests in the Balla Balla project (or in any assets which are or in the future become part of the Balla Balla project or the joint venture established by the Joint Venture Agreement) pursuant to any enforcement of the Cross Security Deed; and
 - (iii) any subsequent acquisitions by Forge Resources Swan or by another subsidiary of Forge from Todd JV Party or from another wholly-owned subsidiary of The Todd Corporation Limited of ownership interests in the Balla Balla project (or in any assets which are or in the future become part of the Balla Balla project or the joint venture established by the Joint Venture Agreement) pursuant to any enforcement of the Cross Security Deed;
- (d) for the purposes indicated below and for all other purposes, approval is given for any subsequent disposals by Forge Resources Swan or by another subsidiary of Forge to Todd JV Party or to another wholly-owned subsidiary of The Todd Corporation Limited of ownership interests in the Balla Balla project (or in any assets which are or in the future become part of the Balla Balla project or the joint venture established by the Joint Venture Agreement) pursuant to the following:
- (i) the Joint Venture Agreement, as described in the following sections of the Explanatory Memorandum accompanying this Notice of General Meeting:
 - (A) section 11.3(a) ("Rights of pre-emption") – approval for the disposals described in that section is given for the purposes of ASX Listing Rule 10.1;
 - (B) section 11.3(b) ("Change of control or less than minimum interest") – approval for the disposals described in that section is given for the purposes of ASX Listing Rules 10.1 and 11.2;

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- (C) section 11.3(c) ("Default") - approval for the disposals described in that section is given for the purposes of ASX Listing Rules 10.1 and 11.2; and
- (D) section 11.3(d)(ii) ("Sole risk proposal – Buy-in right") – approval for the disposals described in that section is given for the purposes of ASX Listing Rule 10.1; and
- (ii) the Joint Venture Option Agreement, as described in section 11.4 of the Explanatory Memorandum accompanying this Notice of General Meeting – approval for the disposal described in that section is given for the purposes of ASX Listing Rule 10.1; and
- (e) for the purposes of ASX Listing Rule 10.1 and for all other purposes, approval is given for any subsequent acquisitions by Forge Resources Swan or by another subsidiary of Forge from Todd JV Party or from another wholly-owned subsidiary of The Todd Corporation Limited of ownership interests in the Balla Balla project (or in any assets which are or in the future become part of the Balla Balla project or the joint venture established by the Joint Venture Agreement) pursuant to the Joint Venture Agreement, as described in the following sections of the Explanatory Memorandum accompanying this Notice of General Meeting:
- (i) section 11.3(a) ("Rights of pre-emption");
- (ii) section 11.3(b) ("Change of control or less than minimum interest");
- (iii) section 11.3(c) ("Default"); and
- (iv) section 11.3(d)(ii) ("Sole risk proposal – Buy-in right"),

on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of General Meeting."

Voting exclusion statement: Forge will disregard any votes cast on this resolution by The Todd Corporation Limited, any subsidiary of The Todd Corporation Limited (including Balla Two (Mining) Pty Ltd) and any of their respective associates. However, Forge need not disregard a vote if: (a) it is cast by a person as the proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or (b) 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.

In addition, Forge will disregard any votes cast on this resolution by Mr Nicholas Curtis, Mr Harold Ou Wang and their respective associates.

RESOLUTION 5: GRANTING OF SECURITY INTERESTS OVER ASSETS AND GUARANTEE

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

"That, subject to and conditional on the other resolutions in this Notice of General Meeting being passed (other than Resolutions 9 and 10), for the purposes of ASX Listing Rules 10.1 and 11.2 and for all other purposes, approval is given for:

- (a) *Forge Balla Balla Investments Pty Ltd (being the wholly-owned subsidiary of Forge which holds, or is to hold, all of Forge's shares in Forge Resources Swan Pty Ltd) ("**Forge Balla Balla Investments**") to grant security over all of its assets to Balla*

*One (Investments) Pty Ltd (incorporated as a wholly-owned subsidiary of The Todd Corporation Limited) or to another wholly-owned subsidiary of The Todd Corporation Limited (in each case "**Todd Lender**") pursuant to a General Security Deed in connection with a proposed loan from Todd Lender to Forge Resources Swan Pty Ltd ("**Loan**"), and for the potential disposal of those assets which may from time to time arise by Todd Lender exercising its rights under the General Security Deed;*

- (b) Forge Balla Balla Investments to provide an unlimited guarantee in favour of Todd Lender pursuant to a Loan Facility Agreement for Forge Resources Swan Pty Ltd's obligations under the Loan, and for the potential calling of that guarantee by Todd Lender in the event Forge Resources Swan fails to perform its obligations under the Loan; and*
- (c) Forge Resources Swan Pty Ltd to grant security over all of its assets to Todd Lender pursuant to a General Security Deed and Tenement Mortgage in connection with the Loan (including mortgages over the Balla Balla project tenements in which Forge Resources Swan Pty Ltd proposes to acquire an ownership interest), and for the potential disposal of those assets which may from time to time arise by Todd Lender exercising its rights of enforcement under the General Security Deed or Tenement Mortgage following an event of default,*

on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of General Meeting."

Voting exclusion statement: Forge will disregard any votes cast on this resolution by The Todd Corporation Limited, any subsidiary of The Todd Corporation Limited (including Balla One (Investments) Pty Ltd) and any of their respective associates. In addition, Forge will disregard any votes cast on this resolution by: (a) a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed; and (b) any associate of a person referred to in the preceding paragraph (a). However, Forge need not disregard a vote if: (a) it is cast by a person as the proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or (b) 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.

In addition, Forge will disregard any votes cast on this resolution by Mr Nicholas Curtis, Mr Harold Ou Wang and their respective associates.

RESOLUTION 6: FINANCIAL ASSISTANCE

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

"That, subject to and conditional on the other resolutions in this Notice of General Meeting being passed (other than Resolutions 9 and 10), for the purposes of section 260B of the Corporations Act and for all other purposes, approval is given for:

- (a) Forge Resources Swan Pty Ltd and Forge Balla Balla Investments Pty Ltd (each of which is currently a wholly-owned subsidiary of Forge) (each a "**Grantor**") to provide financial assistance to TIO (NZ) Limited (incorporated as a wholly-owned subsidiary of The Todd Corporation Limited) or to another wholly-owned subsidiary*

of The Todd Corporation Limited (in each case "**Todd Shareholder**") for the purpose of, or in connection with:

- (i) Forge issuing to Todd Shareholder 16,000,000 fully paid ordinary shares in Forge at an issue price of \$0.50 per share; and
- (ii) Forge issuing to Todd Shareholder 6,500,000 options to subscribe for fully paid ordinary shares in Forge, and the subsequent issue of shares upon the exercise of such options,

(the "**Acquisitions**") as described in the Explanatory Memorandum accompanying this Notice of General Meeting; and

- (b) each Grantor to provide financial assistance to Todd Shareholder for the purpose of, or in connection with, the Acquisitions, as described in the Explanatory Memorandum accompanying this Notice of General Meeting.

Voting exclusion statement: Forge will disregard any votes cast on this resolution by The Todd Corporation Limited, any subsidiary of The Todd Corporation Limited (including TIO (NZ) Limited) and any of their respective associates. In addition, Forge will disregard any votes cast on this resolution by Mr Nicholas Curtis, Mr Harold Ou Wang and their respective associates.

RESOLUTION 7: ISSUE OF SHARES TO MR NICHOLAS CURTIS

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

"That, subject to and conditional on the other resolutions in this Notice of General Meeting being passed (other than Resolutions 9 and 10), for the purposes of item 7 of section 611 of the Corporations Act, Chapter 2E of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given for Forge to issue to Mr Nicholas Curtis (or to the trustee of the Forge Resources Ltd Employee Share Trust to be held on behalf of Mr Nicholas Curtis) 24,000,000 fully paid ordinary shares in Forge for no cash consideration on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of General Meeting."

Voting exclusion statement: Forge will disregard any votes cast on this resolution by Mr Nicholas Curtis, Mr Harold Ou Wang and their respective associates.

However, Forge need not disregard a vote if: (a) it is cast by a person as the proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or (b) 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. Notwithstanding this, Forge will disregard any vote cast on this resolution by Mr Nicholas Curtis or any of his associates.

RESOLUTION 8: ISSUE OF SHARES TO VARIOUS INVESTORS

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

"That, subject to and conditional on the other resolutions in this Notice of General Meeting being passed (other than Resolutions 9 and 10), for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for Forge to issue 9,000,000 fully paid ordinary shares in Forge at an issue price of \$0.50 per share, with such shares to be issued to selected institutional and sophisticated investors (who are not related parties of Forge) on

the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of General Meeting.”

Voting exclusion statement: Forge 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, if the resolution is passed, and any of their associates. However, Forge need not disregard a vote if: (a) it is cast by a person as the proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or (b) 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.

In addition, Forge will disregard any votes cast on this resolution by Mr Nicholas Curtis, Mr Harold Ou Wang and their respective associates.

RESOLUTION 9: ISSUE OF OPTIONS TO RIVERSTONE ADVISORY

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

“That, subject to and conditional on the other resolutions in this Notice of General Meeting being passed (other than Resolution 10), for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for Forge to issue to Riverstone Advisory Pty Ltd (a company in which Forge's Chairman, Mr Nicholas Curtis, is the controlling shareholder) 1,000,000 options to subscribe for fully paid ordinary shares in Forge, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of General Meeting.”

Voting exclusion statement: Forge will disregard any votes cast on this resolution by Mr Nicholas Curtis (who, through entities controlled by him, controls 66.7% of the shares in Riverstone Advisory Pty Ltd), Mr Harold Ou Wang (who, through entities controlled by him, controls 33.3% of the shares in Riverstone Advisory Pty Ltd) and any of their respective associates. In addition, Forge will disregard any votes cast on this resolution by any other person who may participate in the proposed issue and any other person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed, and any of their associates.

However, Forge need not disregard a vote if: (a) it is cast by a person as the proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or (b) 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.

RESOLUTION 10: ISSUE OF SHARES TO RIVERSTONE ADVISORY UPON EXERCISE OF OPTIONS

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

“That, subject to and conditional on the other resolutions in this Notice of General Meeting being passed, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for Forge to issue to Riverstone Advisory Pty Ltd (or to a permitted transferee of options issued to Riverstone Advisory Pty Ltd) fully paid ordinary shares in Forge upon the exercise of options referred to in Resolution 9, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of General Meeting.”

Voting exclusion statement: Forge will disregard any votes cast on this resolution by Mr Nicholas Curtis (who, through entities controlled by him, controls 66.7% of the shares in Riverstone Advisory Pty Ltd), Mr Harold Ou Wang (who, through entities controlled by him, controls 33.3% of the shares in Riverstone Advisory Pty Ltd) and any of their respective associates.

DATED: 24 April 2012

By order of the Board.

A handwritten signature in black ink, appearing to read "Shane Hartwig". The signature is written in a cursive, flowing style.

Shane Hartwig
Company Secretary

NOTES TO NOTICE OF GENERAL MEETING:

Explanatory Memorandum

This Notice of General Meeting should be read in conjunction with the accompanying Explanatory Memorandum.

Eligibility to vote

In accordance with the Corporations Act and the Constitution, a person's entitlement to vote at the General Meeting will be determined by reference to the number of fully paid ordinary shares registered in the name of that person (reflected in the register of members) as at 7.00pm (Sydney time) on Wednesday 23 May 2012.

Approval thresholds

Each of the Resolutions (other than Resolution 6) will be proposed as an ordinary resolution – in order for each such Resolution to be passed, more than 50% of the votes cast by Shareholders entitled to vote on the Resolution must be in favour of the Resolution.

Resolution 6 will be proposed as a special resolution – in order for such Resolution to be passed, at least 75% of the votes cast by Shareholders entitled to vote on the Resolution must be in favour of the Resolution.

Proxy votes

A member (ie. a Shareholder) entitled to attend and vote is entitled to appoint not more than two (2) proxies to attend and vote in their place.

Where more than one (1) proxy is appointed, the appointment may specify the proportion or number of votes that the proxy may exercise, otherwise each may exercise half of the votes.

A proxy need not be a member.

A form of proxy must be signed by the member or the member's attorney.

Proxies must reach Forge by no later than 12.00pm (Sydney time) on Wednesday 23 May 2012. Proxies received after this time will not be valid.

Proxies may be lodged in person, by post or by fax. The address and fax number details for lodgement of proxies is:

Delivery Address:	Postal Address:	Fax Number:
Forge Resources Ltd c/- Computershare Investor Services Pty Limited Level 4, 60 Carrington Street Sydney NSW 2000	Forge Resources Ltd c/- Computershare Investor Services Pty Limited GPO Box 242 Melbourne Victoria 3001 Australia	1800 783 447 (if faxing from within Australia) + 61 3 9473 2555 (if faxing from outside Australia)

Undirected proxies

The Chairman of the General Meeting will vote undirected proxies on, and in favour of, all of the proposed resolutions.

Power of Attorney

If a proxy is signed by a member's attorney, the member's attorney confirms that he has received no revocation of authority under which the proxy is executed and the authorities under which the appointment was signed or a certified copy thereof must also be received by no later than 12.00pm (Sydney time) on Wednesday 23 May 2012.

Bodies corporate

A body corporate may appoint an individual as its representative to exercise any of the powers the body may exercise at meetings of the Shareholders. The appointment may be a standing one. Unless the appointment states otherwise, the representative may exercise all of the powers that the appointing body could exercise at a meeting or in voting on a resolution.

Enquiries

Shareholders may contact the Company Secretary, Shane Hartwig, on +61 2 8651 7804 during office hours if they have any queries in respect of the matters set out in this document.

EXPLANATORY MEMORANDUM

Purpose of this Explanatory Memorandum

This Explanatory Memorandum has been prepared for Shareholders in connection with the General Meeting. The purpose of this Explanatory Memorandum is to provide Shareholders with information that the Board believes to be material to Shareholders in deciding whether or not to approve the Resolutions detailed in the Notice of General Meeting.

This Explanatory Memorandum does not take into account the individual investment objectives, financial situation and needs of individual Shareholders or any other person. Accordingly, it should not be relied on solely in determining how to vote on the Resolutions.

This Explanatory Memorandum is dated 24 April 2012.

Forward looking statements

Certain statements in this Explanatory Memorandum relate to the future. These statements reflect views only as of the date of this Explanatory Memorandum. While Forge believes that the expectations reflected in the forward looking statements are reasonable, neither Forge nor any other person gives any representation, assurance or guarantee that the occurrence of an event expressed or implied in any forward looking statements in this Explanatory Memorandum will actually occur.

Notice to persons outside Australia

This Explanatory Memorandum has been prepared in accordance with Australian laws, disclosure requirements and accounting standards. These laws, disclosure requirements and accounting standards may be different to those in other countries.

Disclaimer

No person is authorised to give any information or make any representation in connection with the Proposed Transaction which is not contained in this Explanatory Memorandum. Any information or representation not contained in this Explanatory Memorandum may not be relied on as having been authorised by Forge or the Board in connection with the Proposed Transaction.

Privacy

To assist Forge in conducting the General Meeting, Forge may collect personal information including names, contact details and shareholding of Shareholders and the names of persons appointed by Shareholders to act as proxy at the General Meeting. Personal information of this nature may be disclosed by Forge to its share registry, print and mail service providers, and Forge's agents for the purposes of implementing the Proposed Transaction. Shareholders have certain rights to access their personal information that has been collected and should contact the Company Secretary, Shane Hartwig, on +61 2 8651 7804 if they wish to access their personal information.

Responsibility for information

The information contained in this Explanatory Memorandum (except for references to the Independent Expert's Report, Todd Information and section 5) has been prepared by Forge and is the responsibility of Forge. Neither Todd or any of its related bodies corporate assumes any responsibility for the accuracy or completeness of that information.

The Todd Information has been provided by the Todd group. Neither Forge or any of its related bodies corporate assumes any responsibility for the accuracy or completeness of that information.

The information contained in section 5 has been prepared by Mr Nicholas Curtis and he takes responsibility for that information. Neither Forge, Todd or any of their respective related bodies corporate assumes any responsibility for the accuracy or completeness of that information.

Hall Chadwick Corporate (NSW) Limited has prepared the Independent Expert's Report and has consented to the report accompanying this Explanatory Memorandum. Hall Chadwick Corporate (NSW) Limited takes responsibility for that report, and for references to that report in this Explanatory Memorandum, but is not responsible for any other information contained within this Explanatory Memorandum.

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

ASIC and ASX involvement

A copy of the Notice of General Meeting and Explanatory Memorandum has been lodged with ASIC, and with ASX pursuant to the ASX Listing Rules. Neither ASIC nor ASX nor any of their respective officers take any responsibility for the contents of the Notice of General Meeting and Explanatory Memorandum.

Rounding

For convenience, shareholding, relevant interest and voting power percentage figures in this Explanatory Memorandum have been rounded up to the nearest one decimal place.

Definitions

Capitalised terms used in this Explanatory Memorandum are defined in section 19.

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1. Overview of the Proposed Transaction

1.1 Introduction

On 19 March 2012, Forge announced to the ASX that it had signed definitive documentation with Todd Capital Limited ("**Todd Capital**") under which Todd Capital will, via related bodies corporate, invest in Forge and enter into an incorporated joint venture with Forge for the development of the Balla Balla magnetite-vanadium-titanium project in Western Australia.

Todd Capital is a wholly-owned subsidiary of The Todd Corporation Limited ("**Todd**"). Todd is a 100% private, family-owned company which has business interests in a range of industries.

In total Todd Capital has agreed to provide (via related bodies corporate) \$45.5 million of a \$50 million funding package. This funding package will fund the completion of the Forge group's proposed acquisition from the Atlas Iron Limited group of the Balla Balla magnetite, vanadium and titanium project, and to further develop Forge's Eucla West Mineral Sand Project.

The Forge group's proposed acquisition of the Balla Balla project was first announced on 16 December 2011. It was originally proposed that Forge would acquire 100% of the project. It is now contemplated that Todd will acquire and pay for a 25% interest in the Balla Balla project, and that the project will be run as an unincorporated joint venture between Forge (75% interest) and a related body corporate of Todd Capital (25% interest).

The proposed transactions with Todd are subject to certain conditions precedent, including Forge Shareholder approvals, Australian Foreign Investment Review Board (FIRB) approvals and other third party approvals including consent from Atlas Iron.

1.2 Balla Balla project

Balla Balla is located near the Pilbara coastline in Western Australia, approximately 100km east of Anketell Point and 120km south-west of Port Hedland, on the North West Coastal Highway and adjacent to the Pilbara Energy Gas pipeline and the grid power line between Karratha and Port Hedland.

The Balla Balla project JORC-compliant resource is 456 million tonnes at 45% Fe, 0.64% V₂O₅, and 13.7% TiO₂, located on granted mining tenements, with environmental ministerial approval.

A Definitive Feasibility Study ("**DFS**") was completed in February 2010 that confirmed strong project economics using historical commodity prices (i.e. \$68/tonne magnetite @ 58% Fe concentrate grade and \$152/tonne concentrate @ 45% TiO₂ concentrate grade, compared to current prices of approximately US\$120/t and US\$225/t respectively).

This DFS assumed an onsite processing plant and a slurry pipeline to Port Hedland for:

- (a) Magnetite concentrate: Phase 1 at 6,000,000tpa, Phase 2 at 10,000,000tpa;
- (b) Ilmenite concentrate: Phase 1 at 280,000tpa, Phase 2 at 470,000tpa; and

-
- (c) Ferro Vanadium: Phase 2 at 7,000tpa FeV-80.

1.3 Proposed Transaction

Forge has entered into a Master Agreement with Todd Capital which provides a framework for implementation of the proposed transactions with Todd Capital, and which has attached to it the agreed forms of the various transaction agreements.

The Master Agreement contemplates that, subject to the satisfaction or waiver of certain conditions, various Forge and Todd group entities will enter into a number of Transaction Agreements to implement the proposed transactions (such transactions being referred to collectively in this document as the "**Proposed Transaction**"). In summary, the Master Agreement and the Transaction Agreements contemplate that the Proposed Transaction will involve the following aspects which are inter-conditional (meaning that either the Proposed Transaction will occur as a whole or it will not occur at all).

- (a) **(Issue of Shares)** A proposed issue by Forge to Todd Shareholder of 16 million Shares at an issue price of \$0.50 per Share¹ to raise a cash amount of \$8 million. See section 9 for further details.
- (b) **(Issue of Options)** A proposed issue by Forge to Todd Shareholder of 6.5 million Options where each Option has an exercise price of \$0.50 per Share. See section 10 for further details.
- (c) **(Acquisition of 25% interest in Balla Balla project and joint venture arrangements)** A proposed acquisition by Todd JV Party of a 25% ownership interest in the Balla Balla project (with the other 75% to be acquired by Forge Resources Swan), and the entry into a joint venture with Forge Resources Swan in relation to the Balla Balla project. It has also been agreed between Forge and Todd Capital that Forge will undertake the marketing of the magnetite concentrate and titanium concentrate products from the Balla Balla JV via an exclusive marketing agreement (on terms to be agreed). Todd JV Party will be given an option to acquire an additional 7.5% interest in the Balla Balla JV for \$36.4 million. In addition, there will be certain other situations (set out in the Joint Venture Agreement) under which one joint venture party could acquire all or part of the other joint venture party's interest in the joint venture. See section 11 for further details.
- (d) **(Secured loan)** A proposed loan of \$27.5 million by Todd Lender to Forge Resources Swan. The loan will have an initial 2 year term, which can be rolled 6 monthly at the option of Todd Lender up to a maximum 10 year term. During the first 2 years interest will accrue at 15% pa compounded annually, and during each rollover period it will accrue at 5% pa plus BBSW (bank bill swap rate) for the rollover period. The accrued interest will be capitalised with a bullet repayment of principal and interest at the end of the term. If Todd JV Party exercises and completes the option described in paragraph (c) above, the loan will become

¹ As at close of ASX trading on 20 April 2012 (being the last practicable date before the printing of this document), the Forge Share price was \$0.37 and its 3 month volume weighted average price was \$0.375.

repayable and the \$36.4 million option purchase price payable to Forge Resources Swan will be used to offset the outstanding loan amount (inclusive of accrued interest) by \$36.4 million.

The loan will be secured by:

- (i) each of Forge Balla Balla Investments (being the Forge group entity which holds all of the shares in Forge Resources Swan) and Forge Resources Swan granting security over all of its assets to Todd Lender;
- (ii) Forge Balla Balla Investments providing an unlimited guarantee in favour of the Todd Lender; and
- (iii) a mortgage from Forge Resources Swan over its interest in the Balla Balla mining tenements that are to be acquired under the Balla Balla acquisition.

See sections 12 and 13 for further details.

- (e) **(Issue of Shares to Mr Nicholas Curtis)** A proposed issue of 24 million Shares to Mr Nicholas Curtis (Forge's Chairman) for no cash consideration.

A key consideration for Todd in making and proceeding with its investment in Forge is that Mr Nicholas Curtis be Chairman of Forge and be appropriately incentivised to oversee the development of the Balla Balla project. Todd has no existing experience in relation to iron ore mining, or in relation to Australian resources projects in general. Todd was introduced to the proposed investment in Forge and in the Balla Balla project through the efforts of Mr Curtis in his role as Chairman and places great weight on his extensive industry knowledge and his track record in successively developing resources projects in Western Australia.

Whilst Todd appreciates that Mr Curtis will not have day to day management involvement in the Balla Balla project, Todd regards the ongoing commitment of Mr Curtis at the strategic management level as extremely important to the success of the Balla Balla project (and to Forge's other operations). For this reason Todd wishes to ensure that Mr Curtis is effectively incentivised to continue to have an active involvement in Forge.

The Board of Forge (excluding Mr Curtis) is of the opinion that the entry into the Master Agreement substantially satisfied the performance milestones of Mr Curtis' Performance Shares (such performance milestones expired on 21 March 2012) and that it is appropriate in these circumstances, and also considering Todd's view, that Mr Curtis should continue to have the benefit of the Performance Shares.

As a consequence Forge intends to seek shareholder approval to issue 24 million Shares to or for the benefit of Mr Curtis (being the number of Shares that the Performance Shares would have converted into on completion of the Proposed Transaction). The Shares will only be issued if all of Resolutions 1 to 8 are approved (and if the other conditions precedent to the Proposed Transaction are satisfied or waived).

Whilst Mr Curtis is a non-executive Chairman of Forge, he is actively involved in overseeing the management of Forge and in making strategic and operational

decisions regarding the company (except in respect of matters where he has an actual or potential conflict of interest). This level of involvement is appropriate for a small company such as Forge which is essentially in a start-up, pre-development phase.

It is the Forge Board's opinion that Mr Curtis is highly qualified for the role of Chairman, having led two resource companies (Sino Gold and Lynas Corporation) from being small ASX-listed companies with market capitalisations of less than \$20 million to ASX 100 companies with market capitalisations of more than \$1 billion. This track record of success, together with the experience gained, continues to be invaluable to Forge on a number of fronts. In particular, the Recommending Directors consider that Mr Curtis' track record and profile was the primary factor in initially attracting Todd Capital to enter into discussions with Forge.

See section 14 for further details.

- (f) **(Share placement to other investors)** A proposed issue of 9 million Shares to selected institutional and sophisticated investors at an issue price of \$0.50 per Share (the "**Share Placement**"). See section 15 for further details.

In addition it is proposed that, if the Proposed Transaction completes, 1 million Options (each having an exercise price of \$0.50) will be issued to Forge's adviser, Riverstone Advisory Pty Ltd in accordance with an existing mandate letter. The issue and future exercise of such Options is subject to Shareholder approval at the General Meeting (Resolutions 9 and 10). The Proposed Transaction is not conditional on approval of Resolutions 9 and 10. See section 16 for further details.

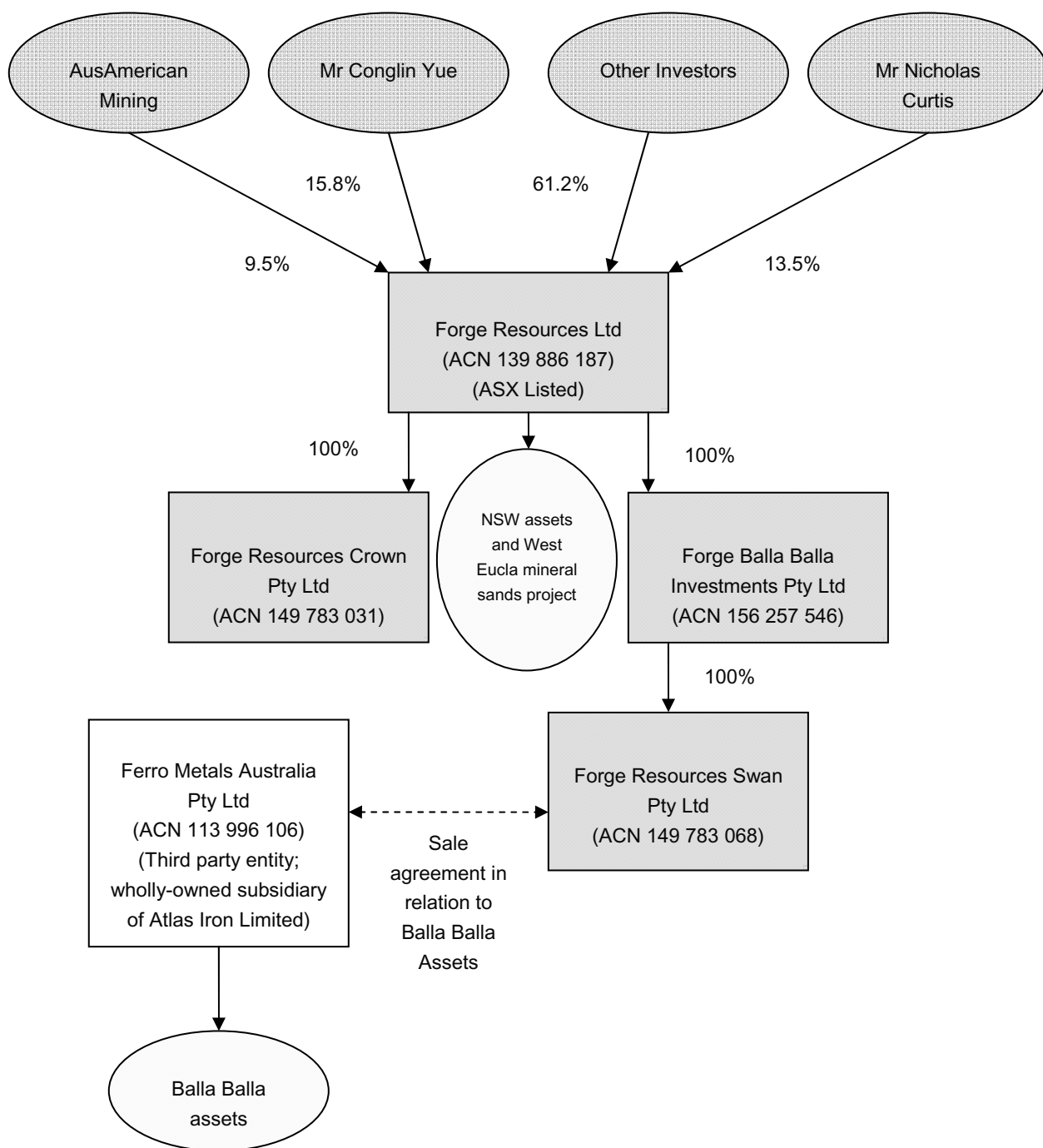
The Master Agreement contains a top-up right regime under which Todd will, from the time of completion of the Proposed Transaction until the Balla Balla joint venture agreement is terminated, have a right to subscribe for additional Forge shares to maintain its shareholding percentage if Forge issues additional shares to third parties other than in certain circumstances. See section 17.1 for further details.

If the Proposed Transaction completes, the Forge Board will appoint one Todd nominee as a Director of Forge. For so long as Todd's holding in Forge remains at or above 15% it will remain entitled to have a nominee on the Forge Board.

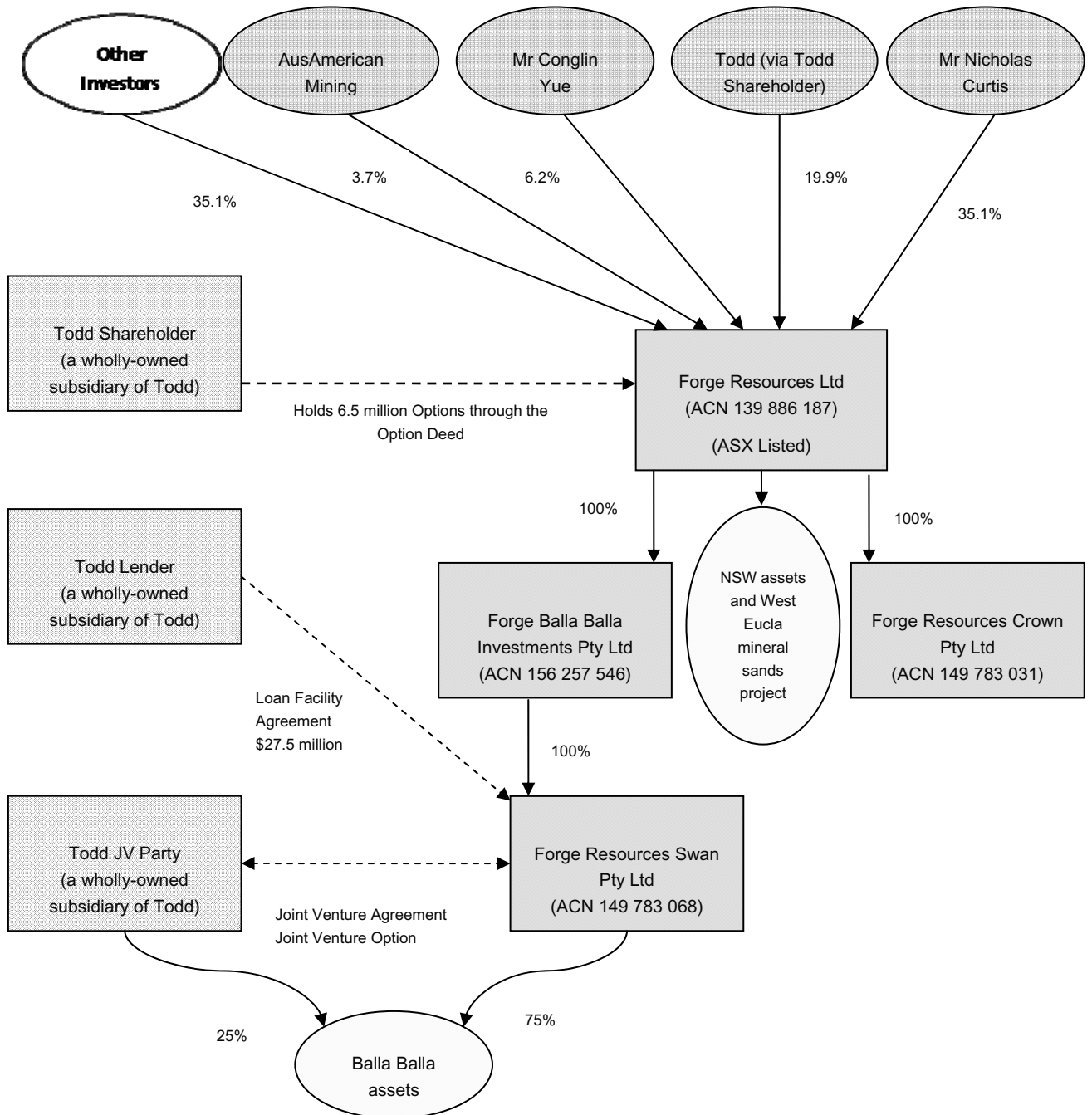
1.4 Forge corporate structure

The diagrams below show Forge's current structure and its structure immediately following completion of the Proposed Transaction. See section 7 for further details on the Proposed Transaction's effect on Forge's capital structure.

CURRENT FORGE STRUCTURE



FORGE STRUCTURE IMMEDIATELY FOLLOWING COMPLETION OF PROPOSED TRANSACTION



1.5 Conditions and timing

The Proposed Transaction is subject to various conditions as set out in the Master Agreement. In summary, the key conditions are:

- (a) Forge Shareholder approval of the Resolutions (other than Resolutions 9 and 10) in the accompanying Notice of General Meeting;
- (b) Australian Foreign Investment Review Board (FIRB) approval:
 - (i) FIRB approval to allow Todd Capital and its related bodies corporate to undertake the Proposed Transaction; and
 - (ii) FIRB approval to allow Forge to undertake the Balla Balla acquisition (note: such approval is required because Forge will become a 'foreign person' if any foreign person acquires more than 15% of the Shares, which will occur as Todd Shareholder will acquire an approximate 19.9% shareholding interest on completion of the Proposed Transaction);
- (c) either:
 - (i) the parties to the Balla Balla purchase agreement (being Forge, Forge Resources Swan and Atlas Iron), Todd JV Party and Todd Capital have agreed and executed documentation to the effect that Forge Resources Swan and Todd JV Party are substituted as the purchaser of the Balla Balla project under that agreement, as tenants in common (on a several basis) in 75/25 shares; or
 - (ii) Forge Resources Swan and Todd JV Party reaching an agreement under which Forge Resources Swan will after acquiring 100% of the Balla Balla assets on-sell a 25% interest to Todd JV Party;
- (d) receipt of other third party approvals, including consent from Atlas Iron and previous owners of the Balla Balla tenements to the assumption by Todd and Forge of ongoing royalty arrangements, as well as Ministerial consent in Western Australia for the transfer to Todd JV Party of a 25% interest in the Balla Balla project (note: such Ministerial consent has been received); and
- (e) as at the date the other conditions precedent have been satisfied or waived:
 - (i) all conditions precedent to completion under the sale and purchase agreement for the Balla Balla acquisition have been satisfied or waived (excluding the condition precedent that Forge has received net proceeds from a capital raising in an amount other than \$15 million); and
 - (ii) the purchase agreement for the Balla Balla acquisition has not been terminated.

If Resolutions 1 to 8 are approved at the General Meeting and all of the other conditions to the Proposed Transaction have been satisfied at that time, it is expected that the Proposed Transaction and the Balla Balla acquisition will complete at or about the same time on or about the first business day after the conditions have been satisfied or waived. Each of Forge and Todd Capital can terminate the Proposed Transaction if it does not complete by

31 May 2012 (or by such later date agreed between Forge and Todd Capital). In addition, the proposed acquisition of the Balla Balla project will terminate if the conditions set out in the sale and purchase agreement with Atlas Iron have not been satisfied by 31 May 2012 (or by such later date that may be agreed with Atlas Iron) (see section 11.2).

1.6 Reimbursement fee

Forge will be required to pay Todd a reimbursement fee of \$750,000 in certain circumstances if the Proposed Transaction does not proceed. The reimbursement fee represents 1.5% of the \$50 million funding package of the Proposed Transaction. Refer to section 17.1 for further details.

1.7 Alternative funding sources

Over the past few months the Forge Board has considered various options for raising capital to fund the Balla Balla acquisition and to further develop the Eucla West Mineral Sand Project. These options have included a pro rata rights issue, private placements of shares, debt from financial institutions and the introduction of a strategic investor.

The Board's preferred option was to sign up a strategic investor who could provide the bulk of the required funding in a one-off equity and/or debt funding transaction, and who could support Forge in the development of the Balla Balla project. In reaching this preferred option, the Board considered that a rights issue would, by virtue of its size vis-à-vis Forge's current market capitalisation, need to be conducted at a considerable discount to prevailing market prices. Also, the ability to secure debt funding from a financial institution was constrained by Forge's exploration company status and prevailing debt market conditions.

A number of potential strategic investors were presented with the opportunity to participate in the funding for the Balla Balla acquisition. Forge engaged in discussions with a few of those. A feature of the potential investors with whom discussions became most advanced was that they were keen to assist in the development of a new mineral resources business.

1.8 Independent Expert's Report

To assist Shareholders in assessing the Proposed Transaction, Forge appointed Hall Chadwick Corporate (NSW) Limited (the "**Independent Expert**") to prepare an Independent Expert's Report, the purpose of which is to state whether or not, in its opinion, the Proposed Transaction is fair and reasonable to Shareholders not associated with the Proposed Transaction (ie. not being Todd or Mr Nicholas Curtis or associated with either of them). The Independent Expert has concluded that the Proposed Transaction is **not fair but reasonable** to Shareholders not associated with the Proposed Transaction (ie. not being Todd or Mr Nicholas Curtis or associated with either of them).

The Independent Expert has concluded that the Proposed Transaction is **not fair** to the Shareholders not associated with the Proposed Transaction (ie. not being Todd or Mr Nicholas Curtis or associated with either of them) because the value of the securities to be issued, assets to be transferred and payments to be made by Forge (\$33.5 million to \$38.2 million) exceeds the value of the consideration (\$22.5 million) offered by Todd and Mr Nicholas Curtis. However, the Independent Expert considers the Proposed Transaction to be reasonable as the Shareholders not associated with the Proposed Transaction would

obtain an overall benefit from the Proposed Transaction based on the capability of developing Forge projects.

A copy of the Independent Expert's Report accompanies this document.

1.9 Recommendation of Directors

For the reasons given in section 2, the Recommending Directors unanimously recommend that Shareholders vote in favour of the Resolutions, in the absence of a Superior Proposal. In addition, each Recommending Director will vote (or procure the voting of) all Forge Shares held or controlled by him in favour of the Resolutions, in the absence of a Superior Proposal. The Recommending Directors are Dr Matthew James (Managing Director) and Mr Emmanuel Correia (Non-Executive Director). The other Directors of Forge are Mr Nicholas Curtis (Forge's Chairman) and Mr Harold Ou Wang (Non-Executive Director).

Mr Nicholas Curtis (Forge's Chairman) has decided not to provide a recommendation to Shareholders on the Resolutions, given the interest he has in the Resolutions. The interest arises because if the Resolutions are approved and the Balla Balla acquisition and Proposed Transaction are completed:

- (a) 24 million Shares will be issued to or for the benefit of Mr Curtis (see section 14); and
- (b) 1 million Options will be issued to Forge's adviser, Riverstone Advisory Pty Ltd ("**Riverstone Advisory**"), being a company in which Mr Curtis, through entities controlled by him, controls 66.7% of the shares (see section 16).

For the same reasons Mr Curtis will not vote the Shares he holds or controls on any of the Resolutions.

Mr Harold Ou Wang (Non-Executive Director) has decided not to provide a recommendation to Shareholders on the Resolutions, given the interest he has in those Resolutions. The interest arises because if those Resolutions are approved and the Balla Balla acquisition and Proposed Transaction are completed, 1 million Options will be issued to Forge's adviser, Riverstone Advisory, being a company in which Mr Wang, through entities controlled by him, controls 33.3% of the shares (see section 16). For the same reasons Mr Wang will not vote the Shares he holds or controls on any of the Resolutions.

Neither Mr Nicholas Curtis or Mr Harold Ou Wang will act as Chairman of the General Meeting. One of the other Directors of Forge will act as Chairman of the General Meeting.

1.10 Corporate governance arrangements

Given their respective interests in the Resolutions (as described in section 1.9), neither Mr Curtis or Mr Wang voted on the Forge board resolutions to approve the entry into the Master Agreement or to propose that Shareholders vote on the Resolutions (including the Resolution to approve the issue of 24 million Shares to or for the benefit of Mr Curtis). However, Mr Curtis and Mr Wang have, together with the Recommending Directors, approved the convening of the General Meeting and the issue of this document.

In addition, the decision to appoint Riverstone Advisory as Forge's adviser, and the negotiation of their terms of appointment, was undertaken on behalf of Forge by the

Recommending Directors. Neither Mr Curtis or Mr Wang were involved in such matters on behalf of either Forge or Riverstone Advisory. Nor did either Mr Curtis or Wang vote on the Forge board resolutions to appoint Riverstone Advisory or to approve the Riverstone Advisory mandate letter that was entered into.

1.11 Cancellation of Extraordinary General Meeting on 21 March 2012

As announced to the ASX on 19 March 2012 and notified to Shareholders, the Forge extraordinary general meeting that was scheduled to be held on 21 March 2012 was cancelled. It was contemplated that, at such meeting, Shareholders would have been asked to approve a general Share placement facility. That meeting was no longer required because Shareholders are now being asked to approve specific resolutions relating to the Proposed Transaction.

2. Key reasons to vote in favour of the Proposed Transaction

The Recommending Directors believe that the Proposed Transaction is in the best interests of Shareholders to facilitate the strategic growth of Forge, and unanimously recommend that Shareholders vote in favour of all the Resolutions, in the absence of a Superior Proposal.

It is important that Shareholders wishing to approve the Proposed Transaction vote in favour of at least all of Resolutions 1 to 8 as they are inter-conditional.

The rationale for the Recommending Directors' recommendation is as follows.

2.1 Funding for acquisition of Balla Balla project and development of Eucla West Mineral Sand Project

The Proposed Transaction, if completed, will enable Forge to complete its proposed acquisition of the Balla Balla project from Atlas Iron Limited, with the balance to be applied towards development of the Eucla West Mineral Sand Project and transaction costs.

The Forge group's proposed acquisition of the Balla Balla project was first announced on 16 December 2011. It was originally proposed that Forge acquire 100% of the project. It is now contemplated that Todd will acquire and pay for a 25% interest in the Balla Balla project, and that the project will then be run as an unincorporated joint venture between Forge (75% interest) and Todd JV Party (25% interest).

Shareholders should note that if the Proposed Transaction does not occur, whether as a result of the Resolutions not being passed or otherwise, Forge will be unable to complete its proposed acquisition of the Balla Balla project unless it secures alternative funding.

The Forge Board believes the acquisition of the Balla Balla project would represent a significant step in the development of Forge. Balla Balla is an undeveloped project, however it is very well advanced in terms of resource definition, approvals and feasibility study and the Board view the project as a potential company-transforming asset.

The Forge Board believes the Balla Balla project is an exciting opportunity for Forge for four key reasons.

- (a) **Advanced nature of project with low technical and resource risk.** The project is at the definitive feasibility stage (DFS) and has a mineral reserve on an approved mining lease. The resource is well defined and with potential for extension. Processing is simple and well understood by Forge. The magnetite process is a crush, grind and magnetic separation. The ilmenite circuit is further gravity and magnetic separation, followed by flotation. The ilmenite circuit uses industry standard processes to separate the ilmenite from the tailings of the magnetite concentrate. The processes are well understood and in use in many mineral separation plants in Australia and overseas.
- (b) **Compelling economics driven by low operating costs for magnetite production.** Key contributing factors to expected low operating costs include:

-
- (i) an ilmenite by-product credit – Forge expects a tightening market upon increasing ilmenite demand, especially from China;
 - (ii) the project location, being close to the coast, gives the project a significant infrastructure and transportation cost advantage compared to inland iron ore projects; and
 - (iii) the ability to produce a relatively coarse-grained magnetite concentrate, thus having relatively lower power and milling cost. The Balla Balla project should benefit from the ability to produce a relatively coarse grained magnetite concentrate, thus having relatively lower power and milling costs.
- (c) **Competitive advantage for steel mill customers.** The steel mills able to process high vanadium and titanium iron ores enjoy a significant competitive advantage through either realising value from vanadium and titanium by-product revenue, or through direct use of vanadium and titanium in high quality and price steel production.
- (d) **Growth in demand for Ti – V – magnetite.** Steel standards are increasing in China, driven by legislation, requiring alloying elements such as vanadium to meet these higher specifications. The technology to capture vanadium and titanium by-product credits is already proven, and new steel mills are looking to incorporate this technology and are seeking long-term stable supply of iron, vanadium, and titanium.

The completion of the Balla Balla acquisition will enable Forge to deliver on its strategy of growth via seeking acquisition opportunities. It will provide focus on a significant project which is at a more advanced stage of development than the existing exploration projects within Forge's current project portfolio. The advanced nature of Balla Balla also enables confirmation of the resource size and production capacity envisaged in the definitive feasibility study. Balla Balla is of a size which has the potential, upon successful development, to significantly grow Forge, and has the opportunity to generate cashflow earlier than the current project portfolio.

In the past few months Forge completed a brief marketing trip to China. Discussions with large companies in the sector in China supported Forge's marketing assumptions that the magnetite product has a willing market within the Chinese steel industry.

2.2 Introduction of strategic investor and joint venture party

The Proposed Transaction, if completed, will result in Forge having a strategic investor and entering into a Balla Balla joint venture with Todd.

Todd is one of New Zealand's largest and most successful companies, and has the capacity to provide ongoing support for Forge and the development of the Balla Balla project. With a history that spans over 125 years, the business has interests in oil and gas exploration and production, electricity generation, energy retailing, property development, healthcare, pay television, telecommunications and wine.

The Board of Forge believes a common set of values exist between the two companies – enterprise culture, professionalism, and care for employees, the community and the environment.

2.3 Independent Expert's opinion

The Independent Expert has concluded in its Independent Expert's Report that the Proposed Transaction is **not fair but reasonable**.

The Independent Expert has concluded that the Proposed Transaction is **not fair** to the Shareholders not associated with the Proposed Transaction (ie. not being Todd or Mr Nicholas Curtis or associated with either of them) because the value of the securities to be issued, assets to be transferred and payments to be made by Forge (\$33.5 million to \$38.2 million) exceeds the value of the consideration (\$22.5 million) offered by Todd and Mr Nicholas Curtis.

However, the Independent Expert has concluded that the Proposed Transaction is **reasonable**. In forming its opinion, the Independent Expert considered the following relevant factors which are summarised below (see section 11.2 of the Independent Expert's Report).

- (a) The Independent Expert considered whether the terms of the loan from Todd Lender and the associated security interests are reasonable in the circumstances. The Independent Expert concludes that the arrangements are reflective of normal project financing arrangements for mining exploration operations.
- (b) The Independent Expert believes that the terms under which a potential future acquisition by Forge or Todd of additional interests in the Balla Balla joint venture under the Joint Venture Agreement, Joint Venture Option Agreement, Cross Security Deed or Loan Facility Documents are customary for joint venture arrangements and secured loan facilities of this nature and were negotiated on market terms. The Independent Expert notes that the majority of the potential future acquisitions would occur at arm's length market values which appears to be reasonable.
- (c) The Proposed Transaction will provide necessary funding to complete the Balla Balla acquisition and further develop Forge's existing mining projects.
- (d) The Proposed Transaction may provide an opportunity for Forge Shareholders to experience significant growth in the value of shares based on the earnings potential of Balla Balla and the increased market capitalisation of Forge.
- (e) The proposed issue of Forge Shares to Mr Curtis would result in Mr Curtis being a significant Shareholder and accordingly an incentive to continue his involvement with Forge, which is considered valuable to the growth and success of Forge.
- (f) If the Proposed Transaction is not approved by Forge Shareholders, it is possible that Forge's share price may remain at current levels or decrease if Forge is not capable of raising capital to fund the development of its assets and working capital requirements.

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- (g) The Recommending Directors on the Forge Board are of the opinion that the Proposed Transaction is in the best interests of Shareholders to facilitate the strategic growth of Forge.
 - (h) The Independent Expert is unaware of any alternative proposal at the date of the Independent Expert's Report that could realise better value for Forge Shareholders.
 - (i) In the event the Proposed Transaction is not approved, Forge will continue to rely on capital raising from smaller investors in an unattractive market to raise funds for early stage mineral development.
 - (j) Forge has agreed to pay Todd a reimbursement fee of \$750,000 in certain circumstances if the Proposed Transaction does not proceed.
 - (k) Forge does not currently generate any recurring cash flow as assets are at an exploration and development stage. In the event of default, Forge group assets might be required to be sold to meet loan obligations. However, any assets sold will be at market value consistent with the ordinary risk of a mining exploration business. Forge may also raise further capital from the markets to meet its obligations with Todd.
 - (l) The Independent Expert believes that the share top-up rights to be granted to Todd Capital (described in section 17.1(f)) are reasonable.

Accordingly, in the Independent Expert's opinion, having considered the advantages of the Proposed Transaction and the alternatives to not proceeding with the Proposed Transaction, in the Independent Expert's opinion the Shareholders of Forge not associated with the Proposed Transaction (ie. not being Todd or Mr Nicholas Curtis or associated with either of them) should benefit if the Proposed Transaction proceeds and therefore, in the Independent Expert's opinion, the Proposed Transaction is **reasonable**.

3. Potential reasons to vote against the Proposed Transaction

For the reasons given in section 2, the Recommending Directors unanimously recommend that Shareholders vote in favour of all the Resolutions, in the absence of a Superior Proposal.

However, there are certain consequences that you should be aware of if the proposed Proposed Transaction proceeds, including the consequences set out below. Certain Forge Shareholders may take the view that these consequences outweigh the advantages of the Proposed Transaction and constitute reasons to vote against the Proposed Transaction. As noted earlier, if Resolutions 1 to 8 are not approved the Proposed Transaction will not occur and Forge will be unable to complete its proposed acquisition of the Balla Balla project unless it secures alternative funding.

3.1 Independent Expert's conclusion – not fair but reasonable

The Independent Expert has concluded that the Proposed Transaction is **not fair** to the Shareholders not associated with the Proposed Transaction (ie. not being Todd or Mr Nicholas Curtis or associated with either of them) because the value of the securities issued and payments (\$33.5 million to \$38.2 million) to be made by Forge exceeds the value of the consideration (\$22.5 million) offered by Todd and Mr Nicholas Curtis. However, the Independent Expert considers the Proposed Transaction to be **reasonable** as the Shareholders not associated with the Proposed Transaction would obtain an overall benefit from the Proposed Transaction based on the capability of developing Forge projects.

In addition, the Independent Expert in section 10.3 of its Independent Expert's Report has noted (among other things) that, if the Proposed Transaction completes:

- (a) there may be other opportunities Forge will not be able to undertake to realise greater Shareholder value, due to the significant shareholding interests that will be obtained by Todd and Mr Nicholas Curtis; and
- (b) the potential acquisition in the future by Todd of additional interests in the Balla Balla JV under the Joint Venture Agreement, Joint Venture Option Agreement or Cross Security Deed, or under the Loan Facility Documents, may result in the further dilution of Forge's interests in the Balla Balla JV.

3.2 Impact on interests in Shares and control of Forge

If the Proposed Transaction proceeds, Mr Nicholas Curtis will hold or control 35.1% of the Shares and Todd Shareholder will hold 19.9% of the Shares. Todd Shareholder will also be issued with Todd Shareholder Options. If Todd Shareholder were to exercise all of its Todd Shareholder Options (and assuming no other Shares are issued, as a result of the exercise of Options held by other persons or otherwise except pursuant to the Proposed Transaction), Todd Shareholder would hold 25.8% of the Shares and Mr Curtis would hold or control 32.4%.

As a result of the foregoing, Mr Curtis and the Todd group will each (and separately) have a level of influence over Forge that is substantially higher than other Shareholders. It is Forge's understanding that Mr Curtis and the Todd group are not associated in relation to Forge, and that each will act independently of the other in relation to their respective holdings of Shares.

The consequences of Mr Curtis and the Todd group each acquiring a significant shareholding in Forge are as follows.

(a) **Significant dilution**

The issue of Shares to Todd Shareholder and Mr Curtis on the completion date of the Proposed Transaction, and in the future to Todd Shareholder upon the potential exercise by Todd Shareholder of its Todd Shareholder Options, will result in a significant dilution to the interests of other Shareholders (see section 7). Upon completion of the Proposed Transaction, Todd Shareholder will hold 19.9% of the Shares and Mr Curtis will hold or control 35.1% of the Shares. The Forge Shareholders (other than Mr Curtis) currently hold in aggregate approximately 86.5% of the Shares. Upon completion of the Proposed Transaction, the Forge Shareholders (other than Mr Curtis and Todd Shareholder) will hold approximately 45% of the Shares. As noted in section 4.5, Todd and its subsidiaries currently do not hold any Shares.

(b) **Controlling influence**

Each of Mr Curtis and Todd Shareholder (through their respective holdings of Shares and, in the case of Todd Shareholder, through its rights under the Todd Shareholder Options) may be able to move to a position where it controls the composition of the Board and senior management, and determine Forge's strategic direction and other important factors including dividend policy. However, it is expected that the potential for either Mr Curtis or the Todd group to exercise individual control over Forge will to some extent be countervailed by the fact that the other has a significant shareholding in Forge.

(c) **Effect on potential takeover offers**

If the Proposed Transaction proceeds, it may influence a decision by any other third party to bid or propose a control transaction for Forge. Other third parties may be reluctant to make a takeover offer or propose a control transaction because the significant shareholdings of the Todd group and Mr Curtis may be seen as "blocking stakes". There is a risk that investors will apply a discounted valuation to the Shares as a result of the perceived change in control of Forge if the Proposed Transaction completes, and the decreased likelihood of a third party takeover proposal.

(d) **Minority shareholder risks**

The interests of Mr Curtis or Todd Shareholder as substantial Shareholders may not always be completely aligned with the interests of other Shareholders. However, in these circumstances minority Shareholders would have the benefit of various protections provided by applicable law and the ASX Listing Rules in

relation to dealings between Forge and either Mr Curtis or Todd (or their respective associates) (eg. the requirement to obtain minority Shareholder approval for certain transactions). In addition, each Forge Director who has a material interest in any proposed contract must not be present at any Board meeting to consider the matter and abstain from voting on the matter. Accordingly, only the non-interested Directors will be eligible to vote on future matters which a Director may have a material interest in. Furthermore, each of Mr Curtis and Todd are required as Directors (or via their nominee Directors) to act in the best interests of all Shareholders in accordance with their legal duties.

3.3 Impact on control of Balla Balla project

The Proposed Transaction will involve the Todd group acquiring a 25% direct interest in the Balla Balla project and the Forge group acquiring a 75% direct interest, with the project to be run as an unincorporated joint venture between Forge Resources Swan and Todd JV Party. Under the terms of the proposed Joint Venture Agreement, certain actions can only be undertaken with the consent of both joint venture parties.

This represents a change from Forge's initial proposal to acquire 100% of, and to have sole control over, the Balla Balla project. There is a risk that the joint venture parties, Forge Resources Swan and Todd JV Party, disagree on key decisions and that this will have an adverse impact on the operation of the Balla Balla project. However, this is a risk arising in all joint ventures and there are dispute resolution mechanisms in the Joint Venture Agreement.

In addition, under the terms of the Loan Facility Agreement, Forge Resources Swan cannot undertake certain actions (see section 12). However, such restrictions are standard for secured loan arrangements.

Shareholders should be aware that the Forge group currently does not have any cashflow-generating assets. As noted in section 12.2, until the loan falls due for repayment accrued interest is capitalised, meaning that until then no actual cash flow is required to be paid to Todd Lender to service the loan. The amount of the loan payable on the due date for repayment includes all capitalised interest up to that time. Forge Resources Swan's ability to repay the loan (which as noted, includes capitalised interest) from Todd Lender as and when it falls due for repayment is dependent on the Forge group generating sufficient cash flow and/or refinancing the loan. If the Forge group is unable to repay the loan from Todd Lender as and when it falls due for repayment, Forge Resources Swan will be in default under the Loan Facility Agreement and that may entitle Todd Lender to exercise its rights as a secured creditor and assume control over the ownership interests in Forge Resources Swan, the Balla Balla project and the other secured assets by enforcing its security (see section 12).

There is no certainty that the Forge group will be able to generate sufficient cash flow and/or obtain new funding to enable Forge Resources Swan to repay the loan from Todd Lender as and when it falls due for repayment. In addition, any development of the Balla Balla project will ultimately require Forge to raise a significant amount of capital. The Definitive Feasibility Study ("**DFS**") completed in February 2010 for the Balla Balla project projected a 3 year engineering and construction period, with a capital cost estimate of

\$1.229 billion for Phase 1 (as at February 2010 costing). Forge recognises that this capital cost estimate, together with the operating costs in the DFS, will require updating and that project costs in Western Australia may have escalated since that time.

As announced to the ASX in March 2012, Forge has received a letter of interest from National Australia Bank Limited regarding the provision of project finance for the potential development of the Balla Balla project. Forge is in the process of working with National Australia Bank Limited on the project financing process. Also, Forge anticipates that it will need to raise equity capital as well as obtain debt financing in order to develop the Balla Balla project.

External financial and credit markets are subject to numerous influences so there can be no assurance that equity or debt funding will be available to the Forge group, or whether any funding will be on acceptable terms. Any additional equity financing may be dilutive to shareholders and debt financing, if available, may involve restrictions including on financing and operating activities.

3.4 Impact on the status of Forge under the Foreign Acquisitions and Takeovers Act

Under the *Foreign Acquisitions and Takeovers Act 1975 (Cth)* ("**FATA**"), the Federal Treasurer has the power to block transactions subject to the FATA which would result in a foreign person acquiring 15% or more (or control) of an Australian company or business (with assets of more than \$244 million) or an interest in real estate (including the granting of mining leases for terms of more than 5 years), where this is determined to be contrary to the national interest (each a "**Relevant Acquisition**"). The Federal Treasurer's powers include prohibiting a person from undertaking such an acquisition if the result would be contrary to the national interest.

A "foreign person" under the FATA includes a company in which a foreign corporation holds more than a 15% interest. If the Proposed Transaction proceeds Todd Shareholder will acquire a 19.9% shareholding in Forge. This will result in Forge being considered a "foreign person" for the purposes of the FATA, because a "foreign person" includes any company in which a foreign person (here, Todd Shareholder, which is controlled by New Zealand persons) will hold more than 15% of Forge's voting shares.

The consequence is that Forge will need to obtain the Treasurer's approval under the FATA before undertaking any Relevant Acquisition. (Forge has already submitted an application to the Foreign Investment Review Board seeking the Treasurer's approval to complete its proposed acquisition of the Balla Balla project.) Significantly, this includes obtaining approval for the grant of any mining lease in Australia for a term of more than 5 years. Applications under the FATA usually take about 30-40 days to be processed. There is no guarantee that the Treasurer would approve any future applications by Forge.

4. Information about Todd and its intentions

4.1 Overview

The Todd Corporation Limited ("**Todd**") is a 100% private, family-owned company and is one of New Zealand's largest and most successful companies. The company is owned and controlled by the Todd family, with Geoffrey Ricketts as its Chairman.

With a history that spans over 125 years, the business has interests in oil and gas exploration and production, electricity generation, energy retailing, property development, healthcare, pay television, telecommunications and wine. Through enterprise, professionalism and by caring for its employees, the community and the environment, Todd continues to grow and prosper. Todd supports a range of individuals and organisations through the Todd Foundation which was formed in 1972.

4.2 Main business operations

(a) **Todd Energy**

Todd Energy is a New Zealand pioneer and leader in the oil and gas exploration and production industry. Todd Energy holds interests in producing fields that account for approximately 90% of New Zealand's annual hydrocarbon production and is one of New Zealand's leading energy producers. Todd Energy has interests in the following oil and gas fields; Maui, Kapuni, Pohokura, McKee, Mangahewa and Maari.

(b) **Nova Energy**

Nova Energy is an energy retailer offering a total range of energy solutions including natural gas, electricity, LPG, solar and co-generation technologies. Nova Energy has a diverse and growing electricity generation portfolio that includes both thermal and renewable generation. Through its dedication to customer service excellence and innovation Nova Energy has become one of New Zealand's fastest growing energy companies and now services over 90,000 business and residential customers' right across New Zealand.

(c) **Bay of Plenty Energy**

Based in the heart of the Bay of Plenty and with around 85% of all customers in the region, Bay of Plenty Energy maintains a long-term view of customer relationships. Supplying both electricity and natural gas throughout the eastern Bay of Plenty its locally based team has a first-hand understanding of the energy needs of households and businesses throughout the region.

(d) **Todd Property**

Todd Property is a New Zealand property developer engaged in designing and delivering some of New Zealand's largest land development projects. Todd Property's core expertise is identifying and implementing development and value-add opportunities for large scale urban sites. Current developments include; Stonefields, Long Bay, Napier Hill, Okura and Ormiston Town Centre.

(e) **Integria Healthcare**

Integria Healthcare operates in the natural health market. Its successful brands enjoy the trust of consumers and patients in markets around the world and include Thompson's, Thursday Plantation, MediHerb, Greenridge, Eureka, Sunspirit and Red 8.

(f) **Ara Wines**

Ara Wines is a New Zealand single estate wine company with a focus on delivering fine Marlborough Sauvignon Blanc, Pinot Noir and Pinot Gris, the varieties that New Zealand is world renowned for. Ara Wines is enjoying strong growth, with distribution throughout New Zealand and key wine export markets - Australia, Canada, Europe, the United Kingdom and the United States.

4.3 Todd's investments

(a) **Crest Energy**

Todd holds shareholdings in Crest Energy, a marine tidal energy development company. Crest Energy has been granted consent to initiate the development of a 200MW marine tidal turbine power station in the mouth of the Kaipara Harbour in Northland, northern New Zealand.

(b) **Crown Castle**

Todd holds shareholdings in Crown Castle Australia Pty Limited, a leader in the shared wireless infrastructure industry. Since its establishment in 2000, Crown Castle Australia has grown to become the largest independent tower operator in Australia with a nationwide portfolio of approximately 1,600 sites.

(c) **Cue Energy**

Todd holds shareholdings in Cue Energy Resources Limited, an oil and gas exploration and production company with a regional focus of South East Asia and Australasia. Cue Energy has petroleum assets in Papua New Guinea, Indonesia, New Zealand and Australia.

(d) **King Country Energy**

Todd holds shareholdings in King Country Energy, a leading regional electricity retailer and generator serving around 19,000 customers in the Waitomo, King Country and Ruapehu districts of New Zealand.

(e) **Sky Television**

Todd holds shareholdings in New Zealand's largest pay television network provider Sky Television.

4.4 Directors of Todd

As at the date of this Explanatory Memorandum:

- (a) the Directors of Todd are: Paul Baines, Thomas Campbell, John Hunn, Andrew Reid, Geoffrey Ricketts, Henry Tait, David Todd, Michael Todd and Malcolm Whyte; and

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- (b) the Directors of Todd Capital (which is party to the Master Agreement) comprise senior executives of Todd as follows: Jonathon Young, Christopher Hall, Steven Armstrong, Michael Wolley, Evan Davies and Hilary Dussing.

4.5 Current interests in Forge

As at the date of this Explanatory Memorandum:

- (a) Todd and its subsidiaries (including Todd Shareholder, Todd JV Party and Todd Lender) do not hold or have a relevant interest in any Forge Shares; and
- (b) the only associates of each entity within the Todd group (ie. Todd and its subsidiaries) in relation to Forge are other entities within the Todd group.

4.6 Intentions in relation to Forge

Todd's current intentions are to become and remain a supportive minority shareholder in Forge. Todd does not currently intend to use its shareholding position to:

- (a) change the business of Forge;
- (b) make any change to future employment of present employees of Forge;
- (c) redeploy the fixed assets of Forge; or
- (d) significantly influence or change the financial or dividend distribution policies of Forge.

The Transaction Agreements contemplate a number of circumstances in which Todd may subscribe for additional shares in Forge. Specifically:

- (a) Todd is to be issued 6,500,000 Options at closing of the transaction (see section 10.1); and
- (b) Todd will have a top-up right to subscribe for additional Forge shares to maintain its shareholding percentage if Forge issues additional shares to third parties other than in certain circumstances (see section 17.1(f) for additional information).

Todd's current intention is to exercise its Options in due course, although final decisions about whether and when to exercise will be taken in the light of all available information at the relevant time.

It is also Todd's current intention to exercise its top up right in the event of further equity issues by Forge, although again specific decisions will be taken in the light of all the circumstances at the time of any Forge equity issue to which the top-up right applies.

The Transaction Agreements also contemplate circumstances in which assets may be transferred between members of the Forge group and members of the Todd group. In particular:

- (a) Todd JV Party has an option to acquire an additional 7.5% interest in the Balla Balla JV from Forge Resources Swan (see section 11.4 for further details); and
- (b) the proposed Joint Venture Agreement in relation to the Balla Balla JV includes a number of provisions under which interests in the joint venture may be transferred

between the parties, including pre-emption rights and a default regime (see section 11.3 for a description of these provisions).

Todd's current intention is to exercise its joint venture option to acquire an additional 7.5%. However any actual decision to exercise will be taken in the light of project progress at the relevant time and all other prevailing circumstances.

Any exercise of any rights under the Joint Venture Agreement in relation to transfer of interests under the pre-emption and other provisions will depend entirely on the circumstance in which those rights arise and cannot realistically be predicted at this time.

Save as described above, Todd does not currently intend to inject further capital into Forge nor does it currently intend to contemplate any proposal where assets will be transferred between Forge and Todd or its associates.

The intentions of each related body corporate of Todd, including Todd Shareholder, Todd JV Party and Todd Lender, are the same as Todd's intentions.

5. Information about Mr Nicholas Curtis AM and his intentions

5.1 Background

The information in this section 5 about Mr Nicholas Curtis (Forge's Chairman) has been included to comply with regulatory requirements concerning the acquisition by a person of more than 20% of the voting shares in an ASX-listed company.

As part of the Proposed Transaction, it is contemplated that 24 million Shares be issued to or for the benefit of Mr Curtis. That Share issue would result in Mr Curtis holding (and having a relevant interest in) 35.1% of the Shares (see section 7.2). Further information about the proposed Share issue is contained in section 14.

It is also contemplated that, if the Proposed Transaction completes, 1 million Options will be issued to Riverstone Advisory (Forge's adviser), a company in which Mr Curtis, through entities controlled by him, controls 66.7% of the shares. If Riverstone Advisory were to exercise all of those 1 million Options and Mr Curtis were to exercise all of his existing 1,333,334 Options (and assuming no other Shares are issued, as a result of the exercise of Options held by other persons or otherwise except pursuant to the Proposed Transaction), Mr Curtis would have a relevant interest in 36.9% of the Shares (see section 7.2). Further information about the proposed issue of Options to Riverstone Advisory is contained in section 16.

5.2 Profile of Mr Curtis

Mr Nicholas Curtis is the non-executive Chairman of Forge, a position he has held since before Forge listed on the ASX in September 2010.

He is a founding partner of Riverstone Advisory, a corporate advisory firm that specialises in bridging the gap between western resource opportunities and the increasing Chinese demand for raw materials. Mr Curtis is also Executive Chairman of Lynas Corporation Limited and has been involved with that company since mid 2001. Lynas Corporation Limited's strategy is to create a reliable, fully integrated source of rare earths supply from mine through to customers in the global rare earths industry.

Mr Curtis has gained extensive industry knowledge from his early career as a banker to the resources industry and from his time spent as the President and Chief Executive Officer of Sino Mining International Limited, which he established in 1996. Sino Mining International Limited was then a wholly-owned subsidiary of China National Nonferrous Metals Industry Corporation ("**CNNC**"), a large Chinese trading company. Following disbandment of CNNC, Nicholas established Sino Mining Limited, which became Sino Gold Mining Limited ("**Sino Gold**") and was the Chairman until November 2005. Sino Gold was an Australian public company, also listed on the Hong Kong Stock Exchange, with gold assets in China. Sino Gold was purchased by Eldorado Gold Corporation of Canada in December 2009.

Prior to his time with Sino Gold, Mr Curtis held the positions of Executive Director of Macquarie Bank Limited and Managing Director of Asia Resource Capital Limited, a joint venture between Macquarie Bank Limited and CNNC.

Mr Curtis also serves as Chairman of Faces in the Street Urban Mental Health Research institute at St Vincent's Hospital, Sydney. Nicholas was a Non-Executive Director of Conquest Mining Limited from 12 May 2010 to 18 October 2011 prior to the company's restructure to become Evolution Mining. From June 2004 to August 2011, Mr Curtis served as a Director of the Garvan Institute of Medical Research and from August 2004 to October 2009 he was Chairman of the Board of St Vincent's & Mater Health Sydney Limited. In addition, he served as a Director of St Vincent's Health Australia Ltd and St Vincent's Healthcare Ltd from 1 June 2004 to 1 October 2010.

On 13 June 2011, Mr Curtis was awarded an AM (Member of the Order) for his services to the community through executive roles supporting medical research and healthcare organisations and also for his work fostering Australia-China relations.

5.3 Intentions

If the Proposed Transaction completes, Mr Curtis intends to remain as non-executive Chairman of Forge, and to continue to work to implement Forge's existing strategies, being to acquire the Balla Balla project and develop that in conjunction with the Todd group, and to further develop the Eucla West Mineral Sand Project and Forge's other exploration projects.

Mr Curtis does not currently intend to:

- (a) change the business of Forge (though it is noted that if the Proposed Transaction completes, Forge will acquire a 75% interest in the Balla Balla project, and enter into an unincorporated joint venture with Todd JV Party in relation to the Balla Balla project);
- (b) inject further capital into Forge (other than as a result of potentially exercising his existing 1,333,334 Options (exercise price of \$0.20 each; expiry date of 31 July 2014));
- (c) make any change to the future employment of present employees of Forge;
- (d) contemplate any proposal where assets will be transferred between Forge and Mr Curtis or his associates;
- (e) redeploy the fixed assets of Forge; or
- (f) significantly influence or change the financial or dividend distribution policies of Forge.

6. Impact on Forge's financial position

6.1 Introduction

This section provides relevant financial information for Shareholders to consider when assessing the Proposed Transaction, including details of the financial impact to Forge if the Proposed Transaction is completed.

The financial information in this section:

- (a) has been prepared in accordance with the recognition and measurement principles of Australian accounting standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS); and
- (b) is presented in an abbreviated form, and Shareholders should refer to Forge's previously released financial statements for more detailed disclosures in relation to the historical position and performance of Forge.

6.2 Impact of Proposed Transaction on financial position

Below is a pro forma consolidated balance sheet of Forge (unaudited) taking into account the Proposed Transaction. The pro forma balance sheet illustrates the effect of the Proposed Transaction as if it had completed on 31 December 2011.

The unaudited pro forma balance sheet is indicative only. The Directors have drawn their conclusions based on known facts and other information publicly available as at the date of this Explanatory Memorandum. If the facts, circumstances, assumptions or other information should prove different to that described, the conclusions may change accordingly.

Forge (unaudited) pro forma balance sheet as at 31 December 2011

Un-audited Pro-Forma Balance Sheet of Forge Resources Ltd as at 31 December 2011	Actual as at 31 December 2011	Pro Forma 1: Adjustments on completion of Proposed Transaction (assuming there is no immediate exercise of Todd Shareholder Options and Riverstone Advisory Options)	Pro forma balance sheet as at 31 December 2011	Pro Forma 2: Adjustments on completion of Proposed Transaction (assuming there is immediate exercise of Todd Shareholder Options and Riverstone Advisory Options)	Pro forma balance sheet as at 31 December 2011
	\$	\$	\$	\$	\$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	3,678,137	7,627,500	11,305,637	11,377,500	15,055,637
Trade and other receivables	122,531	-	122,531	-	122,531
Other current assets	22,195	-	22,195	-	22,195
TOTAL CURRENT ASSETS	3,822,863	7,627,500	11,450,363	11,377,500	15,200,363
NON-CURRENT ASSETS					
Plant and equipment	19,273	-	19,273	-	19,273
Exploration and evaluation expenditure	1,866,104	-	1,866,104	-	1,866,104
Balla Balla project	-	30,000,000	30,000,000	30,000,000	30,000,000
Other non-current assets	126,095	-	126,095	-	126,095
TOTAL NON-CURRENT ASSETS	2,011,472	30,000,000	32,011,472	30,000,000	32,011,472
TOTAL ASSETS	5,834,335	37,627,500	43,461,835	41,377,500	47,211,835
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	312,558	-	312,558	-	312,558
Short term provisions	17,344	-	17,344	-	17,344

Un-audited Pro-Forma Balance Sheet of Forge Resources Ltd as at 31 December 2011	Actual as at 31 December 2011	Pro Forma 1: Adjustments on completion of Proposed Transaction (assuming there is no immediate exercise of Todd Shareholder Options and Riverstone Advisory Options)	Pro forma balance sheet as at 31 December 2011	Pro Forma 2: Adjustments on completion of Proposed Transaction (assuming there is immediate exercise of Todd Shareholder Options and Riverstone Advisory Options)	Pro forma balance sheet as at 31 December 2011
TOTAL CURRENT LIABILITIES	329,902	-	329,902	-	329,902
NON-CURRENT LIABILITIES					
Loan from Todd group	-	27,500,000	27,500,000	27,500,000	27,500,000
TOTAL NON CURRENT LIABILITIES	-	27,500,000	27,500,000	27,500,000	27,500,000
TOTAL LIABILITIES	329,902	27,500,000	27,829,902	27,500,000	27,829,902
NET ASSETS	5,504,433	10,127,500	15,631,933	13,877,500	19,381,933
EQUITY					
Issued capital	8,395,506	10,132,500	18,528,006	13,882,500	22,278,006
Reserves	238,483	-	238,483	-	238,483
Accumulated losses	-3,129,556	-	-3,129,556	-	-3,129,556
TOTAL EQUITY	5,504,433	10,127,500	15,631,933	13,877,500	19,381,933

The loan from Todd Lender under the Loan Facility Agreement will result in the Forge group having a debt-to-equity ratio (interest-bearing, long-term debt divided by shareholders equity) of approximately 1.42. An appropriate debt-to-equity ratio for a company is related to the industry in which the company operates. For example, capital-intensive industries such as mining exploration and production tend to have a debt/equity ratio above 2, while industries that are not capital intensive may have a debt to equity ratio of under 0.5.

Adjustments and assumptions

The following adjustments and assumptions have been used in preparing the unaudited pro forma balance sheet.

Pro-Forma Adjustments			Pro-Forma 1 Adjustments	Pro-Forma 2 Adjustments
	No of Shares	Price per Share		
Capital Raising Components				
Issue of Shares under Share Placement	9,000,000	\$0.50	\$4,500,000	\$4,500,000
Issue of Shares to Todd Shareholder	16,000,000	\$0.50	\$8,000,000	\$8,000,000
Loan from Todd Lender	-	-	\$27,500,000	\$27,500,000
Sale proceeds of 25% of the Balla Balla project to Todd JV Party	-	-	\$10,000,000	\$10,000,000
Exercise of Todd Shareholder Options	6,500,000	\$0.50	\$ -	\$3,250,000
Exercise of Riverstone Advisory Options	1,000,000	\$0.50	\$ -	\$500,000
Total			\$50,000,000	\$53,750,000
Less				
Costs of the Capital Raising		%		
Equity Capital Raising Fees (Note 1)		4.5%	\$1,012,500	\$1,012,500
Debt Capital Raising Fees (Note 1)		1.00%	\$275,000	\$275,000
Success Fee (Note 1)		1.0%	\$500,000	\$500,000
Legal Fees			\$500,000	\$500,000
Independent Expert's Fees			\$35,000	\$35,000
Other (Note 1)			\$50,000	\$50,000
Total expected Costs of the Capital Raising			\$2,372,500	\$2,372,500
Balla Balla acquisition cost (Note 2)			\$40,000,000	\$40,000,000
Nett Pro-forma movment in Cash at Bank			\$7,627,500	\$11,377,500

NOTES:

1. Fees payable to Forge's adviser

Riverstone Advisory and its wholly-owned subsidiary Riverstone Capital Pty Ltd (collectively "**Riverstone**") have provided advisory and capital raising services to Forge in relation to the Proposed Transaction. Under an existing mandate letter, Forge has agreed

to pay Riverstone certain fees upon completion of the Balla Balla acquisition and Proposed Transaction. Riverstone Advisory is a company controlled by two of Forge's directors, Mr Nicholas Curtis and Mr Harold Ou Wang. Further information about the engagement of Riverstone is set out in section 16.

The fees payable to Riverstone upon completion of the Balla Balla acquisition and Proposed Transaction comprise a proposed grant of 1 million Options to Riverstone Advisory (see section 16) and payment of the following cash amounts to Riverstone:

- (a) an equity capital raising fee equal to 4.5% of all cash raised on behalf of Forge – this amount is \$1,012,500 (being 4.5% of \$22.5 million, where: \$4.5 million will be raised via the issue of Shares to selected institutional and sophisticated investors under the Share Placement; \$8 million will be raised via the issue of Shares to Todd Shareholder under the Share Subscription Agreement; and an effective \$10 million raising from Todd JV Party for its acquisition of a 25% interest in the Balla Balla project;
- (b) a debt capital raising fee equal to 1% of all debt raised on behalf of Forge – this amount is \$275,000 (being 1% of the \$27.5 million loan under the Loan Facility Agreement); and
- (c) a success fee equal to 1% of the total amount of the Proposed Transaction – this amount is \$500,000 (being 1% of the \$50 million funding package of the Proposed Transaction).

In addition, Forge has agreed under the same mandate letter as described above to pay Riverstone an amount of \$50,000 for other services that have been provided in relation to the proposed Balla Balla acquisition. This fee is not conditional on completion of the Balla Balla acquisition and Proposed Transaction.

2. Purchase price for Balla Balla acquisition

Forge has agreed with Atlas Iron that the aggregate purchase price for the Balla Balla project will be \$39.5 million (rather than the previously agreed \$40 million) on the basis that payment is made by 31 May 2012. Forge Resources Swan has already paid a non-refundable deposit of \$500,000.

If Resolutions 1 to 8 are approved at the General Meeting and all of the other conditions to the Proposed Transaction have been satisfied at that time, it is expected that the Proposed Transaction and the Balla Balla acquisition will complete at or about the same time on or about the first business day after the conditions have been satisfied or waived. On that basis, the purchase price can be paid by 31 May 2012. It is Forge's understanding that the purchase price could revert to the original \$40 million if completion is delayed to beyond 31 May 2012 and Atlas Iron agrees to an extension of the 31 May 2012 conditions end date (see section 1.5).

It has been agreed between Forge and Todd Capital that, if the aggregate purchase price for Balla Balla is \$40 million or less, Forge will pay 75% of the Balla Balla purchase price and Todd JV Party will pay 25%. For simplicity, for the purposes of the pro forma financial accounts above, it has been assumed that the purchase price will be \$40 million, of which

Forge will pay 75% (\$30 million), with the remaining 25% (\$10 million) to be paid by Todd JV Party.

However, it has been agreed between Forge and Todd Capital that if completion of the Balla Balla acquisition is delayed beyond 31 May 2012 (in circumstances where the Master Agreement remains on foot) as a result of Forge or Todd Capital (or any of their respective related bodies corporate) failing to comply with their obligations under a Transaction Agreement and as a consequence the aggregate purchase price for the Balla Balla acquisition increases above \$40 million, then the defaulting party must bear the full extent of the price increase.

In addition, stamp duty will be payable by the purchasers on the Balla Balla acquisition. The stamp duty amount cannot be accurately estimated at this stage, as it will depend on the dutiable value of the Balla Balla assets as assessed by the Western Australian stamp duty office. The duty amount will be \$19,665 on the first \$500,000 of dutiable value, and 5.15% of the balance of the dutiable value.

7. Impact on Forge's capital structure and interests in Shares

7.1 Impact on capital structure

The effect on Forge's capital structure of the Proposed Transaction is shown in the following table.

	(1) Number of issued securities as at the date of this Explanatory Memorandum	(2) Number of securities to be issued upon completion of the Proposed Transaction	(3) Number of issued securities immediately following completion of the Proposed Transaction (ie. (1) + (2))
Shares	31,577,667	49,000,000 ²	80,577,667
Options ¹	24,955,905	7,500,000 ³	32,455,905
TOTAL	56,533,572	56,500,000	113,033,572

1. Each Option is exercisable into one Share.

2. Comprising 16,000,000 Shares to be issued to Todd Shareholder, 9,000,000 Shares to be issued to selected institutional and sophisticated investors, and 24,000,000 Shares to be issued to or for the benefit of Mr Nicholas Curtis.

3. Comprising 6,500,000 Options to be issued to Todd Shareholder, and 1,000,000 Options to be issued to Riverstone Advisory.

7.2 Impact on relevant interests in Shares

The following table sets out:

- (a) the relevant interests that Forge's substantial shareholders and Todd have in Shares as at the date of this Explanatory Memorandum (based on substantial holding notices filed with Forge and, in respect of Todd, based on the information in section 4.5); and
- (b) the relevant interests that Forge's substantial shareholders will have in Shares upon completion of the Proposed Transaction, assuming that none of the persons in the table below acquire or dispose of any Shares before completion of the Proposed Transaction.

Name of substantial shareholder	CURRENT Number of Shares	CURRENT Relevant interests in Shares (as a % of all Shares) and voting power	UPON COMPLETION Number of Shares	UPON COMPLETION Relevant interests in Shares (as a % of all Shares) and voting power
AusAmerican Mining	3,000,000	9.5%	3,000,000	3.7%
Mr Conglin Yue	5,000,000	15.8%	5,000,000	6.2%
Todd (via Todd Shareholder)	Nil	0.0%	16,000,000	19.9%

Name of substantial shareholder	CURRENT Number of Shares	CURRENT Relevant interests in Shares (as a % of all Shares) and voting power	UPON COMPLETION Number of Shares	UPON COMPLETION Relevant interests in Shares (as a % of all Shares) and voting power
Mr Nicholas Curtis (Non-Executive Chairman of Forge)	4,250,000	13.5%	28,250,000	35.1%
TOTAL SHARES ON ISSUE	31,577,667		80,577,667	

Upon completion of the Proposed Transaction, Todd Shareholder will, in addition to being issued 16,000,000 Shares, be issued with 6,500,000 Options. If Todd Shareholder were to exercise all of its Options (and assuming no other Shares are issued, as a result of the exercise of Options held by other persons or otherwise except pursuant to the Proposed Transaction), Todd Shareholder (and the Todd group) would have a relevant interest in 25.8% of the Shares (and the same percentage voting power in Forge) and Mr Curtis would have a relevant interest in 32.4% of the Shares (and the same percentage voting power in Forge), as set out in the following table.

Name of substantial shareholder	CURRENT Number of Shares	CURRENT Relevant interests in Shares (as a % of all Shares) and voting power	UPON COMPLETION Number of Shares	UPON COMPLETION Relevant interests in Shares (as a % of all Shares) and voting power
AusAmerican Mining	3,000,000	9.5%	3,000,000	3.5%
Mr Conglin Yue	5,000,000	15.8%	5,000,000	5.7%
Todd (via Todd Shareholder)	-	0.0%	22,500,000	25.8%
Mr Nicholas Curtis (Non-Executive Chairman of Forge)	4,250,000	13.5%	28,250,000	32.4%
TOTAL SHARES ON ISSUE	31,577,667		87,077,667	

Upon Completion of the Proposed Transaction, Riverstone Advisory will be issued with 1,000,000 Options. If Riverstone Advisory were to exercise all of its 1,000,000 Options and Mr Curtis were to exercise all of his existing 1,333,334 Options (exercise price of \$0.20 each; expiry date of 31 July 2014) (and assuming no other Shares are issued, as a result of the exercise of Options held by Todd Shareholder or other persons or otherwise except pursuant to the Proposed Transaction), Mr Curtis would have a relevant interest in 36.9% of the Shares and Todd Shareholder (and the Todd group) would have a relevant interest in 19.3% of the Shares (and the same percentage voting power in Forge), as set out in the following table.

Name of substantial shareholder	CURRENT Number of Shares	CURRENT Relevant interests in Shares (as a % of all Shares) and voting power	UPON COMPLETION Number of Shares	UPON COMPLETION Relevant interests in Shares (as a % of all Shares) and voting power
AusAmerican Mining	3,000,000	9.5%	3,000,000	3.6%
Mr Conglin Yue	5,000,000	15.8%	5,000,000	6.0%
Todd (via Todd Shareholder)	-	0.0%	16,000,000	19.3%
Mr Nicholas Curtis (Non-Executive Chairman of Forge)	4,250,000	13.5%	30,583,334	36.9%
TOTAL SHARES ON ISSUE	31,577,667		82,911,001	

8. Current and proposed Board of Directors

8.1 Current Forge Board

The Forge Board currently comprises the following Directors:

- (a) Mr Nicholas Curtis (Non-Executive Chairman);
- (b) Dr Matthew James (Managing Director);
- (c) Mr Harold Ou Wang (Non-Executive Director); and
- (d) Mr Emmanuel Correia (Non-Executive Director).

8.2 Proposed new Director

If the Proposed Transaction completes, in accordance with the terms of the Master Agreement the Forge Board will appoint as a Director of Forge one person who Todd Capital has nominated in writing to Forge and in respect of whom Forge has received a signed consent to act as a Director. As at the date of this Explanatory Memorandum, Forge has yet to receive from Todd Capital any such notice and signed consent.

Todd Capital is entitled to have 1 nominee appointed to the Forge board for so long as the Todd group holds at least 15% of the Shares.

9. Additional information regarding proposed issue of Shares to Todd Shareholder (Resolution 1)

9.1 Share Subscription Agreement

Under a Share Subscription Agreement that will be entered into if the conditions to the Proposed Transaction are satisfied or waived, Forge will issue 16,000,000 Shares to Todd Shareholder at an issue price of \$0.50 per Share. The issue of the Shares is subject to Shareholder approval (as well as being subject to the satisfaction or waiver of the other conditions precedent to the Proposed Transaction).

If Resolutions 1 to 8 are approved at the General Meeting (and the other conditions precedent to the Proposed Transaction are satisfied or waived) it is anticipated that the Shares will be issued and allotted on completion of the Proposed Transaction, which is anticipated to occur before 31 May 2012. In any event, the Shares would not be issued later than 3 months after the date of the General Meeting.

The Shares will, upon issue, rank equally with all other Shares on issue. Within 5 business days after the Share issue date Forge must lodge with ASX a 'cleansing notice' which complies with section 708A(5) of the Corporations Act (such cleansing notice will enable the Shares to be freely traded on the ASX). Forge must seek quotation of the Shares within 2 business days after their issue date.

The funds raised from the issue of the Shares will be used for the purposes described in section 1.1.

9.2 Shareholder approval requirement – ASX Listing Rules

ASX Listing Rule 7.1 restricts the number of equity securities (which include ordinary shares, options to acquire ordinary shares and convertible notes) that a listed company may issue or agree to issue in any 12 month period, without the approval of shareholders, to 15% of the number of ordinary shares on issue at the start of the period, subject to certain adjustments and permitted exceptions. Any equity securities which the company has issued, or has agreed to issue, with the approval of shareholders under ASX Listing Rule 7.1 will not count towards the 15% in 12 months limitation.

The Shares will be "equity securities" for the purposes of ASX Listing Rule 7.1. Given the restrictions of ASX Listing Rule 7.1, Forge would not be able to issue the Shares without obtaining Shareholder approval. Accordingly, Resolution 1 seeks Shareholder approval for the purposes of ASX Listing Rule 7.1 for the Shares to be issued to Todd Shareholder under the Share Subscription Agreement.

9.3 Shareholder approval requirement – section 611 item 7 of Corporations Act

Section 606(1) of the Corporations Act provides that a person must not acquire a relevant interest in issued voting shares of a listed company if the person acquiring the interest does so through a transaction in relation to the 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 listed company increases:

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

Under section 608(1) of the Corporations Act, a person has a relevant interest in securities if they are the holder of the securities, have power to exercise, or control the exercise of, a right to vote attached to the securities or 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 2 or more people can jointly exercise one of these powers, each of them is taken to have that power.

The issue of Shares to Todd Shareholder under the Share Subscription Agreement would result in Todd Shareholder's relevant interest in Shares as a percentage of all Shares on issue and its voting power in Forge increasing from nil (based on the information in section 4.5) to 19.9% (assuming no other Shares are issued except pursuant to the Proposed Transaction). This is below the 20% threshold, however it assumes that all of the Shares to be issued pursuant to the Share Placement and all of the Shares to be issued to (or for the benefit of) Mr Nicholas Curtis under the Proposed Transaction will be issued before any Shares are issued to Todd Shareholder. Whilst it is intended that all Shares to be issued under the Proposed Transaction will be issued at or about the same time, if Shares are issued to Todd Shareholder before being issued under the Share Placement or to (or for the benefit of) Mr Nicholas Curtis, Todd Shareholder's relevant interest in Shares would momentarily be higher than 20%.

In the absence of a relevant exemption, this would contravene section 606(1) of the Corporations Act. Section 606(1A) of the Corporations Act provides that a person may acquire a relevant interest under one of the exceptions set out in section 611 of the Corporations Act without contravening section 606(1). Under item 7 of section 611, an acquisition that was approved previously by a resolution passed at a general meeting of the company in which the acquisition is made is exempt from section 606(1). Accordingly, Resolution 1 also seeks Shareholder approval for the purposes of item 7 of section 611 of the Corporations Act for the Shares to be issued to Todd Shareholder under the Share Subscription Agreement.

As noted in and based on section 4.5, as at the date of this Explanatory Memorandum Todd Shareholder's only associates in relation to Forge are its related bodies corporate (being Todd and its subsidiaries) and none of those associates currently has a relevant interest in Shares. On that basis, each associate has the same voting power in Forge that Todd Shareholder currently has, and will have the same increased voting power in Forge that Todd Shareholder will have following the acquisition of Shares under the Share Subscription Agreement.

10. Additional information regarding proposed issue and exercise of Todd Shareholder Options (Resolutions 2 and 3)

10.1 Option Deed

Under an Option Deed that will be entered into if the conditions to the Proposed Transaction are satisfied or waived, Forge will issue Todd Shareholder with 6,500,000 Options ("**Todd Shareholder Options**"). Each Todd Shareholder Option confers on the holder a right to subscribe for a Share at an exercise price of \$0.50. Todd Shareholder will not provide any cash amount for the acquisition of Todd Shareholder Options.

The issue of Todd Shareholder Options is subject to Shareholder approval (as well as being subject to the satisfaction or waiver of the other conditions precedent to the Proposed Transaction). If Resolutions 1 to 8 are approved at the General Meeting (and the other conditions precedent to the Proposed Transaction are satisfied or waived) it is anticipated that Todd Shareholder Options will be issued and allotted on completion of the Proposed Transaction, which is anticipated to occur before 31 May 2012. In any event, Todd Shareholder Options would not be issued later than 3 months after the date of the General Meeting.

The other key terms of Todd Shareholder Options, as set out in the Option Deed, are summarised as follows.

- (a) (**Term**) The Options have a term of 2 years from the issue date. Any Options not exercised by the end of the term will expire.
- (b) (**Exercise of Options**) Options can be exercised at any time during the term in minimum lots of 1,000,000.
- (c) (**Issue of Shares**) Shares will be issued on the second business day after the exercise of Options, and within 5 business days after each Share issue date Forge must lodge with ASX a 'cleansing notice' which complies with section 708A(5) of the Corporations Act (such cleansing notice will enable the Shares to be freely traded on the ASX). Forge has certain rights to delay a Share issue date by up to 15 business days if its Board reasonably forms the view that the issue of a cleansing notice would materially prejudice the interests of Forge in forcing a disclosure which would not otherwise require disclosure under ASX Listing Rule 3.1.
- (d) (**Status of Shares**) Shares issued upon the exercise of Options will rank equally with the then Shares on issue. Forge must seek quotation of the Shares within 2 business days after their issue date.
- (e) (**Adjustments**) The exercise price of each Option (and/or the number of Shares over which each Option is exercisable) may be adjusted as permitted by (and otherwise in accordance with) the ASX Listing Rules if there is a pro rata issue of Shares, a bonus issue of Shares or a reorganisation of the capital of Forge.
- (f) (**Transferability**) All (but not some only) of the Options can be transferred to Todd or to any wholly-owned subsidiary of Todd.

(g) **(Other)**

- (i) The Options will not be quoted on any securities exchange.
- (ii) The Options do not confer any rights to vote at general meetings of Forge.
- (iii) The Options do not confer any right to participate in new issues of securities by Forge.

Forge intends that the funds raised from the exercise of any Todd Shareholder Options would be used for working capital purposes.

10.2 Shareholder approval requirement – issue of Todd Shareholder Options

ASX Listing Rule 7.1 restricts the number of equity securities (which include ordinary shares, options to acquire ordinary shares and convertible notes) that a listed company may issue or agree to issue in any 12 month period, without the approval of shareholders, to 15% of the number of ordinary shares on issue at the start of the period, subject to certain adjustments and permitted exceptions. Any equity securities which the company has issued, or has agreed to issue, with the approval of shareholders under ASX Listing Rule 7.1 will not count towards the 15% in 12 months limitation.

The Todd Shareholder Options will be "equity securities" for the purposes of ASX Listing Rule 7.1. Given the restrictions of ASX Listing Rule 7.1, Forge would not be able to issue the Todd Shareholder Options without obtaining Shareholder approval. Accordingly, Resolution 2 seeks Shareholder approval for the purposes of ASX Listing Rule 7.1 for Todd Shareholder Options to be issued to Todd Shareholder under the Option Deed.

10.3 Shareholder approval requirement – exercise of Options

As noted in section 10.1, Todd Shareholder is entitled to exercise the Todd Shareholder Options and acquire Shares. Upon exercise at the exercise price of \$0.50, Todd Shareholder would be issued with a maximum of 6,500,000 Shares², and therefore its relevant interest in Shares and voting power in Forge will increase.

If the issue of Shares to Todd Shareholder upon the exercise of Todd Shareholder Options would result in Todd Shareholder increasing its voting power in Forge:

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

then Todd Shareholder would be in breach of section 606(1) of the Corporations Act, unless a relevant exemption applies (see section 9.3 for an explanation of the rule in section 606(1)).

Section 606(1A) of the Corporations Act provides that a person may acquire a relevant interest under one of the exceptions set out in section 611 of the Corporations Act without contravening section 606(1). Under item 7 of section 611, an acquisition that was approved previously by a resolution passed at a general meeting of the company in which

² The exercise price (or number of Shares over which each Option is exercisable) may be adjusted in certain circumstances in accordance with the ASX Listing Rules – see section 10.1(e). If there is a downward adjustment in the exercise price, there will be a greater number of Shares issued upon the exercise of Todd Shareholder Options.

the acquisition is made is exempt from section 606(1). Resolution 3 seeks Shareholder approval for the purposes of item 7 of section 611 of the Corporations Act for Shares to be issued to Todd Shareholder upon the exercise of Todd Shareholder Options.

As explained in section 9.2, the issue of Shares to Todd Shareholder under the Share Subscription Agreement would result in Todd Shareholder's relevant interest in Shares as a percentage of all Shares on issue and its voting power in Forge increasing from nil (based on the information in section 4.5) to 19.9% (assuming no other Shares are issued except pursuant to the Proposed Transaction). If Todd Shareholder were to exercise all of its Todd Shareholder Options (and assuming no other Shares are issued, as a result of the exercise of Todd Shareholder Options held by other persons or otherwise except pursuant to the Proposed Transaction), Todd Shareholder would have a relevant interest in 25.8% of the Shares (and the same percentage voting power).

As noted in and based on section 4.5, as at the date of this Explanatory Memorandum Todd Shareholder's only associates in relation to Forge are its related bodies corporate (being Todd and its subsidiaries) and none of those associates currently has a relevant interest in Shares. On that basis, each associate has the same voting power in Forge that Todd Shareholder currently has, and will have the same increased voting power in Forge that Todd Shareholder will have immediately following the acquisition of Shares as a result of the exercise of Todd Shareholder Options.

11. Additional information regarding the proposed acquisition of the Balla Balla project and joint venture (Resolution 4)

11.1 Background

On 16 December 2011, Forge announced that it had signed binding documentation with Atlas Iron to acquire a 100% interest in the Atlas Iron group's Balla Balla magnetite, vanadium and titanium project for \$40 million plus a capped royalty payment structure based on tonnage sold. On 21 February 2012, Forge announced that it had agreed terms with Atlas Iron whereby they had agreed to extend the deadline for satisfying the conditions precedent to completion of the acquisition from 24 February 2012 to 30 April 2012, subject to Forge paying Atlas Iron a non-refundable deposit of \$500,000 (which has been paid). The deadline has subsequently been extended to 31 May 2012 and the purchase price will now be \$39.5 million. See Note 2 in section 6.2 for further information regarding the purchase price.

As part of the Proposed Transaction, it is now proposed that:

- (a) Forge will (via its wholly-owned subsidiary Forge Resources Swan) acquire and pay for a 75% ownership interest in the Balla Balla project;
- (b) Todd will (via Todd JV Party) acquire and pay for a 25% ownership interest in the Balla Balla project; and
- (c) the Balla Balla project will be operated as an unincorporated joint venture between Forge Resources Swan and Todd JV Party.

In relation to the proposed Balla Balla JV, the Forge and Todd groups propose to enter into the following joint venture transaction documents: Joint Venture Agreement (see section 11.3), Joint Venture Option Agreement (see section 11.4), Cross Security Deed (see section 11.5), Priority Deed (see section 11.6) and Marketing Agreement (see section 11.7).

11.2 Balla Balla Sale and Purchase Agreement

As noted in section 11.1, it is proposed that Forge Resources Swan will acquire and pay for a 75% ownership interest in the Balla Balla project, and that Todd JV Party will acquire and pay for a 25% ownership interest in the Balla Balla project. This 75%/25% ownership split will be achieved either by way of:

- (a) each of Forge Resources Swan and Todd JV Party directly acquiring their respective interests from Atlas Iron, in which case the purchase agreement for the acquisition of the Balla Balla assets will need to be partially novated before completion to add Todd JV Party as a co-purchaser; or
- (b) Todd JV Party acquiring from Forge Resources Swan (as closely as possible simultaneously with the completion of Forge Resources Swan's acquisition of 100% of the Balla Balla project from Atlas Iron) its 25% interest in the Balla Balla project via a 'back-to-back' agreement between Forge Resources Swan and Todd JV Party.

The structure will be settled before completion of the Proposed Transaction.

Whichever structure is adopted will not change the amount that each of Forge Resources Swan and Todd JV Party will pay to acquire their respective interests in the Balla Balla project, being 75% and 25% of the purchase price respectively. However, see Note 2 in section 6.2 for further information regarding the purchase price.

In addition to the purchase price, the Balla Balla JV parties will need to pay the following royalties (proportionately according to their interests in the Balla Balla JV).

- (a) **(4% royalty)** A 4% royalty on revenue, after government taxes and royalties, shall be paid to Ferro Metals Australia Pty Ltd (a subsidiary of Atlas Iron Limited) from the first:
 - (i) 5,500,000 tonnes of contained Fe within magnetite concentrate sales; and
 - (ii) 200,000 tonnes of contained TiO₂ within ilmenite sales.
- (b) **(1% royalty)** Upon completion of the 4% royalty tonnages referred to in paragraphs (a)(i) and (a)(ii), the royalty shall drop to 1% of revenue (after government taxes and royalties (other than taxes on income and minerals resource rent tax)), on remaining tonnages up to a maximum of:
 - (i) 36,000,000 tonnes of contained Fe within magnetite concentrate sales; and
 - (ii) 1,200,000 tonnes of contained TiO₂ within ilmenite sales.
- (c) **(\$0.50/tonne royalty)** A \$0.50 per tonne royalty on ore mined and from which any mineral (other than copper, nickel, cobalt, lead, zinc, antimony, gold, silver or platinum) is sold will be payable to the original vendors of the Balla Balla tenements.

Under the Balla Balla sale and purchase agreement, completion of the Balla Balla acquisition is subject to various conditions, as follows:

- (a) FIRB approval to allow Forge Resources Swan to undertake the Balla Balla acquisition (note: such approval is required because Forge Resources Swan will become a 'foreign person' if any foreign person acquires more than 15% of the Shares, which will occur as Todd Shareholder will acquire an approximate 19.9% shareholding interest in Forge on completion of the Proposed Transaction);
- (b) Ministerial consent for the transfer of the Balla Balla tenements (note: such consent has been received); and
- (c) Forge successfully conducting a capital raising with Shareholder approval and receiving proceeds of at least \$15 million.

The Balla Balla sale and purchase agreement will terminate if the foregoing conditions have not been satisfied by 31 May 2012 (or by such later date as may be agreed between Forge Resources Swan and Atlas Iron).

11.3 Joint Venture Agreement

Under a Joint Venture Agreement to be entered into if the conditions to the Proposed Transaction are satisfied or waived, Forge Resources Swan and Todd JV Party will operate

the Balla Balla project as an unincorporated joint venture, with Forge Resources Swan to have an initial 75% interest and Todd JV Party to have an initial 25% interest.

The Joint Venture Agreement which Forge Resources Swan and Todd JV Party propose to enter into, and which will take effect from completion of the Proposed Transaction, will be released by Forge to the market, via an ASX release, on or about the date that this document is despatched to Shareholders.

All joint venture property will be owned by each joint venturer severally as tenants in common in the proportion of their respective interests from time to time in the joint venture.

Forge Resources Swan is to be appointed as manager of the joint venture, and shall act as manager until the Joint Venture Agreement is terminated (subject to certain conditions) and will be paid a management fee by the joint venturers in proportion to their respective interests from time to time in the joint venture.

Forge Resources Swan and Todd JV Party will, amongst other things, design, construct, develop and operate the Balla Balla project, including mining, processing, storing and delivering ore and further exploring the Balla Balla project area for additional reserves of ore.

Generally speaking, each joint venturer will have the obligation to fund joint venture expenditure, and a right to receive product from the Balla Balla project, in proportion to its joint venture interests (however, in respect of any phosphate project on the tenements, the joint venturers will each have a 50% interest). Certain products will be marketed by a Forge subsidiary under an exclusive marketing agreement (see section 11.7).

Certain decisions relating to the joint venture require the unanimous approval of the joint venturers via their appointees on a joint venture management committee. These include: approval of work programmes and budgets; a decision to develop and mine a deposit located within the tenements; development of a phosphate project; sale of any joint venture asset which exceeds \$1 million and which is material to the operation of the joint venture; variation of the management fee payable to Forge Resources Swan as manager; and the termination or suspension of joint venture activities.

A joint venturer is not permitted to transfer all or part of its interest in the joint venture unless the consideration involves the payment of cash (in whatever form and over any period), and is either consented to by the other joint venturer or is a transfer to the other joint venturer in accordance with the Joint Venture Agreement. In addition, neither joint venturer is entitled to transfer all or part of its interest in the joint venture within the first 2 years, without the consent of the other joint venturer.

The Joint Venture Agreement contemplates various circumstances in which one joint venturer might transfer all or part of their joint venture interest to the other. In summary, the circumstances are as follows (based on a 2 party joint venture scenario).

(a) **Rights of pre-emption**

Where a joint venturer ("**Selling Party**") receives a bona fide offer to purchase or to farm-in to, or intends to make an offer to sell or farm-out, for a consideration involving payment of cash to the Selling Party, all or part of the Selling Party's interest in the joint venture, the Selling Party must first offer to sell that same

interest to the other joint venturer ("**Other Party**") on the same terms that it would have been sold to the relevant third party.

The Other Party has 45 days, from the date of receiving the offer, within which to accept the offer. If the Other Party does not accept the offer, then the Selling Party is free to sell to the relevant third party at any time within 6 months after making the sale offer to the Other Party at a price and on terms which are no less favourable to the Selling Party than the price, terms and conditions set out in the offer to the Other Party.

Forge is seeking Shareholder approval at the General Meeting (see Resolution 4 (paragraphs (d) and (e)) for the purposes of ASX Listing Rule 10.1 for any sale in the future by the Selling Party of all or part of its interest in the joint venture to the Other Party, pursuant to the regime described above. The ASX has provided to Forge an in-principle confirmation that, if Resolution 4 is approved, no further Forge shareholder approval will be required in the future under ASX Listing Rule 10.1 for any such sale. However, the ASX has provided to Forge an in-principle confirmation that the sale by the Selling Party of all or part of its interest in the joint venture to the Other Party may at the relevant time need to be subject to Forge shareholder approval under ASX Listing Rule 11.1.2 and/or 11.2. See section 11.8 for further details of ASX's in-principle confirmations.

(b) **Change of control or less than minimum interest**

Where a joint venturer ceases to be a subsidiary of its ultimate holding company or has less than a 7.5% interest in the joint venture (in each case the "**First Party**"), the other joint venturer ("**Other Party**") may by notice to the First Party and the joint venture manager cause the First Party to make a deemed offer to sell its entire interest in the joint venture to the Other Party.

The purchase price for the First Party's joint venture interest will be a fair market price as determined by an independent expert (such expert to be one nominated by the Institute of Arbitrators & Mediators Australia), unless the circumstances of the transaction are such that none of ASX Listing Rule 10.1, 11.1.2 or 11.2 has any potential application (in which case the price will be a fair market price agreed between the parties, with expert determination only required if the parties cannot agree the price within 30 days after the deemed sale offer is made). The Other Party has 60 days, from the date the purchase price has been agreed or determined, within which to accept the offer. Completion is to occur within 60 days after acceptance.

Forge is seeking Shareholder approval at the General Meeting (see Resolution 4 (paragraphs (d) and (e)) for the purposes of ASX Listing Rules 10.1 and 11.2 for any sale in the future by the First Party of all of its interest in the joint venture to the Other Party, pursuant to the regime described above. ASX has provided to Forge an in-principle confirmation that if Resolution 4 is approved:

- (i) no further Forge shareholder approval will be required in the future under ASX Listing Rule 10.1 or 11.2 for any such sale;

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- (ii) no further Forge shareholder approval will be required in the future under ASX Listing Rule 11.1.2 for any such sale where the seller is a Forge group entity and the buyer is a Todd group entity; and
 - (iii) it is unlikely that further Forge shareholder approval will be required in the future under ASX Listing Rule 11.1.2 for any such sale where the seller is a Todd group entity and the buyer is a Forge group entity.

See section 11.8 for further details of ASX's in-principle confirmation.

(c) **Default**

If a joint venturer has not paid any monies it is required to pay under the Joint Venture Agreement within 14 days of the due date ("**Defaulting Party**"), the other joint venturer ("**Non-Defaulting Party**") may by notice to the Defaulting Party and the joint venture manager state that it wishes to purchase all (but not some only) of the Defaulting Party's interest in the joint venture (a "**Buy-Out Election**"). Where a Non-Defaulting Party makes a Buy-Out Election, it cannot enforce its charge under the Cross Security Deed (see section 11.5) unless the Defaulting Party suffers an insolvency event.

The purchase price for the First Party's joint venture interest will be a fair market price as determined by an independent expert (such expert to be one nominated by the Institute of Arbitrators & Mediators Australia), unless the circumstances of the transaction are such that none of ASX Listing Rule 10.1, 11.1.2 or 11.2 has any potential application (in which case the price will be a fair market price agreed between the parties, with expert determination only required if the parties cannot agree the price within 14 days after the Buy-Out Election is made).

Forge is seeking Shareholder approval at the General Meeting (see Resolution 4 (paragraphs (d) and (e))) for the purposes of ASX Listing Rules 10.1 and 11.2 for any sale by the Defaulting Party of all of its interest in the joint venture to the Non-Defaulting Party, pursuant to the regime described above. ASX has provided to Forge an in-principle confirmation that if Resolution 4 is approved:

- (i) no further Forge shareholder approval will be required in the future under ASX Listing Rule 10.1 or 11.2 for any such sale;
- (ii) no further Forge shareholder approval will be required in the future under ASX Listing Rule 11.1.2 for any such sale where the seller is a Forge group entity and the buyer is a Todd group entity; and
- (iii) it is unlikely that further Forge shareholder approval will be required in the future under ASX Listing Rule 11.1.2 for any such sale where the seller is a Todd group entity and the buyer is a Forge group entity.

See section 11.8 for further details of ASX's in-principle confirmation.

(d) **Sole risk proposal**

The Joint Venture Agreement contains a regime whereby one joint venturer can elect to develop and mine a deposit on a sole-risk basis if the joint venturers cannot agree that the joint venture will develop and mine such deposit.

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- (i) **(Buy-out right)** The joint venturer who is in favour of the development of the iron ore project (which by definition excludes a phosphate project or any other project) can choose to:
- (A) make a sole risk election in relation to the development of such project, whereupon the other joint venturer can trigger a 'buy-out right' which requires each joint venturer to submit a confidential offer to an independent auditor to buy all (but not part of) the other joint venturer's interest in the joint venture; or
 - (B) trigger a 'buy-out right' as described immediately above.

Under the buy-out right regime, the joint venturer who makes the higher offer (as assessed by an independent auditor) will then purchase all of the other joint venturer's interest in the joint venture.

Forge is not seeking Shareholder approval at the General Meeting for any sale by a joint venturer of all of its interest in the joint venture to the other joint venturer, pursuant to the regime described above. ASX has provided to Forge an in-principle confirmation that any such sale may at the relevant time need to be subject to Forge shareholder approval under ASX Listing Rule 10.1 and/or 11.1.2 and/or 11.2. See section 11.8 for further details of ASX's in-principle confirmation.

Note: Todd Capital and Forge have agreed that, within 30 days following completion of the Proposed Transaction, they will agree draft amendments to the buy-out regime described immediately above to provide for (in broad terms) an independent valuation of the joint venture and for the joint venturers to engage in a bid process for the possible acquisition of the other's interest in the joint venture. The making of any amendments of this nature will be subject to obtaining ASX relief and Forge Shareholder approval. Any Shareholder approval would be sought after completion of the Proposed Transaction.

- (ii) **(Buy-in right)** Where a sole risk operation is undertaken, the non-participating joint venturer can elect to participate in the sole risk operation by purchasing an interest in the operation which is equal to the joint venturer's then percentage interest in the joint venture. The purchase consideration will be a cash amount equal to three times the amount of the non-participating joint venturer's percentage share (based on its percentage interest in the joint venture) of all costs and expenses incurred by the sole risking joint venturer up to the date of the other joint venturer's purchase election.

Forge is seeking Shareholder approval at the General Meeting (see Resolution 4 (paragraphs (d) and (e)) under ASX Listing Rule 10.1 for a non-participating joint venturer to purchase an interest in a sole risk operation, pursuant to the regime described above. ASX has provided to Forge an in-principle confirmation that if Resolution 4 is approved, no further Forge shareholder approval will be required in the future under ASX

Listing Rule 10.1 for any such sale. The ASX has also provided to Forge an in-principle confirmation that ASX Listing Rule 11.2 does not apply to any disposal by Forge Resources Swan of an interest in a sole risk operation to Todd JV Party. However, ASX has also provided to Forge an in-principle confirmation that where the non-participating joint venturer is Forge Resources Swan, the completion of the non-participating joint venturer's purchase of an interest in the sole risk operation may at the relevant time need to be subject to Forge shareholder approval under ASX Listing Rule 11.1.2. See section 11.8 for further details of ASX's in-principle confirmations.

The Joint Venture Agreement contains dispute resolution mechanisms and otherwise contains terms which are customary for an unincorporated mining joint venture relating to assets at a pre-mining, pre-development stage.

11.4 Joint Venture Option Agreement

Under a Joint Venture Option Agreement to be entered into if the conditions to the Proposed Transaction are satisfied or waived, Todd JV Party will have an option to acquire an additional 7.5% interest in the Balla Balla JV from Forge Resources Swan for \$36.4 million.

The option will expire on the earliest of: the date of first drawdown of project finance for the Balla Balla project; the date on which the loan under the Loan Facility Agreement is due to be repaid; and the end of 10 years (the "**Expiry Date**").

The option is open up to the Expiry Date but exerciseable only during any of the following periods:

- (a) each period commencing on the date that Forge Resources Swan notifies Todd JV Party of a project finance term sheet (for the financing of the Balla Balla project) and ending 6 business days after the earlier of:
 - (i) giving that notification; and
 - (ii) the Expiry Date; and
- (b) the period commencing 4 months after the giving of any notification described in paragraph (a) above if Forge Resources Swan has signed a project finance term sheet and ending on the earlier of:
 - (i) the date that Forge Resources Swan notifies Todd JV Party that project finance will not proceed; and
 - (ii) the Expiry Date.

If the option is exercised, Forge Resources Swan will on the relevant completion date transfer to Todd JV Party a 7.5% interest in the Balla Balla JV. No cash will be paid by Todd JV Party to Forge Resources Swan if the option completes more than 2 years after completion of the Proposed Transaction – rather, Todd JV Party will pay the \$36.4 million consideration to Todd Lender which will constitute full or partial (depending on when paid) repayment of the loan amount (inclusive of accrued interest) by \$36.4 million under the Loan Facility Agreement. The 'completion date' of the option will be the later of the date of

first drawdown of project finance and satisfaction of completion conditions (ie. receipt of any required regulatory approvals) (provided that if any completion conditions are not satisfied within 30 days after the drawdown date then either party can elect to not proceed with completion).

If the option is exercised and project finance funds are not drawdown within 4 months after the date that Forge Resources Swan notifies Todd JV Party of a project finance term sheet, then Forge may cancel the transfer of the 7.5% interest in the Balla Balla JV. Todd JV Party may again exercise the option during any subsequent exercise period.

Forge is seeking Shareholder approval at the General Meeting (see Resolution 4 (paragraph (d)) under ASX Listing Rule 10.1 for the acquisition by Todd JV Party of an additional 7.5% interest in the Balla Balla JV from Forge Resources Swan pursuant to the exercise of the option under the Joint Venture Option Agreement. ASX has provided to Forge an in-principle confirmation that if Resolution 4 is approved, no further Forge shareholder approval will be required in the future under ASX Listing Rule 10.1 for any such acquisition (being, for the purposes of the ASX Listing Rules, a disposal by Forge Resources Swan). ASX has also provided to Forge an in-principle confirmation that ASX Listing Rules 11.1.2 and 11.2 do not apply to any such acquisition (being, for the purposes of the ASX Listing Rules, a disposal by Forge Resources Swan). See section 11.8 for further details of ASX's in-principle confirmations.

11.5 Cross Security Deed

Forge Resources Swan and Todd JV Party will enter into a Cross Security Deed if the conditions to the Proposed Transaction are satisfied or waived. The Cross Security Deed secures the performance of each joint venturer's obligations (including monetary liabilities) to one another arising under the Balla Balla JV.

Under the Cross Security Deed, each joint venturer will grant security interests to the other in, and charge to the other, its rights and interest in personal and non-personal property (respectively) in respect of the Balla Balla JV.

The Cross Security Deed becomes enforceable if a joint venturer fails to pay, when due, any moneys for which that joint venturer is liable under the Cross Security Deed or the Joint Venture Agreement (a "**Joint Venturer Default**"). If a Joint Venturer Default occurs and continues for 30 days, the non-defaulting joint venturer may (among other remedies available to a secured creditor) enforce any security or charge granted to it under the Cross Security Deed or appoint a receiver and/or receiver and manager as its attorney to enforce those rights on its behalf.

Forge is seeking Shareholder approval at the General Meeting (see Resolution 4 (paragraph (c)) under ASX Listing Rule 10.1 and 11.2 for the granting by Forge Resources Swan to Todd JV Party of security interests under the Cross Security Deed, and for any subsequent transfers of assets between Forge Resources Swan and Todd JV Party upon any enforcement of the Cross Security Deed. ASX has provided to Forge an in-principle confirmation that if Resolution 4 is approved, no further Forge shareholder approval will be required in the future under ASX Listing Rule 10.1, 11.1.2 or 11.2 for any such enforcement. See section 11.8 for further details of ASX's in-principle confirmations.

11.6 Priority Deed

Forge Resources Swan, Todd Lender and Todd JV Party will enter into a Priority Deed if the conditions to the Proposed Transaction are satisfied or waived. The Priority Deed sets out the priority between the security interests granted by Forge Resources Swan to Todd JV Party under the Cross Security Deed (the "**Cross Security**") and the security interests granted by Forge Resources Swan to Todd Lender under the General Security Deed and the Tenement Mortgage (the "**Financier's Security**").

Under the Priority Deed, Todd Lender will consent to the creation, continuation and registration of the Cross Security and Todd JV Party and Forge Resources Swan will consent similarly in respect of the Financier's Security. In respect of priority of payments and priority of enforcement action, the parties will agree that the Cross Security will have priority over the Financier Security. Todd Lender will also acknowledge that any of its rights or any rights of its enforcement administrator are subject to and bound by the provisions of, among other things, the Joint Venture Agreement, the Balla Balla tenements and the Cross Security Deed insofar as the Financier's Security applies to any interests in or property of the Balla Balla JV.

11.7 Marketing Agreement

It is proposed that a Forge subsidiary ("**Forge Marketing**") will provide marketing services to the Balla Balla JV in respect of the production output of the Balla Balla project. Forge, Forge Resources Swan and Todd JV Party will negotiate and conclude, as soon as reasonably practicable after completion of the Proposed Transaction, a marketing agreement which incorporates certain key principles including the following:

- (a) for an agreed period Forge Marketing will have sole and exclusive marketing rights in respect of:
 - (i) all ilmenite, magnetite, titanomagnetite and ferro vanadium mined on the Balla Balla tenements or any adjacent tenements containing an extension of the ore body located on the Balla Balla tenements; and
 - (ii) all forms of product containing iron, titanium or vanadium produced by the Balla Balla JV on or from the Balla Balla tenements;
- (b) marketing rights in respect of any other minerals (including phosphate) or products derived from such minerals on the Balla Balla tenements, and in respect of all minerals or products derived from such minerals on any other tenements subsequently acquired by the Balla Balla JV may be granted to Forge Marketing in the future by mutual agreement of all parties;
- (c) the marketing fees payable to Forge Marketing will represent arms-length commercial terms for marketing and sales arrangements of this nature, including as to appropriate incentives for the marketing company, having regard to market precedents; and
- (d) the agreement will set out agreed performance measures and an agreed regime around rectification / remedy of poor performance, and there will be an appropriate

termination regime, to address circumstances such as breach, insolvency, and prolonged force majeure.

11.8 Shareholder approval requirement – ASX Listing Rules 10.1 and 11

(a) ASX Listing Rule 10.1

ASX Listing Rule 10.1 provides that a listed company must ensure that neither it nor any of its subsidiaries disposes of a substantial asset to (among others) a person who has a relevant interest in at least 10% of the company's voting shares at any time within the 6 months prior to the disposal, without the approval of holders of the company's ordinary shares. An asset is a "substantial asset" if its value, or the value of the consideration for it is, or in ASX's opinion, is 5% or more of the equity interests of the company as set out in the latest accounts given to ASX under the ASX Listing Rules.

(i) 25% ownership interest

The Proposed Transaction will involve Todd (via wholly-owned subsidiaries) acquiring more than 10% of the Forge Shares and a direct 25% ownership interest in the Balla Balla project. Assuming the Balla Balla acquisition is completed, the value of a 25% ownership interest in the Balla Balla project is likely to be greater than 5% of the equity interests of Forge as set out in its latest accounts given to ASX. As a guide, Todd JV Party will pay approximately \$10 million to acquire 25% of the Balla Balla project, whereas Forge's most recent half-year accounts (released to the ASX on 14 March 2012) disclose total equity interests of \$5.5 million and 5% of that amount is only \$275,000.

If Todd JV Party acquires its initial 25% interest in the Balla Balla project from Forge Resources Swan, that transaction will be considered a 'disposal' by Forge of a substantial asset. If, however, Todd JV Party acquires its initial 25% interest directly from Atlas Iron and not from Forge Resources Swan, that transaction may also be considered a 'disposal' by Forge Resources Swan to Todd JV Party of a 25% ownership interest in the Balla Balla project (being a 'substantial asset') as it was originally contemplated that Forge Resources Swan would acquire 100% of the Balla Balla project. Accordingly, Forge seeks Shareholder approval of such 'disposal' under ASX Listing Rule 10.1.

(ii) Cross Security Deed

Under the terms of the Cross Security Deed (see section 11.5), Forge Resources Swan will grant to Todd JV Party a security interest in Forge Resource Swan's 75% interest in the Balla Balla JV. The granting of such security interest (and the potential future enforcement of such security interest) may in some cases constitute a 'disposal' of Forge Resources Swan's interest in the Balla Balla JV for the purposes of ASX Listing Rule 10.1. Accordingly, Forge seeks Shareholder approval of such 'disposal' under ASX Listing Rule 10.1.

ASX has provided to Forge an in-principle confirmation that, if Resolution 4 is approved by Shareholders at the General Meeting, no further Forge shareholder

approval will be required in the future under ASX Listing Rule 10.1 for any enforcement of the security interests under the Cross Security Deed.

(iii) *Joint Venture Option Agreement*

Under the terms of the Joint Venture Option Agreement (see section 11.4), Todd JV Party has an option to acquire an additional 7.5% ownership interest in the Balla Balla JV (the "**Option Acquisition**"). Such Option Acquisition may attract the operation of ASX Listing Rule 10.1, having regard to Todd's shareholding interest in Forge at the relevant time and the value of such Option Acquisition vis-à-vis the equity interests of Forge at the relevant time. Accordingly, Forge seeks Shareholder approval of such Option Acquisition under ASX Listing Rule 10.1.

ASX has provided to Forge an in-principle confirmation that, if Resolution 4 is approved by Shareholders at the General Meeting, no further Forge shareholder approval will be required in the future under ASX Listing Rule 10.1 for the Option Acquisition, on condition that Forge discloses the material terms of the Joint Venture Option Agreement in this Notice of General Meeting and Explanatory Memorandum and in every annual report.

(iv) *Joint Venture Agreement*

Under the terms of the Joint Venture Agreement (see section 11.3), there are circumstances in which Todd JV Party could acquire all or part of the Forge group's interest in the Balla Balla project, and in which Forge Resources Swan could acquire all or part of Todd JV Party's interest in the Balla Balla project. Such acquisitions will or may attract the operation of ASX Listing Rule 10.1, having regard to Todd's shareholding interest in Forge at the relevant time and the value of such acquisitions vis-à-vis the equity interests of Forge at the relevant time. Accordingly, Forge seeks Shareholder approval of such transactions under ASX Listing Rule 10.1.

ASX has provided to Forge the following in-principle confirmations:

- **(rights of pre-emption)** that if Shareholders approve Resolution 4 at the General Meeting, no further Forge shareholder approval will be required in the future under ASX Listing Rule 10.1 for any sale by a joint venture party of all or part of its interest in the joint venture to the other joint venture party as a result of the exercise of the rights of pre-emption as described in section 11.3(a);
- **(change of control or less than minimum interest)** that if Shareholders approve Resolution 4 at the General Meeting, no further Forge shareholder approval will be required in the future under ASX Listing Rule 10.1 for any sale by a joint venture party of all of its interest in the joint venture to the other joint venture party as a result of a change of control or less than minimum interest event as described in section 11.3(b), on condition that: Forge discloses material terms of the buy-in right in this Notice of General Meeting and Explanatory Memorandum and in every annual report; and Forge releases a copy of the Joint Venture Agreement to the ASX for

public release prior to or at the same time as this Notice of General Meeting and Explanatory Memorandum is despatched;

- **(default)** that if Shareholders approve Resolution 4 at the General Meeting, no further Forge shareholder approval will be required in the future under ASX Listing Rule 10.1 for any sale by a joint venture party of all of its interest in the joint venture to the other joint venture party in the event of default by the other joint venture party as described in section 11.3(c), on condition that: Forge discloses material terms of the buy-in right in this Notice of General Meeting and Explanatory Memorandum and in every annual report; and Forge releases a copy of the Joint Venture Agreement to the ASX for public release prior to or at the same time as this Notice of General Meeting and Explanatory Memorandum is despatched;
- **(sole risk buy-out right)** that the sale by a joint venture party of all of its interest in the joint venture to the other joint venture party in the event of an exercise of the buy-out right pursuant to the sole risk proposal as described in section 11.3(d)(i), if the value of the interest is a substantial asset under ASX Listing Rule 10.1, would at the relevant time require Forge shareholder approval under ASX Listing Rule 10.1, absent a waiver from that rule; and
- **(sole risk buy-in right)** that if Shareholders approve Resolution 4 at the General Meeting, no further Forge shareholder approval will be required in the future under ASX Listing Rule 10.1 to allow a joint venture party to exercise its buy-in rights to a sole risk operation as described in section 11.3(d)(ii), on condition that Forge discloses material terms of the buy-in right in this Notice of General Meeting and Explanatory Memorandum, and in every annual report.

(b) **ASX Listing Rule 11**

ASX Listing Rule 11.1 requires a listed company to consult with ASX whenever it proposes to make "a significant change ... to the nature or scale of its activities". ASX Listing Rule 11.2 provides that if the significant change involves the disposal of its "main undertaking", the company must seek shareholder approval (via an ordinary resolution). Where the significant change does not relate to the disposal of a company's main undertaking, ASX has a discretion under ASX Listing Rule 11.1.2 to require an entity to put the matters to shareholders for approval.

The potential acquisition by Todd JV Party of additional interests in the Balla Balla joint venture or project under the Joint Venture Option Agreement, Joint Venture Agreement or Cross Security Deed may attract the operation of ASX Listing Rule 11.

(i) *25% ownership interest*

ASX has provided to Forge an in-principle confirmation that ASX Listing Rules 11.1.2 and 11.2 do not apply to Todd JV Party's acquisition of a 25% ownership

interest in the Balla Balla project (or, put another way, to Forge Resources Swan's disposal of a 25% ownership interest in the Balla Balla project to Todd JV Party).

(ii) *Cross Security Deed*

ASX has provided to Forge an in-principle confirmation that, if Resolution 4 is approved by Shareholders at the General Meeting, no further Forge shareholder approval will be required in the future under ASX Listing Rule 11.1.2 or 11.2 for any enforcement of the security interests under the Cross Security Deed.

(iii) *Joint Venture Option Agreement*

ASX has provided to Forge an in-principle confirmation that ASX Listing Rules 11.1.2 and 11.2 do not apply to Forge Resources Swan's potential disposal of an additional 7.5% ownership interest in the Balla Balla JV to Todd JV Party pursuant to the Joint Venture Option Agreement.

(iv) *Joint Venture Agreement*

With respect to the Joint Venture Agreement, ASX has provided to Forge the following in-principle confirmations:

- **(rights of pre-emption)** that:
 - the disposal of all of the Forge group's interest in the joint venture upon a bona fide offer being made by a third party (which brings into play the rights of pre-emption as described in section 11.3(a)) would at the relevant time require Forge shareholder approval under ASX Listing Rule 11.2, absent a waiver from that rule, if the Forge group's interest in the joint venture continues to be its main undertaking;
 - the disposal of part of the Forge group's interest in the joint venture upon a bona fide offer being made by a third party (which brings into play the rights of pre-emption as described in section 11.3(a)) may at the relevant time require Forge shareholder approval under ASX Listing Rule 11.2 if the Forge group's interest (or relevant part interest) in the joint venture continues to be its main undertaking, depending the value of the part interest to be sold;
 - the application of ASX Listing Rule 11.1.2 to the Forge group's acquisition of all or part of Todd JV Party's interest in the joint venture, upon a bona fide offer being made by a third party (which brings into play the rights of pre-emption as described in section 11.3(a)) will be assessed at the time of the proposed transaction; and
 - as per ASX Listing Rules Guidance Note 12, Listing Rule 11.1.2 is not usually applicable to disposals of assets (and on that basis the rule is unlikely to apply to the Forge group's disposal of all or part of its interest in the joint venture, upon a bona fide offer being made by a third party (which brings into play the rights of pre-emption as described in section 11.3(a)));

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- **(change of control or less than minimum interest)** that if Shareholders approve Resolution 4 at the General Meeting:
 - no further Forge shareholder approval will be required in the future under ASX Listing Rule 11.2 for any sale by a joint venture party of all of its interest in the joint venture to the other joint venture party as a result of a change of control or less than minimum interest event as described in section 11.3(b), on condition that: Forge discloses material terms of the buy-in right in this Notice of General Meeting and Explanatory Memorandum and in every annual report; and Forge releases a copy of the Joint Venture Agreement to the ASX for public release prior to or at the same time as this Notice of General Meeting and Explanatory Memorandum is despatched;
 - no further Forge shareholder approval will be required in the future under ASX Listing Rule 11.1.2 for any such sale where the seller is a Forge group entity and the buyer is a Todd group entity; and
 - it is unlikely that further Forge shareholder approval will be required in the future under ASX Listing Rule 11.1.2 for any such sale where the seller is a Todd group entity and the buyer is a Forge group entity;
 - **(default)** that if Shareholders approve Resolution 4 at the General Meeting:
 - no further Forge shareholder approval will be required in the future under ASX Listing Rule 11.2 for any sale by a joint venture party of all of its interest in the joint venture to the other joint venture party in the event of default by the other joint venture party as described in section 11.3(c), on condition that: Forge discloses material terms of the buy-in right in this Notice of General Meeting and Explanatory Memorandum and in every annual report; and Forge releases a copy of the Joint Venture Agreement to the ASX for public release prior to or at the same time as this Notice of General Meeting and Explanatory Memorandum is despatched;
 - no further Forge shareholder approval will be required in the future under ASX Listing Rule 11.1.2 for any such sale where the seller is a Forge group entity and the buyer is a Todd group entity; and
 - it is unlikely that further Forge shareholder approval will be required in the future under ASX Listing Rule 11.1.2 for any such sale where the seller is a Todd group entity and the buyer is a Forge group entity;
 - **(sole risk buy-out right)** that:
 - the disposal of the Forge group's interest in the joint venture in the event of an exercise of the buy-out right pursuant to the sole risk proposal described in section 11.3(d)(i) would at the relevant time require Forge shareholder approval under ASX Listing Rule 11.2,

absent a waiver from that rule, if the Forge group's interest in the joint venture continues to be its main undertaking;

- the application of ASX Listing Rule 11.1.2 to the Forge group's acquisition of all of Todd JV Party's interest in the joint venture, in the event of an exercise of the buy-out right pursuant to the sole risk proposal described in section 11.3(d)(i), will be assessed at the time of the proposed transaction; and
- as per ASX Listing Rules Guidance Note 12, Listing Rule 11.1.2 is not usually applicable to disposals of assets (and on that basis the rule is unlikely to apply to the Forge group's disposal of all of its interest in the joint venture in the event of an exercise of the buy-out right pursuant to the sole risk proposal described in section 11.3(d)(i));
- **(sole risk buy-in right)** that the disposal by the Forge group of an interest in a sole risk operation upon the exercise by Todd JV Party of its buy-in right as described in section 11.3(d)(ii) does not attract the application of ASX Listing Rule 11.2, however the application of ASX Listing Rule 11.1.2 to the Forge group's acquisition of an interest in a sole risk operation from Todd JV Party upon the exercise of the Forge group's buy-in right will be assessed by ASX at the time of the proposed acquisition.

12. Additional information regarding Loan Facility Agreement and granting of security interests over assets (Resolution 5)

12.1 Introduction

Under a Loan Facility Agreement that will be entered into if the conditions to the Proposed Transaction are satisfied or waived, Todd Lender will provide Forge Resources Swan with a loan of \$27.5 million. Such loan is to be secured by:

- (a) a General Security Deed under which each of Forge Balla Balla Investments and Forge Resources Swan will grant to Todd Lender security interests over all of their respective assets (which will, in the case of Forge Balla Balla Investments, include its shares in Forge Resources Swan and, in the case of Forge Resources Swan, include its 75% interest in the Balla Balla JV);
- (b) a guarantee under which Forge Balla Balla Investments will provide an unlimited guarantee in favour of Todd Lender in respect of Forge Resources Swan's obligations under the Loan Facility Agreement, such Guarantee being contained in the Loan Facility Agreement; and
- (c) a Tenement Mortgage under which Forge Resources Swan grants to Todd Lender a mortgage over the 75% ownership interests in the Balla Balla tenements that Forge Resources Swan is to acquire under the Balla Balla acquisition.

The loan itself does not require Shareholder approval, but (for the reasons given in section 12.5) the granting of security interests under the General Security Deed and Tenement Mortgage and the giving of the Guarantee do need to be approved by Shareholders (Resolution 5). These security interests and guarantee will not become effective until about two weeks after the completion of the Proposed Transaction.

12.2 Loan Facility Agreement

The Loan Facility Agreement is to be entered into between Forge Resources Swan (as borrower), Forge Balla Balla Investments (as guarantor of the borrower's obligations) and Todd Lender (as lender). The key terms of the Loan Facility Agreement are as follows.

- (a) **(Loan amount)** \$27.5 million, to be drawn down in full on the date of completion of the Proposed Transaction.
- (b) **(Term of loan)** The loan will have an initial 2 year term, which can be rolled 6 monthly at the option of Todd Lender up to a maximum 10 year term. If Todd JV Party exercises its option under the Joint Venture Option Agreement, the entire loan amount will become repayable on completion of Todd JV Party's acquisition of an additional 7.5% interest in the Balla Balla JV pursuant to the exercise of the option and the \$36.4 million option price payable to Forge Resources Swan will be used to offset the outstanding loan amount (inclusive of accrued interest) by \$36.4 million. The entire loan amount will also become repayable upon receipt of project finance for the Balla Balla project, and upon an event of default (see section 12.2(f)).

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- (c) **(Interest)** During the first 2 years interest will accrue at 15% per annum compounded annually, and during each rollover period it will accrue at 5% pa plus BBSW (bank bill swap rate) for the rollover period. The interest will be capitalised with a bullet repayment of principal and interest at the end of the term.
- (d) **(Early repayment)** The borrower may prepay all or part of the loan (in minimum amounts of \$5 million) after giving notice to the lender. The lender is entitled to be paid a break cost equal to the difference between the interest it would have received from the borrower on the relevant amount and the interest that it could earn on the relevant amount by depositing it with an Australian bank.
- (e) **(Undertakings)** Each of the borrower and the guarantor undertakes in favour of the lender to do certain things or not to do certain things. These undertakings are standard for this type of secured loan, and include:
- (i) compliance with all Balla Balla JV and Balla Balla mining tenements;
 - (ii) no creation of new security interests;
 - (iii) no disposals of assets;
 - (iv) no borrowing;
 - (v) no loans to any third party except, among other things, in accordance with the Joint Venture Agreement in the ordinary course of business;
 - (vi) no dividends;
 - (vii) no entry into new partnerships or joint ventures; and
 - (viii) no carrying on of any other business.

There are agreed exceptions to these undertakings.

- (f) **(Events of default)** There are standard events of default which entitle the lender to require immediate repayment of the loan and accrued interest. These events include:
- (i) non-payment of amounts due by the borrower to the lender;
 - (ii) any material government authorisation required for the Balla Balla project or any key joint venture document being cancelled or breached;
 - (iii) a representation given by the borrower or the guarantor to the lender being incorrect or misleading in any material respect;
 - (iv) an insolvency event occurs in respect of the borrower or guarantor;
 - (v) Forge ceases to own 100% of the borrower; or
 - (vi) an event or series of events occur which have or are reasonably expected to have a material adverse effect.

There are agreed exceptions, materiality thresholds and grace periods for these events of default.

- (g) **(Review event)** If any of Mr Nicholas Curtis, Mr Harold Ou Wang or Mr Matthew James ceases to be engaged by, or involved in the day-to-day management of,

Forge (other than due to health reasons) and are not replaced within 90 days by a person approved by Todd Lender, that will constitute a "review event" which entitles the lender to require the borrower to negotiate changes to the Loan Facility Agreement to overcome the effect of the review event. If changes cannot be agreed within 30 days, the lender can require immediate repayment of the loan and accrued interest with 60 days' notice.

- (h) **(Assignment)** Todd Lender can assign the loan to another wholly-owned subsidiary of Todd, or to a third party if an event of default is continuing, or otherwise with the consent of the borrower and guarantor.
- (i) **(Guarantee)** Forge Balla Balla Investments provides an unlimited guarantee in favour of Todd Lender in respect of Forge Resources Swan's obligations under the Loan Facility Agreement.

12.3 General Security Deed

The General Security Deed is to be entered into between Forge Balla Balla Investments, Forge Resources Swan and Todd Lender. Under this Deed, each of Forge Balla Balla Investments and Forge Resources Swan grants to Todd Lender security interests over all of their respective assets (which as at the time of completion of the Proposed Transaction will, in the case of Forge Balla Balla Investments, include its shares in Forge Resources Swan and, in the case of Forge Resources Swan, include its 75% interest in the Balla Balla JV).

If an event of default occurs under the Loan Facility Agreement, Todd Lender is entitled to enforce its security interest including by (among other remedies available to a secured creditor) taking possession of, managing or selling any of the assets of Forge Balla Balla Investments or Forge Resources Swan. Todd Lender would also be entitled to appoint a receiver, or receiver and manager, to exercise Todd Lender's powers of enforcement under the General Security Deed.

A receiver or controller, when selling assets by way of enforcement, must take reasonable care to sell the property for not less than its market value or otherwise for the best price that is reasonably obtainable, having regard to the circumstances existing when the property is sold. This is a requirement of the Corporations Act.

12.4 Tenement Mortgage

The Tenement Mortgage is to be entered into between Forge Resources Swan and Todd Lender. Under this document, Forge Resources Swan grants to Todd Lender a mortgage over the ownership interests in the Balla Balla tenements that Forge Resources Swan is to acquire under the Balla Balla acquisition. The Tenement Mortgage is to be registered with the Western Australia Department of Mines and Petroleum.

If an event of default occurs under the Loan Facility Agreement, Todd Lender is entitled to enforce its security interest including by (among other remedies available to a secured creditor) taking possession of, managing or selling any of Forge Resources Swan's interests in the Balla Balla tenements. Todd Lender would also be entitled to appoint a

receiver, or receiver and manager, to exercise Todd Lender's powers of enforcement under the Tenement Mortgage.

A receiver or controller, when selling assets by way of enforcement, must take reasonable care to sell the property for not less than its market value or otherwise for the best price that is reasonably obtainable, having regard to the circumstances existing when the property is sold. This is a requirement of the Corporations Act.

12.5 Shareholder approval requirement – ASX Listing Rules 10.1 and 11

(a) ASX Listing Rule 10.1

ASX Listing Rule 10.1 provides that a listed company must ensure that neither it nor any of its subsidiaries disposes of a substantial asset to (among others) a person who has a relevant interest in at least 10% of the company's voting shares at any time within the 6 months prior to the disposal, without the approval of holders of the company's ordinary shares. An asset is a "substantial asset" if its value, or the value of the consideration for it is, or in ASX's opinion, is 5% or more of the equity interests of the company as set out in the latest accounts given to ASX under the ASX Listing Rules.

Under the terms of the General Security Deed (see section 12.3), among other things, Forge Resources Swan will grant to Todd Lender a security interest over all of its assets which will include its 75% interest in the Balla Balla JV. The granting of such security interest (and the potential future enforcement of such security interest) may in some cases constitute a 'disposal' of Forge Resources Swan's assets for the purposes of ASX Listing Rule 10.1.

Under the terms of the Tenement Mortgage (see section 12.4), Forge Resources Swan will grant to Todd Lender a mortgage over the 75% ownership interests in the Balla Balla tenements that Forge Resources Swan is to acquire under the Balla Balla Acquisition. The granting of such mortgage (and the potential future enforcement of such mortgage) may in some cases constitute a 'disposal' of Forge Resources Swan's interest in the Balla Balla tenements for the purposes of ASX Listing Rule 10.1.

Forge Shareholder approval pursuant to ASX Listing Rule 10.1 will be required for the granting of security interests to Todd Lender (and for the potential future enforcement of such security interests) under the General Security Deed and Tenement Mortgage because:

- (i) Todd Shareholder (being a related body corporate of Todd Lender) will be issued with more than 10% of the Shares at the time of granting of the security interests; and
- (ii) the value of Forge Resources Swan's 75% ownership interest in the Balla Balla project (and therefore also the value of Forge Balla Balla Investments's shares in Forge Resources Swan) will, at the time of granting of the security interests, be more than 5% of the equity interests of Forge as set out in the latest accounts given to ASX under the ASX Listing Rules. As a guide, Todd JV Party will pay approximately \$10 million to

acquire 25% of the Balla Balla project, whereas Forge's most recent half-year accounts (released to the ASX on 14 March 2012) disclose total equity interests of \$5.5 million and 5% of that amount is only \$275,000.

ASX has provided to Forge an in-principle confirmation that, if Resolution 5 is approved by Shareholders at the General Meeting, no further Forge shareholder approval will be required in the future under ASX Listing Rule 10.1 for any enforcement of the security interests under the General Security Deed and Tenement Mortgage.

(b) **ASX Listing Rule 11**

ASX Listing Rule 11.1 requires a listed company to consult with ASX whenever it proposes to make "a significant change ... to the nature or scale of its activities". ASX Listing Rule 11.2 provides that if the significant change involves the disposal of its "main undertaking", the company must seek shareholder approval (via an ordinary resolution). Where the significant change does not relate to the disposal of a company's main undertaking, ASX has a discretion under ASX Listing Rule 11.1.2 to require an entity to put the matters to shareholders for approval.

The potential future enforcement of the General Security Deed or Tenement Mortgage, which results in the Forge group disposing of interests in the Balla Balla joint venture or project, may attract the operation of ASX Listing Rule 11. For this purpose, Forge also seeks Shareholder approval under ASX Listing Rule 11.2.

ASX has provided to Forge an in-principle confirmation that, if Resolution 5 is approved by Shareholders at the General Meeting, no further Forge shareholder approval will be required in the future under ASX Listing Rule 11.1.2 or 11.2 for any enforcement of the security interests under the General Security Deed and Tenement Mortgage.

13. Statement under s260B(4) of the Corporations Act in connection with a special resolution under s260B(2) – financial assistance (Resolution 6)

13.1 Background

Section 260A of the Corporations Act permits a company to financially assist a person to acquire shares in the company if the assistance is approved by shareholders under section 260B of the Corporations Act. Further details of the approvals required under section 260B are set out below.

Section 260B(1) of the Corporations Act provides that shareholder approval of the relevant company for financial assistance of the type referred to in section 260A of the Corporations Act must be given by:

- (a) a special resolution passed at a general meeting of the company, with no votes being cast in favour of the resolution by the person acquiring the shares or by their associates; or
- (b) a resolution agreed to, at a general meeting, by all ordinary shareholders.

In addition, section 260B(2) of the Corporations Act provides that if the relevant company will be a subsidiary of a listed domestic corporation immediately after the acquisition, the financial assistance must also be approved by a special resolution passed at a general meeting of the listed domestic corporation.

Section 260(B)(4) of the Corporations Act requires that a notice of a meeting to approve financial assistance must be accompanied by a statement setting out all the information known to the relevant company that is material to the decision on how to vote on the resolution (other than information previously disclosed by the relevant company to its members). This section 13 contains the statement required by section 260B(4) of the Corporations Act.

Pursuant to section 260B(5) of the Corporations Act, a copy of this document was lodged with ASIC before being sent to Shareholders.

13.2 Listed domestic corporation

It is proposed that Forge Resources Swan and Forge Balla Balla Investments (each a "**Grantor**") give financial assistance described in section 13.3 in connection with the acquisition referred to in that section, and each is seeking shareholder approval under s260B(1) of the Corporations Act.

Each Grantor is currently a wholly owned subsidiary of Forge. Forge is a listed domestic corporation. Therefore each Grantor is required to obtain a special resolution of its shareholders approving the relevant proposed financial assistance under s260B(2) in order for the proposed financial assistance to be given.

13.3 Particulars of the proposed financial assistance by the Grantors

As part of the Proposed Transaction it is proposed that:

- (a) Forge issue to Todd Shareholder 16,000,000 Shares at an issue price of \$0.50 per Share; and
 - (b) Forge issues to Todd Shareholder 6,500,000 Options, and issues shares upon the exercise of such options,
- (each an "**Acquisition**").

As security for Forge Resources Swan's debt obligations under the Loan Facility Agreement it is proposed that:

- (a) Forge Resources Swan will grant security over certain of its assets to Todd Lender pursuant to the Tenement Mortgage;
- (b) Forge Balla Balla Investments will provide an unlimited guarantee in favour of Todd Lender; and
- (c) each Grantor will grant security over all of its assets in favour of Todd Lender pursuant to the General Security Deed.

If the financial accommodation provided under the Loan Facility Agreement is refinanced (on one or more occasions) in the future, those refinanced facilities may require the Grantors to provide guarantees and/or security to support those facilities.

The granting of security interests by the Grantors and the giving of the Guarantee may financially assist the Acquisitions for the purposes of s260A of the Corporations Act (the "**Financial Assistance**").

13.4 Reasons for the proposal to give Financial Assistance

The reason for the proposal that each Grantor give Financial Assistance is that it is a condition to the availability of the loan under the Loan Facility Agreement that, among other conditions:

- (a) Forge Resources Swan grants security over certain of its assets to Todd Lender pursuant to the Tenement Mortgage;
- (b) Forge Balla Balla Investments provides an unlimited guarantee in favour of Todd Lender pursuant to the Guarantee; and
- (c) each of Forge Resources Swan and Forge Balla Balla Investments grants a security over all of its assets in favour of Todd Lender pursuant to the General Security Deed.

Failure to provide the Tenement Mortgage, the Guarantee and the General Security Deed may result in an event of default under the Loan Facility Agreement. The Tenement Mortgage, the Guarantee and the General Security Deed are part of the Proposed Transaction (which includes the Acquisitions). If they are not provided the Proposed Transaction will not proceed (including that none of the Acquisitions will occur).

The Financial Assistance will assist Todd Shareholder to acquire shares in Forge. In the view of the Forge Directors, that is a necessary and reasonable part of obtaining Todd

Shareholder's favourable commitment to the Proposed Transaction. The Forge Directors consider that the provision of the Financial Assistance is in the interests of Forge, each Grantor and the Forge group.

13.5 Effect of the proposed Financial Assistance on the interests of the Grantors

The effect on the interests of the Grantors of the giving of the Financial Assistance will be that:

- (a) each Grantor will be a security provider for, and Forge Balla Balla Investments will be a guarantor of, Forge Resources Swan's obligations under the Loan Facility Agreement (or if any refinancing occurs, under other documents);
- (b) among other remedies available to a secured creditor, the guarantee from Forge Balla Balla Investments may be called and those securities may be enforced against the relevant Grantor if an event of default occurs under the Tenement Mortgage, the General Security Deed or the Loan Facility Agreement;
- (c) each Grantor will provide certain representations, warranties and undertakings and have certain restrictions imposed on it and other actions will be events of default, including (among other things):
 - (i) **(undertakings)** each of Forge Resources Swan and Forge Balla Balla Investments undertakes in favour of Todd Lender to do certain things or not to do certain things. These undertakings are standard for this type of secured loan, and include:
 - (A) compliance with all Balla Balla JV documents and Balla Balla mining tenements;
 - (B) no creation of new security interests;
 - (C) no disposals of assets;
 - (D) no borrowing;
 - (E) no loans to any third party except, among other things, in accordance with the Joint Venture Agreement in the ordinary course of business;
 - (F) no dividends;
 - (G) no entry into new partnerships or joint ventures; and
 - (H) no carrying on of any other business.There are agreed exceptions to all these undertakings; and
 - (ii) **(events of default)** there are standard events of default which entitle the Todd Lender to require immediate repayment of the loan and accrued interest. These events include:
 - (A) non-payment of amounts due by Forge Resources Swan to Todd Lender;

-
- (B) any material government authorisation required for the Balla Balla project or any key joint venture document being cancelled or breached;
 - (C) a representation given by Forge Resources Swan or Forge Balla Balla Investments to Todd Lender being incorrect or misleading in any material respect;
 - (D) an insolvency event occurs in respect of Forge Resources Swan or Forge Balla Balla Investments
 - (E) Forge ceases to own 100% of Forge Resources Swan; or
 - (F) an event or series of events occur which have or are reasonably expected to have a material adverse effect.

There are agreed exceptions, materiality thresholds and grace periods for these events of default.

The effect on the interests of the shareholders of each Grantor of the giving of the relevant Financial Assistance will be that the Grantor may be required to contribute to meeting the obligations of Forge Resources Swan under the Loan Facility Agreement (or if any refinancing occurs, under other documents) and may be required to dispose of assets the subject of the General Security Deed to satisfy Forge Resources Swan's obligations under the Loan Facility Agreement. The security over each Grantor's assets may also be enforced by Todd Lender, among other remedies available to a secured creditor. This may have an adverse effect on the financial position of the Grantor, which may in turn affect the Grantor's ability to pay creditors. An adverse effect on the Grantor's financial position may also affect the Grantor's ability to pay dividends to shareholders and the asset pool available to shareholders in the event of a winding-up.

13.6 Advantages of the proposed Financial Assistance

The potential benefit for the Grantors of giving Financial Assistance in the manner contemplated in this statement is that it will enable each to comply with its obligations under the relevant documents for the Proposed Transaction to provide security and allow it continued access to funding and investment capital.

The potential benefit that the giving of the Financial Assistance will have on the financial position of the group of which each Grantor is a member is that it will allow the group to meet its financial obligations (including the proposed acquisition by Forge Resources Swan from the Atlas Iron group of the Balla Balla magnetite, vanadium and titanium project) and continue to pursue its corporate objectives.

13.7 Effect of the proposed Financial Assistance on each Grantor's ability to pay its creditors

If a Grantor is obliged to perform its obligations as a security provider or guarantor or Todd Lender enforces its security under the Tenement Mortgage or the General Security Deed or calls the Guarantee, this may have a material effect on the Grantor's financial position which may compromise its ability to pay creditors.

As noted above, the Loan Facility Agreement will contain events of default. However, the directors of Forge consider these to be reasonable and manageable and, in light of the grace periods, thresholds, materiality and other mitigating factors, do not consider there will be a risk of default, based on facts and circumstances known to them at the date of this statement.

Accordingly the Directors of Forge have considered and reached a view that, as at the date of this statement, the Financial Assistance will not materially prejudice each Grantor's ability to pay its creditors.

14. Additional information regarding proposed issue of Shares to Mr Nicholas Curtis (Resolution 7)

14.1 Introduction

If the conditions precedent to the Proposed Transaction are satisfied or waived, Forge will issue 24 million Shares to either Mr Nicholas Curtis (Forge's Chairman) or to the trustee of the Forge Resources Ltd Employee Share Trust to be held on behalf of Mr Curtis (such trustee being Trinity Management Pty Ltd). The Shares will be issued for no cash consideration and, upon issue, will rank equally with all other Shares on issue.

A key consideration for Todd in making and proceeding with its investment in Forge is that Mr Nicholas Curtis be Chairman of Forge and be appropriately incentivised to oversee the development of the Balla Balla project. The Board of Forge (excluding Mr Curtis) is of the opinion that the entry into the Master Agreement substantially satisfied the performance milestones of Mr Curtis' Performance Shares (such performance milestones expired on 21 March 2012), and that it is appropriate in these circumstances, and also considering Todd's view, that Mr Curtis should continue to have the benefit of the Performance Shares.

The Performance Shares were issued in September 2010 pursuant to Forge's initial public offering prospectus. They were issued in order to attract Mr Curtis' services to Forge and to provide sufficient incentive for him to create shareholder value. The Performance Shares do not carry any voting rights or dividend entitlements, are non-transferable, and upon a winding up of Forge the Performance Shares can participate in the surplus profits or assets of Forge only to the extent of \$0.000001 per Performance Share.

The Performance Shares would have converted into 24,000,000 Shares upon either one of Forge's existing projects, or a project acquired after Forge's ASX listing on 21 September 2010, having been identified as having a JORC compliant resource which supported a successful capital raising of at least \$15 million at a price not less than \$0.35 per Share and Forge having completed such a capital raising – these are known as the "performance milestones". The performance milestones expired on 21 March 2012 ("**Expiry Date**").

Notwithstanding that the Expiry Date has passed, the Board of Forge (excluding Mr Curtis) is of the opinion that the entry into the Master Agreement for the Proposed Transaction substantially satisfied the performance milestones, for the following reasons:

- (a) the fact that, as previously announced to the ASX, Forge now has a JORC compliant resource in the form of its Eucla West Mineral Sand Project tenements (and the Balla Balla project also has a JORC compliant resource attached to it); and
- (b) the fact that, to date, an aggregate of \$2.5 million in Share capital which has been raised (at issue prices of more than \$0.35 per Share) has been expended on the Eucla West Mineral Sand Project, and that a further \$12.5 million of Share capital will be raised under the Proposed Transaction (at an issue price of \$0.50 per Share) which will be used to acquire the Balla Balla project and to further develop Forge's Eucla West Mineral Sand Project.

Given the above, Forge seeks shareholder approval to issue 24 million Shares to or for the benefit of Mr Curtis (which would have been the number of shares that the Performance Shares would have converted into on completion of the Proposed Transaction). The Shares will only be issued if all Resolutions 1 to 8 are approved (and if the other conditions precedent to the Proposed Transaction are satisfied or waived).

Having regard to the expected benefits of the other aspects of the Proposed Transaction, the Recommending Directors consider that it is in the best interests of Forge that the 24 million Shares be issued to or for the benefit of Mr Curtis.

Whilst Mr Curtis is a non-executive Chairman of Forge, he is actively involved in overseeing the management of Forge and in making strategic and operational decisions regarding the company (except in respect of matters where he has an actual or potential conflict of interest). This level of involvement is appropriate for a small company such as Forge which is essentially in a start-up, pre-development phase.

It is the Forge Board's opinion that Mr Curtis is highly qualified for the role of Chairman, having led two resource companies (Sino Gold and Lynas Corporation) from being small ASX-listed companies with market capitalisations of less than \$20 million to ASX 100 companies with market capitalisations of more than \$1 billion. This track record of success, together with the experience gained, continues to be invaluable to Forge on a number of fronts, including attracting high quality human resource into the board and management teams, and attracting investment from capital markets. In particular, the Recommending Directors consider that Mr Curtis' track record and profile was the primary factor in initially attracting Todd Capital to enter into discussions with Forge.

Following on from the expiry of the performance milestones under the Performance Shares, Forge is also seeking shareholder approval, at meetings to be held immediately before the General Meeting, for the cancellation of the Performance Shares for no consideration. Forge will separately despatch notices of those meetings.

14.2 Details of proposed Share issue

The issue of these Shares is subject to Shareholder approval (as well as being subject to the satisfaction or waiver of the other conditions precedent to the Proposed Transaction). If Resolutions 1 to 8 are approved at the General Meeting (and the other conditions precedent to the Proposed Transaction are satisfied or waived) it is anticipated that the Shares will be issued on completion of the Proposed Transaction, which is anticipated to occur before 31 May 2012. In any event, the Shares would not be issued later than 1 month after the date of the General Meeting.

The issue of Shares would result in a financial benefit accruing to Mr Curtis. The value of the financial benefit is equal to the value of the Shares from time to time, given that they will be issued for no consideration. Based on a closing trading price of Shares as at 20 April 2012 of \$0.37,³ the financial benefit would be valued at \$8.88 million.

³ This is the last practicable date before the printing of this document.

14.3 Shareholder approval requirement

The proposed issue of the Shares requires Shareholder approval under section 611 item 7 of the Corporations Act, Chapter 2E of the Corporations Act and ASX Listing Rule 10.11.

(a) **Approval under section 611 item 7 of the Corporations Act**

Section 606(1) of the Corporations Act provides that a person must not acquire a relevant interest in issued voting shares of a listed company if the person acquiring the interest does so through a transaction in relation to the 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 listed company increases:

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

Under section 608(1) of the Corporations Act, a person has a relevant interest in securities if they are the holder of the securities, have power to exercise, or control the exercise of, a right to vote attached to the securities or 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 2 or more people can jointly exercise one of these powers, each of them is taken to have that power.

Mr Curtis will acquire a relevant interest in the 24 million Shares which Forge proposes to issue. The relevant interest will arise by virtue of Mr Curtis either being the registered or beneficial holder of the new Shares.

Mr Curtis currently holds 4,250,000 Shares, representing a relevant interest in 13.5% of the Shares (and voting power in Forge of the same percentage). The issue of the 24,000,000 Shares will result in Mr Curtis having a relevant interest in 28,250,000 Shares, representing a relevant interest in 35.1% of the Shares (and voting power in Forge of the same percentage) (assuming no other Shares are issued except pursuant to the Proposed Transaction). In the absence of a relevant exemption, this would contravene section 606(1) of the Corporations Act. Section 606(1A) of the Corporations Act provides that a person may acquire a relevant interest under one of the exceptions set out in section 611 of the Corporations Act without contravening section 606(1). Under item 7 of section 611, an acquisition that was approved previously by a resolution passed at a general meeting of the company in which the acquisition is made is exempt from section 606(1).

Accordingly, Resolution 7 seeks Shareholder approval for the purposes of item 7 of section 611 of the Corporations Act for the 24 million Shares to be issued to or for the benefit of Mr Curtis.

It is also contemplated that, if the Proposed Transaction completes, 1 million Options will be issued to Riverstone Advisory (Forge's adviser), a company in which Mr Curtis, through entities controlled by him, controls 66.7% of the shares. In addition, Mr Curtis currently holds 1,333,334 Options (exercise price of \$0.20 each; expiry date of 31 July 2014). If all of the 1 million Riverstone Advisory Options and Mr Curtis' existing 1,333,334 Options were to be immediately exercised (and assuming no other Shares are issued, as a result of the exercise of

Options held by other persons or otherwise), Mr Curtis would have a relevant interest in 36.9% of the Shares (and voting power in Forge of the same percentage).

As at the date of this Explanatory Memorandum, none of Mr Curtis' associates has a relevant interest in any Shares. On that basis, each associate has the same voting power in Forge that Mr Curtis currently has, and will have the same increased voting power in Forge that Mr Curtis will have immediately following completion of the Proposed Transaction.

(b) **Approval under Chapter 2E of the Corporations Act**

Chapter 2E of the Corporations Act prohibits a public company (such as Forge) from giving a financial benefit (which includes the issue of Shares) to a related party of the public company (which includes a director of Forge) unless either:

- (i) the giving of the financial benefit falls within one of the nominated exceptions (eg. it is on arm's length terms); or
- (ii) prior shareholder approval is obtained to the giving of the financial benefit.

Mr Curtis is a related party of Forge, as he is a director of the company. The nature of the financial benefit that is proposed to be given is the issue of 24 million Shares for no consideration. As disclosed in section 7, Mr Curtis currently has a relevant interest in 13.5% of the Shares, and if the 24 million Shares are issued Mr Curtis will have a relevant interest in 35.1% of the Shares. Mr Curtis also holds 1,333,334 Options, and it is also proposed that Riverstone Advisory (a company in which Mr Curtis controls 66.7% of the shares) will be issued with 1,000,000 Options (see section 16).

The Recommending Directors have decided to seek shareholder approval under Chapter 2E for the issue of the 24 million Shares because they could not definitively conclude that the arm's length exception applies (eg. one way to assess whether a transaction is on arm's-length terms is to compare it to similar transactions, however it was difficult to find similar transactions here given that Mr Curtis brings a unique set of skills and experience to Forge).

To date, Mr Curtis has not received any fees (apart from the Performance Shares issued at the time of Forge's ASX listing) for being Chairman of Forge. However, Mr Curtis is entitled to receive an annual fee of \$50,000 and there are no current plans to change this.

Having regard to the expected benefits of the other aspects of the Proposed Transaction, the Recommending Directors consider that it is in the best interests of Forge that the 24 million Shares be issued to or for the benefit of Mr Curtis.

(c) **Approval under ASX Listing Rule 10.11**

ASX Listing Rule 10.11 provides that a listed company cannot issue or agree to issue equity securities (including Shares) to a related party (which includes a director of Forge) without the approval of ordinary shareholders. Accordingly,

Resolution 7 also seeks Shareholder approval under ASX Listing Rule 10.11 for the issue of the 24 million Shares.

As approval for the issue of the Shares is being sought under ASX Listing Rule 10.11, Forge is not required to also seek approval under ASX Listing Rule 7.1.

14.4 ASIC lodgement

Pursuant to section 218 of the Corporations Act, a copy of this document was lodged with ASIC before being sent to Shareholders.

15. Additional information regarding proposed Share Placement (Resolution 8)

15.1 Share Placement

As part of the Proposed Transaction, it is proposed that Forge will issue 9 million Shares to selected institutional and sophisticated investors (who are not related parties of Forge) at an issue price of \$0.50 per Share ("**Share Placement**"). The issue of these Shares is subject to Shareholder approval (as well as being subject to satisfaction or waiver of the other conditions precedent to the Proposed Transaction).

If Resolutions 1 to 8 are approved at the General Meeting (and the other conditions precedent to the Proposed Transaction are satisfied or waived) it is anticipated that all of the Shares under the Share Placement will be issued and allotted on the same day on completion of the Proposed Transaction, which is anticipated to occur before 31 May 2012. In any event, the Shares would not be issued later than 3 months after the date of the General Meeting.

The Shares will, upon issue, rank equally with all other Shares on issue. Forge will seek ASX quotation of the Shares.

Shares under the Share Placement will only be issued to persons in respect of whom a prospectus is not required to be prepared and given (ie. sophisticated and institutional investors) and who are not related parties of Forge. The investors will be such persons introduced and determined by Riverstone Capital Pty Ltd (which is a wholly-owned subsidiary of Forge's adviser, Riverstone Advisory) in consultation with Forge.

No Todd group entity will be issued any Shares under the Share Placement.

The funds raised from the issue of the Shares under the Share Placement will be used for the purposes described in section 1.1.

15.2 Shareholder approval requirement – ASX Listing Rules

ASX Listing Rule 7.1 restricts the number of equity securities (which include ordinary shares, options to acquire ordinary shares and convertible notes) that a listed company may issue or agree to issue in any 12 month period, without the approval of shareholders, to 15% of the number of ordinary shares on issue at the start of the period, subject to certain adjustments and permitted exceptions. Any equity securities which the company has issued, or has agreed to issue, with the approval of shareholders under ASX Listing Rule 7.1 will not count towards the 15% in 12 months limitation.

The Shares to be issued under the Share Placement will be "equity securities" for the purposes of ASX Listing Rule 7.1. Resolution 8 seeks Shareholder approval for the purposes of ASX Listing Rule 7.1 for Shares to be issued under the Share Placement.

16. Additional information regarding proposed issue and exercise of Options to Riverstone Advisory (Resolutions 9 and 10)

16.1 Introduction

Riverstone Advisory Pty Ltd ("**Riverstone Advisory**") is the adviser to Forge in relation to the Balla Balla acquisition and the Proposed Transaction. The terms of its engagement are set out in a mandate letter with Forge.

Riverstone Advisory is indirectly owned by two of Forge's Directors. Mr Nicholas Curtis (Forge's Chairman), through entities controlled by him, controls 66.7% of Riverstone, and Mr Harold Ou Wang, through entities controlled by him, controls the other 33.3%. However, neither Mr Curtis or Mr Wang has been involved in the provision of advice to Forge in connection with the proposed Balla Balla acquisition or the Proposed Transaction.

The Independent Directors of Forge (being for this purpose the same persons as the Recommending Directors - Matthew James and Emmanuel Correia) were keen to secure the services of an external corporate adviser who had a sophisticated understanding of the minerals in the Balla Balla tenements, and whose management and staff had extensive relevant experience in resource-based transactions. The Recommending Directors concluded that Riverstone Advisory met all of these requirements and proceeded to negotiate the mandate letter. The mandate letter was negotiated between the Recommending Directors and Riverstone Advisory on an arm's length basis. The Recommending Directors are satisfied that the commercial terms of the mandate letter are at arm's length and therefore approval has not been sought for the mandate letter for the purposes of Chapter 2E of the Corporations Act.

Under the mandate letter, Forge has agreed to pay Riverstone Advisory and its wholly-owned subsidiary, Riverstone Capital Pty Ltd, certain fees upon completion of the Balla Balla acquisition and Proposed Transaction. The fees payable to Riverstone Advisory and Riverstone Capital Pty Ltd upon completion of the Balla Balla acquisition and Proposed Transaction comprise cash payments (details of which are set out in section 6.2) and a proposed grant of 1 million Options (details of which are set out below).

The Recommending Directors considered that the payment of fees pursuant to Riverstone Advisory's mandate letter would not have a net adverse impact on Forge's financial position, as all payments (other than a one-off fee of \$50,000) are success-based and will be funded from capital raising monies (in the case of the cash payments) or be in the form of equity (in the case of the Options), and given the Recommending Directors' assessment that Riverstone Advisory's involvement would greatly assist Forge in achieving its strategy of acquiring energy and resources projects. Also, the Recommending Directors consider that the terms that were agreed with Riverstone Advisory were well within prevailing market guidelines for advisory mandates of that nature.

The Recommending Directors consider that it is in the best interests of Forge that 1 million Options be issued to Riverstone Advisory on the key terms set out below, having regard to the work undertaken by Riverstone and Forge's obligations under the mandate letter to issue the Options to Riverstone Advisory.

16.2 Options

On completion of the Balla Balla acquisition and Proposed Transaction, Forge will issue Riverstone Advisory with 1,000,000 Options. Each Option confers on the holder a right to subscribe for a Share at an exercise price of \$0.50. Riverstone Advisory will not provide any cash amount for the acquisition of the Options.

The issue of the Options is subject to Shareholder approval. If the Balla Balla acquisition and Proposed Transaction complete, it is anticipated that the Options will be issued on that completion, which is anticipated to occur before 31 May 2012. In any event, the Options would not be issued later than 1 month after the date of the General Meeting.

The other key terms of Options are as follows.

- (a) **(Term)** The Options have a term of 3 years from the issue date. Any Options not exercised by the end of the term will expire.
- (b) **(Exercise of Options)** Options can be exercised in full (but not in part) at any time during the term.
- (c) **(Issue of Shares)** Shares will be issued on the second business day after the exercise of Options, and within 5 business days after the Share issue date Forge must lodge with ASX a 'cleansing notice' which complies with section 708A(5) of the Corporations Act (such cleansing notice will enable the Shares to be freely traded on the ASX). Forge has certain rights to delay the Share issue date by up to 15 business days if its Board reasonably forms the view that the issue of a cleansing notice would materially prejudice the interests of Forge in forcing a disclosure which would not otherwise require disclosure under ASX Listing Rule 3.1.
- (d) **(Status of Shares)** Shares issued upon the exercise of Options will rank equally with the then Shares on issue. Forge must seek quotation of the Shares within 2 business days after their issue date.
- (e) **(Adjustments)** The exercise price of each Option and/or the number of Shares over which each Option is exercisable) may be adjusted as permitted by (and otherwise in accordance with) the ASX Listing Rules if there is a pro rata issue of Shares, a bonus issue of Shares or a reorganisation of the capital of Forge.
- (f) **(Transferability)** The Options are not transferable, except to a wholly-owned subsidiary of Riverstone Advisory.
- (g) **(Other)**
 - (i) The Options will not be quoted on any securities exchange.
 - (ii) The Options do not confer any rights to vote at general meetings of Forge.
 - (iii) The Options do not confer any right to participate in new issues of securities by Forge.

Forge intends that the funds raised from the exercise of any Options would be used for working capital purposes.

16.3 Shareholder approval requirement – issue of Options

ASX Listing Rule 10.11 provides that a listed company cannot issue or agree to issue equity securities (including Shares) to a related party (which includes a company controlled by a director of the company) without the approval of ordinary shareholders.

As Riverstone Advisory is controlled by Mr Nicholas Curtis (Forge's Chairman), Resolution 9 seeks Shareholder approval under ASX Listing Rule 10.11 for the issue of the 1 million Options to Riverstone Advisory.

As approval for the issue of the Options is being sought under ASX Listing Rule 10.11, Forge is not required to also seek approval under ASX Listing Rule 7.1.

16.4 Shareholder approval requirement – exercise of Options

As noted in section 16.2, Riverstone Advisory is entitled to exercise the Options and acquire Shares. Upon exercise at the exercise price of \$0.50, Riverstone Advisory would be issued with a maximum of 1,000,000 Shares⁴, and therefore its relevant interest in Shares and voting power in Forge will increase.

If the issue of Shares to Riverstone Advisory upon the exercise of Options would result in Riverstone Advisory, Mr Nicholas Curtis or Mr Harold Ou Wang increasing its voting power in Forge:

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

then Riverstone Advisory would be in breach of section 606(1) of the Corporations Act, unless a relevant exemption applies (see section 9.3 for an explanation of the rule in section 606(1)).

Section 606(1A) of the Corporations Act provides that a person may acquire a relevant interest under one of the exceptions set out in section 611 of the Corporations Act without contravening section 606(1). Under item 7 of section 611, an acquisition that was approved previously by a resolution passed at a general meeting of the company in which the acquisition is made is exempt from section 606(1). Resolution 10 seeks Shareholder approval for the purposes of item 7 of section 611 of the Corporations Act for Shares to be issued to Riverstone Advisory upon the exercise of Options.

As at the date of this Explanatory Memorandum, Riverstone Advisory does not hold or have a relevant interest in any Shares. The acquisition of Shares upon the exercise of all 1 million Options (assuming no other Shares are issued, as a result of the exercise of Options held by other persons or otherwise except pursuant to the Proposed Transaction) would result in Riverstone Advisory only having a relevant interest in 1.2% of the Shares. However, given Mr Nicholas Curtis, through entities controlled by him, controls 66.7% of the shares in Riverstone Advisory he will, under section 608(3) of the Corporations Act, acquire a deemed relevant interest in all Shares acquired by Riverstone Advisory.

⁴ The exercise price (or number of Shares over which each Option is exercisable) may be adjusted in certain circumstances in accordance with the ASX Listing Rules – see section 10.1(e). If there is a downward adjustment in the exercise price, there will be a greater number of Shares issued upon the exercise of Options.

Accordingly, if all of Riverstone Advisory's 1 million Options were to be immediately exercised and Mr Curtis were to exercise all of his existing 1,333,334 Options (and assuming no other Shares are issued, as a result of the exercise of Options held by other persons or otherwise except pursuant to the Proposed Transaction), Mr Curtis would have a relevant interest in 36.9% of the Shares (and voting power in Forge of the same percentage) (see section 7.2). The purpose of Resolution 10 is to approve such increased relevant interest and voting power on the part of Mr Curtis.

For completeness, given Mr Harold Ou Wang, through entities controlled by him, controls 33.3% of the shares in Riverstone Advisory he will also under section 608(3) of the Corporations Act acquire a deemed relevant interest in all Shares acquired by Riverstone Advisory. Mr Wang currently has a relevant interest in 350,000 Shares and 1,116,667 Options. If all of Riverstone Advisory's Options and Mr Wang's Options were to be immediately exercised (and assuming no other Shares are issued, as a result of the exercise of Options held by other persons or otherwise except pursuant to the Proposed Transaction), Mr Wang would have a relevant interest in 3.0% of the Shares (and voting power in Forge of the same percentage). As this is less than 20%, it does not raise any issues under section 606 of the Corporations Act.

As at the date of this Explanatory Memorandum, Riverstone Advisory does not have any associates in relation to Forge.

17. Other additional information

17.1 Master Agreement

The Master Agreement entered into on 16 March 2012 between Forge and Todd Capital largely provides a framework for the implementation of the Proposed Transaction. It sets out the conditions precedent to the Proposed Transaction and the agreed forms of various Transaction Agreements. However, it also contains a number of key terms which Shareholders should be aware of.

- (a) **(Obligation to recommend)** Each Recommending Director is obliged to recommend Resolutions 1 to 8 to Shareholders, in the absence of a Superior Proposal and subject to the Independent Expert concluding that the Proposed Transaction is fair and reasonable or not fair but reasonable (and, where required by law or ASIC policy, whether the Proposed Transaction is in the best interests of Shareholders). In addition, a Recommending Director can change his recommendation if that is required in order to comply with his fiduciary duties.
- (b) **(No shop and no talk)** Forge and its directors and advisers cannot solicit, initiate or encourage a Competing Proposal. Nor can they engage in discussions in relation to a Competing Proposal, unless it constitutes a Superior Proposal and at least a majority of the Recommending Directors have determined (after taking legal advice) that failing to respond to the Competing Proposal would or would be likely to constitute a breach of their fiduciary duties.

The foregoing restrictions apply from the date of the Master Agreement (16 March 2012) until the earlier of completion of the Proposed Transaction and termination of the Master Agreement.

- (c) **(Reimbursement fee)** Forge will be required to pay Todd Capital a reimbursement fee of \$750,000 if:
 - (i) any Recommending Director fails to recommend that Shareholders vote in favour of Resolutions 1 to 8, or withdraws such a recommendation, or recommends a competing proposal, and the Proposed Transaction does not complete; or
 - (ii) the Proposed Transaction does not complete and prior to 31 May 2013 Forge acquires any interest in the Balla Balla project, except where Todd has been offered a reasonable opportunity to participate in the relevant transaction on terms at least as favourable to Todd as the Proposed Transaction but Todd has declined that opportunity,

except in circumstances where the Proposed Transaction does not complete as a result of Forge having the right to terminate the Master Agreement or where foreign investment approvals have not been received for the Proposed Transaction.

- (d) **(Conduct of business restrictions)** Until the completion of the Proposed Transaction, Forge must conduct its business in the ordinary course, not undertake any material transactions and not change its capital structure. There are

exclusions for matters done pursuant to a Transaction Agreement, or to effect the Balla Balla acquisition, or to finalise the farm-in by Forge into the West Eucla Project, or to issue Shares upon the exercise of Options.

- (e) **(Board seat)** On completion of the Proposed Transaction, Todd Capital is entitled to have 1 nominee appointed to the Forge board, and will continue to have that right for so long as the Todd group holds at least 15% of the Shares.
- (f) **(Top-up right)** There is a share top-up right regime under which Todd Capital will, from the time of completion of the Proposed Transaction until the Joint Venture Agreement terminates, have a right to subscribe for additional Shares to maintain its shareholding percentage if Forge issues additional Shares to third parties other than in certain circumstances (eg. pursuant to a pro rata entitlement offer, pursuant to the exercise of existing options, or pursuant to the terms of an employee incentive plan which has been unanimously approved by directors). The issue of top-up shares is subject to all necessary regulatory approvals (including FIRB approval) and Forge shareholder approvals being obtained. The top-up right will apply for so long as the Todd group holds a beneficial interest in at least 10% of the Forge Shares.

ASX has granted to Forge an in-principle waiver from ASX Listing Rule 6.18 to permit the operation of the top-up right regime. The waiver is required because ASX Listing Rule 6.18 states that "an option must not be exercisable over a percentage of [a company's] capital".

- (g) **(Termination rights)** Each of Forge and Todd Capital has certain rights to terminate the Master Agreement and not proceed with the Proposed Transaction. Each party can terminate if any condition precedent is not satisfied by the end date of 31 May 2012 (or by such later date agreed between the parties); or if the other party suffers an insolvency event; or if the other party is in breach of any warranties given by it under the Master Agreement that would result in loss to the terminating party exceeding \$1 million in aggregate; or if the other party commits a material breach of the Master Agreement which is not remedied within 10 business days.

In addition, Todd Capital can terminate the Master Agreement before completion of the Proposed Transaction if any of Mr Nicholas Curtis, Mr Harold Ou Wang or Mr Matthew James ceases to be involved in the day-to-day management of Forge, other than by reason of resignation due to health or death.

In addition, Forge can terminate if Todd ceases to be an entity controlled by members of the Todd family.

As at the date of this Explanatory Memorandum, Forge and its Directors are not aware of any matter which would trigger any of the termination rights under the Master Agreement.

17.2 Consents

This Explanatory Memorandum contains statements made by, or statements said to be based on statements made by:

-
- (a) Todd Capital in respect of the Todd Information only;
 - (b) Mr Nicholas Curtis in respect of the information in section 5; and
 - (c) the Independent Expert in respect of the Independent Expert's Report.

Todd Capital has consented to the inclusion in this Explanatory Memorandum of the Todd Information, of all references to the Todd Information, and of all statements which are stated to be based on the Todd Information, in the form and context in which they appear, and Todd Capital has not withdrawn that consent before the date of this Explanatory Memorandum.

The Independent Expert has consented to the Independent Expert's Report accompanying this Explanatory Memorandum, of all references to the Independent Expert's Report, and of all statements which are stated to be based on the Independent Expert's Report, in the form and context in which they appear, and the Independent Expert has not withdrawn that consent before the date of this Explanatory Memorandum.

Mr Nicholas Curtis has consented to the inclusion in this Explanatory Memorandum of the information in section 5, of all references to section 5, and of all statements which are stated to be based on section 5, in the form and context in which they appear, and Mr Curtis has not withdrawn that consent before the date of this Explanatory Memorandum.

17.3 ASX confirmations and waivers

ASX has provided to Forge various in-principle confirmations in relation to Resolution 4 (Balla Balla project) and Resolution 5 (Granting of security interests over assets and guarantee), which are described in sections 11.8 and 12.5 respectively.

ASX has granted to Forge an in-principle waiver of ASX Listing Rule 6.18 to permit the operation of the top-up right described in section 17.1(f).

18. Recommendations of Forge Directors

18.1 Recommendations

Based on the information available (including that contained in this Explanatory Memorandum and the Independent Expert's Report and the advantages and disadvantages outlined), the Recommending Directors consider that the Proposed Transaction is in the best interests of Forge and its Shareholders to facilitate the strategic growth of Forge, in the absence of a Superior Proposal.

Each of the Recommending Directors recommends that Shareholders vote in favour of the Resolutions, in the absence of a Superior Proposal.

For the reasons explained in section 1.9, each of Mr Nicholas Curtis (Forge's Chairman) and Mr Harold Ou Wang has decided not to provide a recommendation to Shareholders on any of the Resolutions.

18.2 Voting intentions

Each Recommending Director will vote (or procure the voting of) all Forge Shares held or controlled by him in favour of the Resolutions, in the absence of a Superior Proposal.

For the reasons explained in section 1.9, each of Mr Curtis and Mr Wang will not vote the Shares which each holds or controls on any of the Resolutions.

18.3 Interests of Directors

As at the date of this Explanatory Memorandum, the Directors had the following relevant interests in Forge's Shares and Options.

Director	Number of Shares	Number of Options
Mr Nicholas Curtis (Non-Executive Chairman)	4,250,000	1,333,334
Dr Matthew James (Managing Director)	410,000	3,116,667
Mr Harold Ou Wang (Non-Executive Director)	350,000	1,116,667
Mr Emmanuel Correia (Non-Executive Director)	325,000	858,334

The Recommending Directors do not have any material personal interest in the outcome of the Resolutions other than their interests arising solely in their capacity as Shareholders.

19. Glossary

The meanings of the terms used in this Explanatory Memorandum are set out below.

Term	Meaning
\$, A\$, AUD, cents or c	Australian currency
Atlas Iron	Atlas Iron Limited (ACN 110 396 168), and its wholly-owned subsidiary Ferro Metals Australia Pty Ltd which is the owner of the Balla Balla project as at the date of this Explanatory Memorandum
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited (ACN 008 624 691) or Australian Securities Exchange, as the context requires
Balla Balla JV	the unincorporated joint venture to be established between Forge Resources Swan and Todd JV Party in relation to the Balla Balla project, to be conducted in accordance with the Joint Venture Agreement
Board	the board of Directors of Forge
Competing Proposal	<p>any expression of interest, proposal, offer, transaction or arrangement by or with any Third Party (other than the Placement) which, if entered into or completed, would result in a Third Party:</p> <p>(a) acquiring any direct or indirect interest in the Balla Balla assets (including by way of security for any financial accommodation);</p> <p>(b) a Third Party holding a relevant interest in 20% or more of the Shares;</p> <p>(c) a Third Party directly or indirectly acquiring or obtaining an interest (including an economic interest) in all or a substantial part or material part of the business conducted by, or assets or property of, Forge;</p> <p>(d) a Third Party acquiring control of the Forge Group;</p> <p>(e) a Third Party otherwise acquiring, or merging with, Forge (including by way of takeover bid, scheme of arrangement, capital reduction, sale of assets, sale of securities, strategic alliance, dual listed company structure, joint venture or partnership); or</p> <p>(f) entering into an agreement or understanding requiring Forge to abandon, or otherwise fail to proceed with, the Proposed Transaction.</p>

Term	Meaning
	For the above purpose, "Third Party" means a person other than a Todd group or Forge group entity.
Corporations Act	<i>Corporations Act 2001</i> (Cth)
Corporations Regulations	<i>Corporations Regulations 2001</i> (Cth)
Cross Security Deed	the Cross Security Deed to be entered into between Forge Resources Swan and Todd JV Party, as described in section 11
Director	a director of Forge
FIRB	Australian Foreign Investment Review Board
Forge or the Company	Forge Resources Ltd (ACN 139 886 187)
Forge Balla Balla Investments	Forge Balla Balla Investments Pty Ltd (ACN 156 257 546), which is a wholly-owned subsidiary of Forge and holds all of the issued shares in Forge Resources Swan
Forge Resources Swan or FRS	Forge Resources Swan Pty Ltd (ACN 149 783 068), which is a wholly-owned subsidiary of Forge
General Meeting	the general meeting of Shareholders convened by the Notice of General Meeting
General Security Deed	the General Security Deed to be entered into between Forge Balla Balla Investments, Forge Resources Swan and Todd Lender, as described in section 12
Guarantee	the guarantee referred to in section 12.1(b)
Independent Expert	Hall Chadwick Corporate (NSW) Limited (ACN 080 462 488)
Independent Expert's Report	the report of the Independent Expert which accompanies this document
Joint Venture Agreement	the Joint Venture Agreement in relation to the Balla Balla project to be entered into between Forge Resources Swan and Todd JV Party, as described in section 11
Joint Venture Documents	the Joint Venture Agreement, Joint Venture Option Agreement, Cross Security Deed, Priority Deed and Marketing Agreement
Joint Venture Option Agreement	the Joint Venture Option Agreement to be entered into between Forge Resources Swan and Todd JV Party, as described in section 11
JORC	the JORC Code, being the 2004 Edition of the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, which is available at www.jorc.org
Loan Facility Agreement	the A\$27,500,000 Facility Agreement to be entered into between

Term	Meaning
	Forge Resources Swan, Forge Balla Balla Investments and Todd Lender, as described in section 12
Loan Facility Documents	the Loan Facility Agreement, General Security Deed and Tenement Mortgage
Marketing Agreement	the proposed Marketing Agreement in relation to product from the Balla Balla project as described in section 11
Master Agreement	the Master Agreement entered into between Forge and Todd Capital in relation to the Proposed Transaction, as described in sections 1 and 17.1
Notice of General Meeting or Notice	the notice of general meeting accompanying this Explanatory Memorandum
Option	an option, issued by Forge, to subscribe for one Share
Option Deed	the Option Deed to be entered into between Forge and Todd Shareholder, as described in section 10
Performance Shares	the 24,000,000 non-voting performance shares issued in the capital of Forge pursuant to Forge's initial public offering prospectus dated 30 July 2010
Priority Deed	the Financier's Deed of Covenant to be entered into between Forge Resources Swan, Todd JV Party and Todd Lender, as described in section 11
Proposed Transaction	<p>the following transactions contemplated under the Transaction Agreements:</p> <ul style="list-style-type: none"> • the issue of Shares to Todd Shareholder under the Share Subscription Agreement; • the issue of Todd Shareholder Options to Todd Shareholder and the issue of Shares to Todd Shareholder upon the exercise of Todd Shareholder Options; • the provision by Todd Lender to Forge Resources Swan of a loan under the Loan Facility Agreement, the giving of the Guarantee by Forge Balla Balla Investments and the granting of security interests by Forge Balla Balla Investments and Forge Resources Swan to Todd Lender under the General Security Deed and by Forge Resources Swan to Todd Lender under the Tenement Mortgage, as well as the potential enforcement of such security interests; • the acquisition by Todd JV Party of a 25% ownership interest in the Balla Balla project, the establishment of the Balla Balla JV, the potential acquisition by a Todd group entity or Forge group entity of additional interests in the Balla Balla JV or

Term	Meaning
	<p>Balla Balla project under the Joint Venture Option Agreement and Joint Venture Agreement, the granting of cross charges under the Cross Security Deed and the potential enforcement of such deed;</p> <ul style="list-style-type: none"> • the issue of 9,000,000 Shares under the Share Placement; and • the issue of 24,000,000 Shares to or for the benefit of Mr Nicholas Curtis.
Recommending Directors	all of the Directors other than Mr Nicholas Curtis (Forge's Chairman) and Mr Harold Ou Wang
relevant interest	the meaning given to that term in the Corporations Act
Resolutions	the resolutions set out in the Notice of General Meeting
Riverstone Advisory	Riverstone Advisory Pty Ltd, the adviser to Forge in relation to the Proposed Transaction
Share	a fully paid ordinary share issued in the capital of Forge
Shareholder	a person registered as the holder of one or more Shares
Share Placement	the proposed placement of Shares to sophisticated and institutional investors as described in section 15
Share Subscription Agreement	the Share Subscription Agreement to be entered into between Forge and Todd Shareholder, as described in section 9
Superior Proposal	<p>a bona fide Competing Proposal of the kind referred to in any of paragraphs (b), (c), (d) or (e) of the definition of Competing Proposal (and not resulting from a breach by Forge of any of its obligations to notify Todd of a proposed change of recommendation by a Recommending Director) that is received by Forge and which at least a majority of the Recommending Directors, acting in good faith and in order to satisfy what they consider to be their fiduciary or statutory duties after having received written legal advice from Forge's legal advisers and written advice from Forge's financial advisers, have determined:</p> <p>(a) is reasonably capable of being valued and completed taking into account all aspects of the Competing Proposal including any timing considerations and any conditions precedent; and</p> <p>(b) if completed substantially in accordance with its terms, would be more favourable to Forge Shareholders (as a whole) than the Proposed Transaction.</p>
Tenement Mortgage	the Tenement Mortgage to be entered into between Forge Resources Swan and Todd Lender, as described in section 12

Term	Meaning
Todd	The Todd Corporation Limited (a company incorporated in New Zealand, company number 3491)
Todd Capital	Todd Capital Limited (a company incorporated in New Zealand, company number 936395), which is a wholly-owned subsidiary of Todd
Todd Information	the 2 nd and 3 rd paragraphs of section 1.3(e); the information in section 4; the information in the 2 nd paragraph of section 2.2; the following statement (wherever it appears in this Explanatory Memorandum): "A key consideration for Todd in making and proceeding with its investment in Forge is that Mr Nicholas Curtis be Chairman of Forge and be appropriately incentivised to oversee the development and of the Balla Balla project."; and the definitions of Todd, Todd Capital, Todd JV Party, Todd Lender and Todd Shareholder
Todd JV Party	Balla Two (Mining) Pty Ltd (ACN 157 889 346), or such other company to be incorporated in Australia as a wholly-owned subsidiary of Todd, which will be party to the Joint Venture Documents
Todd Lender	Balla One (Investments) Pty Ltd (ACN 157 889 300), or such other company to be incorporated in Australia as a wholly-owned subsidiary of Todd, which will be the lender under the Loan Facility Agreement
Todd Shareholder	TIO (NZ) Limited (a company incorporated in New Zealand, company number 3744171), or such other wholly-owned subsidiary of Todd which will be the subscriber under the Share Subscription Agreement and the recipient of Todd Shareholder Options under the Option Deed
Todd Shareholder Options	the 6,500,000 Options to be issued to Todd Shareholder under the Option Deed
tpa	tonnes per annum
Transaction Agreements	the Master Agreement, Share Subscription Agreement, Option Deed, Loan Facility Documents and Joint Venture Documents
voting power	the meaning given in the Corporations Act

Corporate directory

Forge Resources Ltd

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Sydney NSW 2000

Forge website

www.forgeresources.com.au

Share registry

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford Vic 3067

Adviser to Forge Resources Ltd

Riverstone Advisory Pty Ltd and Riverstone
Capital Pty Ltd
Level 34, Gateway, Circular Quay
1 Macquarie Place
Sydney NSW 2000

Legal adviser to Forge Resources Ltd

Allens Arthur Robinson
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Sydney NSW 2000

Independent Expert

Hall Chadwick Corporate (NSW) Limited
Level 29, St Martins Tower
31 Market Street
Sydney NSW 2000

24 April 2012

The Directors
Forge Resources Limited
Level 5, 56 Pitt Street
SYDNEY NSW 2000

Dear Sirs,

Independent Expert's Report for Forge Resources Ltd

1. INTRODUCTION

Background

- 1.1 Forge Resources Ltd ("Forge" or "the Company") is a resource and energy exploration company listed on the Australian Securities Exchange ("ASX") on 23 September 2010. The Company was formed on 8 October 2009 specifically to pursue and acquire mineral and energy related assets in Australia and overseas.
- 1.2 As announced to the market on 16 December 2011, Forge has signed binding documentation with Atlas Iron Limited ("Atlas") for the acquisition of the Balla Balla Magnetite, Vanadium and Titanium Project ("Balla Balla") for \$40 million plus a capped royalty payment structure based on tonnage sold. Balla Balla will be acquired by Forge Resources Swan Pty Ltd ("Forge Resources Swan"), a wholly owned subsidiary of Forge.
- 1.3 The terms of the Balla Balla Share Purchase Agreement ("SPA") included payment of the \$40 million over two instalments:
- i) \$17.5 million by the end of February 2012, subject to shareholder approvals and a successful capital raising of at least \$15 million by Forge; and
 - ii) \$22.5 million 12 months after the initial payment.
- 1.4 Forge has since been in negotiations to secure the necessary funding to complete the entire Balla Balla purchase in a single payment by combining the two cash payments outlined above. Forge has agreed terms with Atlas to extend the deadline for satisfying the conditions precedent to the SPA to 30 April 2012, subject to Forge paying Atlas in full together with a non-refundable deposit of \$500,000. The deadline has subsequently been extended to 31 May 2012 and the purchase price reduced to \$39.5 million (on the basis that payment is made by 31 May

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2012).

- 1.5 As a means of financing the payment for the Balla Balla acquisition and further development of Forge's existing projects, Todd Capital Ltd ("Todd") has agreed to an investment in Forge totalling \$45.5 million, comprising both equity and debt funding and the purchase by Todd of a 25% interest in Balla Balla, following which Balla Balla will be run as an unincorporated joint venture arrangement between Forge Resources Swan and a related body corporate of Todd (as further detailed in section 2).
- 1.6 Todd Capital Limited is part of The Todd Corporation Limited, a private New Zealand based company with a diversified portfolio of business interests that are weighted towards the oil and gas and energy sectors.
- 1.7 This report makes a number of references to the term "Transaction", which is defined in section 2.2. The Transaction, as defined in section 2.2, will involve the issue of securities by Forge to Todd and to Mr Nicholas Curtis (Forge's Chairman).

Purpose of Report

- 1.8 Forge has requested Hall Chadwick Corporate (NSW) Limited ("HCC") to prepare an Independent Expert's Report to advise the shareholders of Forge other than those associated with Todd or Mr Curtis or anyone associated with either of them ("Non-Associated Shareholders"), whether the proposed Transaction is fair and reasonable when considered in the context of the interests of Non-Associated Shareholders and to set out the reasons for our conclusions.
- 1.9 HCC understands and has agreed that this report will be included in or accompany the notice to convene a general meeting of Forge shareholders ("Notice of General Meeting"), to assist the Non-Associated Shareholders in their consideration of the resolutions to be put at the general meeting in relation to the Transaction.

Opinion

- 1.10 In our opinion, the proposed Transaction is ***not fair but reasonable*** to the Non-Associated Shareholders of Forge. The Transaction is **not fair** as the value of securities to be issued, assets to be transferred and payments to be made by Forge (\$33.5 to \$38.2 million) exceeds the value of consideration (\$22.5 million) offered by Todd and Mr Curtis. It is **reasonable** as the Non-Associated Shareholders would obtain an overall benefit from the Transaction based on the capability of further developing Forge projects.

1.11 The ultimate decision however on whether to vote in favour of the proposed Transaction should be based on Forge shareholders own assessment of their circumstances.

2. THE PROPOSED TRANSACTION

2.1 As announced to the ASX on 19 March 2012, Forge has entered into definitive documentation with Todd in relation to the \$45.5 million equity and debt funding proposed by Todd to be used to fund the acquisition by Forge of Balla Balla from Atlas, and further development of Forge's existing projects:

2.2 As contemplated in a Master Agreement entered into by Forge and Todd, the proposed "**Transaction**" involves the following:

- a) The issue by Forge to a related body corporate of Todd under a Share Subscription Agreement of 16,000,000 Shares at a price of \$0.50 each ("Subscription Price"), representing a total amount of \$8,000,000 payable for all Subscription Shares.
- b) The issue by Forge to a related body corporate of Todd under an Option Deed of 6,500,000 Options to subscribe for Forge shares at an exercise price of \$0.50 each and a term of two years after the Completion Date, and the issue of shares to the option holder upon the exercise of such options.
- c) The provision by a related body corporate of Todd to Forge of a senior secured project level debt facility of \$27,500,000 to fund the acquisition of Balla Balla (the "Loan"), and the granting of security interests by subsidiaries of Forge under a General Security Deed and Tenement Mortgage (see below) as well as the potential enforcement of such security interests.

The Loan will have an initial two year term, which can be rolled for 6 month periods at the option of the Todd lender entity up to a maximum 10 year term. During the first two years, interest will accrue at 15% p.a. compounded annually, and during each rollover period it will accrue at 5% p.a. plus BBSW (bank bill swap rate) for the rollover period. If the JV Option (defined below) is exercised and completed, the entire Loan amount will become repayable and the \$36.4 million purchase price will offset the outstanding loan amount (inclusive of accrued interest) by \$36.4 million. The outstanding loan amount will also become repayable upon first drawdown of project finance.

The Loan is to be secured by:

- (i) each of Forge Holdco (being the Forge group entity which holds all of the shares in Forge Resources Swan) and Forge Resources Swan granting security over all of its assets to the Todd lender entity, pursuant to a General Security Deed;
 - (ii) Forge Holdco providing an unlimited guarantee in favour of Todd, such guarantee being part of the Loan agreement; and
 - (iii) a mortgage from Forge Resources Swan over its interest in the Balla Balla mining tenements that are to be acquired under the Balla Balla acquisition, pursuant to a Tenement Mortgage.
- d) The acquisition by a related body of Todd of a 25% ownership interest in Balla Balla for \$10 million, the establishment of an unincorporated joint venture with Forge Resources Swan in relation to Balla Balla to be governed by a Joint Venture Agreement, the potential acquisition by a Todd group entity or Forge group entity of additional interests in the Balla Balla joint venture or project under the Joint Venture

Agreement or Joint Venture Option Agreement (see below), and the granting of cross charges under a Cross Security Deed and the enforcement of such deed.

- e) The granting by Forge Resources Swan to the Todd joint venture entity ("Todd JV Party") of an option for Todd JV Partner to acquire from Forge an additional 7.5% interest in the unincorporated joint venture for Balla Balla for a purchase price of \$36,400,000 (the "JV Option"). The JV Option will expire on the earliest of:
 - i) project finance being obtained and first drawn for Balla Balla; or
 - ii) the date for repayment of the Loan; or
 - iii) the end of 10 years.
- f) The issue of 9,000,000 Shares to sophisticated and institutional investors at an issue price of \$0.50 per Share to raise \$4,500,000 (the "Placement").
- g) The issue of 24,000,000 Shares to or for the benefit of Mr Nicholas Curtis for no cash consideration.

According to the Notice of General Meeting:

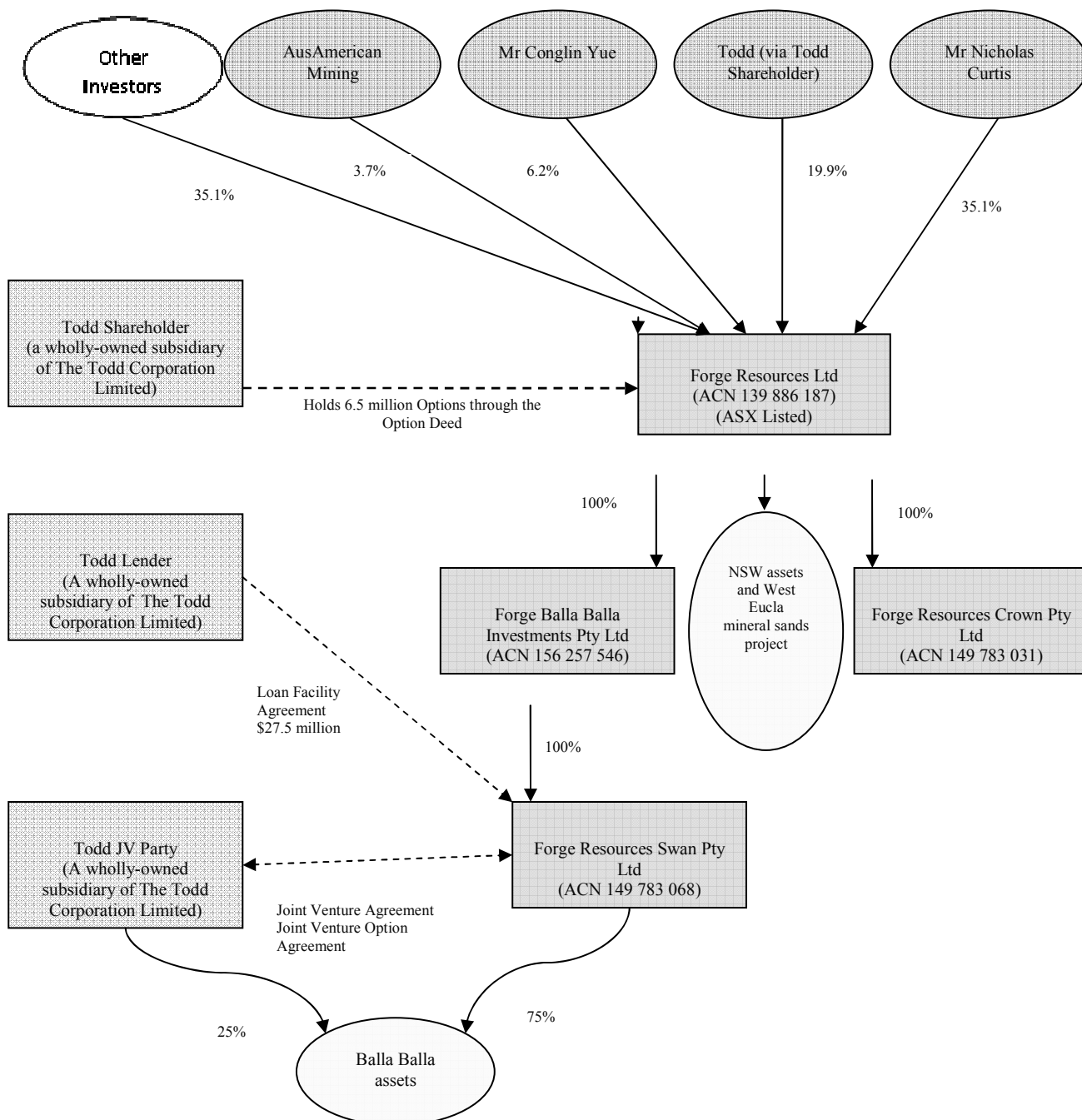
- A key consideration for Todd in making and proceeding with its investment in Forge is that Mr. Nicholas Curtis be Chairman of Forge and be appropriately incentivised to oversee the development of the Balla Balla project. Todd has no existing experience in relation to iron ore mining, or in relation to Australian resources projects in general. Todd was introduced to the proposed investment in Forge and in the Balla Balla project through the efforts of Mr Curtis in his role as Chairman and places great weight on his extensive industry knowledge and his track record in successively developing resources projects in Western Australia.
- Whilst Todd appreciates that Mr Curtis will not have day to day management involvement in the Balla Balla project, Todd regards the ongoing commitment of Mr Curtis at the strategic management level as extremely important to the success of the Balla Balla project (and to Forge's other operations). For this reason Todd wishes to ensure that Mr Curtis is effectively incentivised to continue to have an active involvement in Forge.
- The Board of Directors of Forge (excluding Mr Curtis) formed the opinion that the entry into definitive documentation on 16 March 2012 in respect of the proposed Transaction substantially satisfied the performance milestones of the Performance Shares and that it was appropriate in these circumstances, and also considering Todd's view, that Mr. Curtis should continue to have the benefit of his Performance Shares even if the Transaction completed after the expiry of the performance milestones of the Performance Shares.
- As a consequence Forge intends to seek shareholder approval to issue 24 million fully paid ordinary shares to Mr. Curtis (which would have been the number of shares that the Performance Shares would have converted into on completion of the Transaction if the performance milestones did not expire on 21 March 2012). The issue of those shares is conditional upon shareholders approving the other aspects of the proposed Transaction. The shares would be issued on completion of the Transaction. Shareholder approval for the issue of those shares will also be a condition to completion of the other aspects of the proposed Transaction.
- Whilst Mr Curtis is a non-executive Chairman of Forge, he is actively involved in overseeing the management of Forge and in making strategic and

operational decisions regarding the company (except in respect of matters where he has an actual or potential conflict of interest). This level of involvement is appropriate for a small company such as Forge which is essentially in a start-up, pre-development phase.

- It is the Forge Board's opinion that Mr Curtis is highly qualified for the role of Chairman, having led two resource companies (Sino Gold and Lynas Corporation) from being small ASX-listed companies with market capitalisations of less than \$20 million to ASX 100 companies with market capitalisations of more than \$1 billion. This track record of success, together with the experience gained, continues to be invaluable to Forge on a number of fronts. In particular, the Recommending Directors consider that Mr Curtis' track record and profile was the primary factor in initially attracting Todd Capital to enter into discussions with Forge.

- 2.3 The ordinary shares and options being issued to Todd (including the ordinary shares issued upon the exercise of options issued to Todd) as part of the Transaction are collectively referred to in this report as the “Securities”.
- 2.4 The Transaction is subject to Forge Shareholders approving all of the Forge Shareholder Resolutions as included in the Notice of Meeting by the required majorities. This includes the issue of 24,000,000 Shares to Mr Curtis. The Transaction is also subject to various other conditions which are set out in the Notice of Meeting.

2.5 Key components of the Transaction are illustrated in the diagram below, showing the structure and ownership of Forge and Balla Balla at completion:



2.6 The Company has engaged the services of Riverstone Advisory Pty Ltd and its wholly-owned subsidiary Riverstone Capital Pty Limited (together “Riverstone”) to provide Capital Raising and Advisory Services. Riverstone will be paid the following for these services (the “Commission”) upon completion of the Balla Balla acquisition and the Transaction:

- 4.5% of equity raised

- 1% of debt raised
- a success fee equal to 1% of the \$50 million funding package of the Transaction
- a one-off payment of \$50,000 (not conditional on completion of the Balla Balla acquisition and the Transaction)
- 1,000,000 Options, the issue of which are subject to shareholder approval, to subscribe for Forge shares at an exercise price of \$0.50 each and a three year term.

Although the Commission does not form part of the Transaction defined in the Notice of Meeting, it is a cost to the Forge Shareholders of entering into the Transaction which we have considered in providing our opinion.

2.7 The following table shows the effect on the share capital of Forge after the Transaction:

Effect on Ordinary Shares		Todd Interest	Mr Curtis Interest
Ordinary shares currently on issue	31,577,667		
Ordinary shares issued to Todd to raise \$8 million at \$0.50 each	16,000,000		
Ordinary Shares issued to or for the benefit of Mr Curtis	24,000,000		
Proposed Placement through an issue of shares to sophisticated investors to raise \$4.5 million at \$0.50 each	<u>9,000,000</u>		
Ordinary shares on issue after Transaction and Placement	80,577,667	19.9%	35.1%
Conversion of Options issued to Todd	6,500,000		
Conversion of Options to be issued to Riverstone Advisory Pty Ltd as part of its financial advisory mandate	<u>1,000,000</u>		
Ordinary shares on issue, prior to exercise of Options held by parties not associated with the Transaction	88,077,667	25.5%	34.7%
Conversion of all other options on issue (as per table below)	<u>24,955,905</u>		
Fully diluted ordinary shares on issue	<u><u>113,033,572</u></u>	19.9%	27.1%

Effect on Options	
Options currently on issue (2)	24,955,905
Options issued to Todd at an exercise price of \$0.50 each	6,500,000
Options issued to Riverstone Advisory at an exercise price of \$0.50 each	<u>1,000,000</u>
Total options on issue after Transaction	<u><u>32,455,905</u></u>

- (1) Forge currently has the following options on issue:
- 19,855,905 options expiring 31 July 2014 with an exercise price of \$0.20, 6,547,573 of which are quoted on the ASX and the balance subject to ASX escrow;
 - 600,000 unlisted options expiring 15 June 2015 with an exercise price of \$0.67;
 - 4,500,000 unlisted options expiring 1 December 2015 with an exercise price of \$0.54.
- (2) Mr Nicholas Curtis, through entities controlled by him, controls 66.7% of the shares in Riverstone Advisory.

2.8 If the Transaction is approved and completed, Todd will hold a shareholding interest in Forge of approximately 19.9% on an undiluted basis, or 25.5% assuming the conversion

of Options to be held by Todd and Riverstone but prior to the exercise of Options held by parties not associated with the Transaction. On a fully diluted basis, Todd's equity interest in Forge will be approximately 19.9%. Forge will grant to Todd a top-up right to subscribe for additional shares in order to maintain its percentage interest in Forge in circumstances where there is a third party share issue. The top-up right is subject to Forge obtaining an ASX waiver.

- 2.9 Mr Curtis will have a relevant interest in Forge Shares of approximately 35.1% on an undiluted basis and 27.1% on a fully diluted basis, assuming the issue of options to Todd and Riverstone on completion of the Transaction and also taking into account Mr Curtis' current holding of 1,333,334 options.
- 2.10 The Transaction will involve various companies within the Todd group (all of which will be wholly-owned subsidiaries of The Todd Corporation Limited) and the Forge group (all of which will be subsidiaries of Forge). For simplicity, this report in a number of places makes references to "Todd" and "Forge" rather than to the specific group company. Accordingly, references to "Todd" and "Forge" should, where applicable, be read as references to entities within the Todd and Forge groups.
- 2.11 As stated in section 1.4, Atlas has agreed to reduce the Balla Balla purchase price from \$40 million to \$39.5 million, on the basis that payment is made by 31 May 2012. It has been agreed between Forge and Todd that, if the purchase price for Balla Balla is \$40 million or less, Forge will pay 75% of the Balla Balla purchase price and Todd will pay 25%. For simplicity, in this report it has been assumed that the purchase price will be \$40 million, of which Forge will pay 75% (\$30 million), with the remaining 25% (\$10 million) to be paid by Todd.

STRUCTURE OF REPORT

Our report is set out under the following headings:

- 3 PURPOSE OF REPORT
- 4 OPINION
- 5 BASIS OF EVALUATION
- 6 ADDITIONAL BACKGROUND INFORMATION
- 7 OVERVIEW OF FORGE
- 8 VALUATION METHODOLOGIES
- 9 VALUE OF FORGE SECURITIES AND OTHER PAYMENTS
- 10 ADVANTAGES AND DISADVANTAGES OF THE TRANSACTION
- 11 CONCLUSION AS TO FAIRNESS AND REASONABLENESS

APPENDICES

- I SOURCES OF INFORMATION
- II STATEMENT OF DECLARATION & QUALIFICATIONS
- III FINANCIAL SERVICES GUIDE
- IV IMPLIED CONTROL PREMIUMS

3 PURPOSE OF REPORT

- 3.1 The purpose of this report is to advise the Non-Associated Shareholders of Forge of the fairness and reasonableness of the Transaction.

This report provides an opinion on whether or not the terms and conditions in relation to the Transaction are fair and reasonable to the Forge shareholders whose votes are not to be disregarded in respect of the transaction (that is, the Non-Associated Shareholders).

The ultimate decision whether to vote in favour of the Transaction should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Transaction or matters dealt with in this report, shareholders should seek independent professional advice.

For the Transaction to be fair, the value of the consideration being paid for the Forge Securities and assets must be equal to or greater than the value of the Forge Securities being issued and other payments and asset sales being made by Forge that directly relate to the Transaction. To be reasonable the shareholders must obtain an overall benefit if the Transaction proceeds.

- 3.2 This report has been prepared to satisfy the requirements of the Corporations Act 2001 ("Corporations Act"), the Australian Securities Exchange ("ASX") Listing Rules and Australian Securities and Investments ("ASIC") policy.

Corporations Act Requirements

- 3.3 If the Transaction is approved and completed:
- a) Todd will have a relevant interest in Forge Shares of approximately 19.9% on an undiluted basis, or 25.5% assuming the conversion of Options held by Todd and Riverstone but prior to the exercise of Options not held by Todd. On a fully diluted basis, Todd will have a relevant interest in Forge Shares of approximately 19.9%.
 - b) Mr Curtis will have a relevant interest in Forge Shares of approximately 35.1% on an undiluted basis and 27.1% on a fully diluted basis, assuming the issue of options to Todd and Riverstone on completion of the Transaction and also taking into account Mr Curtis' current holding of 1,333,334 options..
- 3.4 Section 606(1) of the Corporations Act states that a person must not acquire a relevant interest in issued voting shares in a listed company if that results in that person's or any other person's voting power increasing to above 20%. Section 606(1) prohibits Todd and Mr Curtis from acquiring the Securities in Forge under the Transaction, unless one of the exemptions under Item 7 of Section 611 of the Corporations Act applies.
- 3.5 The exceptions set out in Item 7 of Section 611 of the Corporations Act include an acquisition that is approved by a resolution of shareholders of Forge passed at a general meeting. This is the exception which will be relied upon by Todd and Mr Curtis. At the general meeting of Forge no votes will be allowed to be cast in favour of the Section 611 Item 7 resolutions by those persons (or their associates) acquiring shares under the Transaction (that is, Mr Curtis and Todd and their respective associates).

- 3.6 Australian Securities and Investments Commission (“ASIC”) Regulatory Guide 111 “Content of Experts Reports” requires, amongst other things, that directors of a company need to provide shareholders with an analysis of whether a proposed transaction is fair and reasonable, when considered in the context of the interests of the non-associated shareholders. Regulatory Guide 111 recommends that this analysis should include an independent expert’s report. The independent expert is required to state whether, in their opinion, the proposal is fair and reasonable having regard to the interests of non-associated shareholders and state the reasons for forming that opinion. This report provides such an opinion.

ASX Listing Rules

ASX Listing Rule 7.1

- 3.7 ASX Listing Rule 7.1 states that without the approval of holders of ordinary shares, an entity must not issue or agree to issue more equity securities than the number calculated according to the following formula:

$$(A \times B) - C$$

Where:

A = The number of fully paid ordinary securities on issue 12 months prior to the date of agreement;

- Plus the number of fully paid ordinary securities issued under an exception in ASX Listing Rule 7.2,
- Plus the number of partly paid ordinary securities that became fully paid in the 12 months,
- Plus the number of fully paid ordinary securities that become fully paid in the 12 months with approval of holders of ordinary securities under ASX Listing Rule 7.1,
- Less the number of fully paid ordinary securities cancelled in the 12 months.

B = 15%

C = The number of equity securities issued or agreed to be issued in the 12 months before the date of the issue or agreement to issue but under an exception in ASX Listing Rule 7.2 or with approval under ASX Listing Rule 7.1.

- 3.8 The issue of ordinary securities and options under the Transaction will result in an issue of Forge ordinary securities greater than allowed under the above formula. Accordingly, under ASX Listing Rule 7.1 Forge must obtain approval from the holders of the ordinary shares.
- 3.9 ASX Listing Rule 7.3 sets out the items to be included in the notice of general meeting of shareholders. ASX Listing Rule 7.3 does not specifically require the notice to include a copy of an independent expert’s report commenting on the issue.

ASX Listing Rule 10.1

- 3.10 ASX Listing Rule 10.1 provides that a listed company must ensure that neither it nor any of its subsidiaries disposes of a substantial asset to (among others) a person who has a relevant interest in at least 10% of the company's voting shares at any time within the 6 months prior to the disposal, without the approval of holders of the company's ordinary shares. An asset is a "substantial asset" if its value, or the value of the consideration for it is, or in ASX's opinion, 5% or more of the equity interests of the company as set out in the latest accounts given to ASX under the ASX Listing Rules.
- 3.11 ASX Listing Rule 10.1 will be relevant to the Transaction as Todd will be issued with more than 10% of the shares in Forge at the time of acquiring of a 25% ownership interest in Balla Balla. Forge will seek approval under ASX Listing Rule 10.1 for various aspects of the proposed Transaction, being in summary as follows:
- (a) the acquisition by Todd of a 25% interest in Balla Balla for \$10 million (being, in other words, a 'disposal' by Forge of a 25% interest in Balla Balla for \$10 million);
 - (b) the potential acquisition in the future by Todd or Forge of additional interests in the Balla Balla joint venture or project under the Joint Venture Agreement or Joint Venture Option Agreement, and the granting of cross charges under a Cross Security Deed and the enforcement of such deed; and
 - (c) the granting by Forge to Todd of security interests under a General Security Deed and Tenement Mortgage in connection with the Loan and provision of an unlimited guarantee, as well as the potential enforcement of such security interests.

ASX Listing Rule 10.10 requires a report on the transaction from an independent expert stating whether the foregoing transactions are fair and reasonable to non-associated shareholders.

ASX Listing Rule 11

- 3.12 ASX Listing Rule 11.1 requires a listed company to consult with ASX whenever it proposes to make "a significant change ... to the nature or scale of its activities". ASX Listing Rule 11.2 provides that if the significant change involves the disposal of its "main undertaking", the company must seek shareholder approval (via an ordinary resolution). Where the significant change does not relate to the disposal of a company's main undertaking, ASX has a discretion under ASX Listing Rule 11.1.2 to require an entity to put the matters to shareholders. The potential acquisition by Todd of additional interests in the Balla Balla joint venture under the Joint Venture Option Agreement, Joint Venture Agreement, Cross Security Deed or the Loan security documents may attract the operation of ASX Listing Rule 11. For this purpose, Forge is also seeking shareholder approval under ASX Listing Rule 11 in respect of certain of those acquisitions (being, from the Forge group's perspective, disposals). ASX Listing Rule 11 does not specifically require the notice to include or be accompanied by a copy of an independent expert's report commenting on the issue.

4. OPINION

4.1 In our opinion, the proposed Transaction is *not fair but reasonable* to the Non-Associated Shareholders of Forge.

4.2 Our opinion is based solely on information available as at the date of this report.

4.3 The principal factors that we have considered in forming our opinion are summarised below.

Fair

4.4 For the Transaction to be fair, the value of the consideration being paid for the Forge Securities and assets must be equal to or greater than the value of the Forge Securities being issued, assets to be transferred and payments to be made by Forge that directly relate to the Transaction. The value range of \$33,536,765 to \$38,233,889 attributed to Forge Securities to be issued, assets to be transferred and payments to be made by Forge, exceeds the value of consideration of \$22,500,000 to be provided by Todd and Mr Curtis, therefore in our opinion the proposed Transaction is not fair

4.4.1 Based on the analysis contained in section 9, we have determined the following indicative values of the Forge Securities:

Security	Low	High	Midpoint	Section
	\$	\$	\$	
Ordinary Shares	0.342	0.418	0.380	9.2
Ordinary Shares (including a 20% control premium)	0.410	0.502	0.456	9.2
Options to Todd	0.108	0.156	0.131	9.3
Options to Riverstone	0.142	0.195	0.168	9.3

4.4.2 Based on the analysis contained in this report, we have summarised in the table below the indicative valuation range of the Forge Securities to be issued, assets to be transferred and the payments to be made by Forge, and compared this to the value of the consideration to be paid for the Forge Securities and assets:

Component	Value Range			Consideration	Note
	Low	High	Midpoint		
Shares to Todd	6,566,400	8,025,600	7,296,000	8,000,000	(1)
Options to Todd	698,781	1,010,812	850,402	-	(2)
25% of Balla Balla	10,000,000	10,000,000	10,000,000	10,000,000	(3)
JV Option	1,364,836	1,364,836	1,364,836	-	(4)
Placement	3,078,000	3,762,000	3,420,000	4,500,000	(5)
Shares to Mr Curtis	9,849,600	12,038,400	10,944,000	-	(6)
Commission - cash	1,837,500	1,837,500	1,837,500	-	(7)
Commission - Options	141,648	194,741	167,684	-	(7)
Transaction Total	33,536,765	38,233,889	35,880,422	22,500,000	

- (1) 16,000,000 shares to be issued to Todd at a deemed value of \$0.50 per share, totalling \$8,000,000. Refer section 9.2 for the valuation of Ordinary Shares, inclusive of a 20% premium for control.
- (2) 6,500,000 options with an exercise price of \$0.50 each and an expiry date of two years. Refer to section 9.3 for the valuation of Options.
- (3) The purchase of a 25% interest in Balla Balla by Todd for \$10,000,000. The 25% interest in Balla Balla has also been valued at \$10,000,000 as detailed in section 9.5.
- (4) The Loan and accrued interest at 15% p.a. at the end of the initial two year period totals approximately \$36,368,750. Under the terms of the JV Option Todd has the ability to acquire from Forge an additional 7.5% interest in the unincorporated joint venture for Balla Balla for a purchase price of \$36,400,000 as detailed in section 2.2.

We have calculated the value of the option for the additional interest in Balla Balla Todd may choose to acquire at \$1,364,836 as detailed in section 9.6.

- (5) Part of the Transaction is a Placement to raise \$4,500,000 from the issue of 9,000,000 shares at \$0.50 each. Refer section 9.2 for the valuation of Ordinary Shares.
- (6) Part of the Transaction is the issue of 24,000,000 shares to or for the benefit of Mr Curtis. This represents a cost to the Non-associated Shareholders of completing the Transaction. Further information on the proposed issue of these shares and the terms of the Performance Shares held by Mr Curtis is included in section 6. Refer section 9.2 for the valuation of Ordinary Shares inclusive of a 20% premium for control.
- (7) The Commission to Riverstone for Capital Raising and Advisory Services and introducing Todd to Forge is a cost of the Transaction to Shareholders. The Commission includes:

4.5% of equity raised of \$22,500,000 (from Todd and the Placement)	\$1,012,500
1% of debt raised of \$27,500,000 (from Todd)	\$ 275,000
A success fee of 1% of \$50,000,000 funding package of Transaction	\$ 500,000
One off payment in cash	\$ 50,000

and

1,000,000 options with an exercise price of \$0.50 each and a term of three years. Refer to section 9.3 for the valuation of Options.

4.4.3 As the value range of \$33,536,765 to \$38,233,889 attributed to Forge Securities to be issued, assets to be transferred and payments to be made by Forge exceeds the value of consideration of \$22,500,000 to be provided by Todd and Mr Curtis, in our opinion the proposed Transaction is **not fair** to the Non-Associated Shareholders of Forge.

Reasonable

- 4.5 ASIC Regulatory Guide 111 states that a transaction is reasonable if:
- The Transaction is fair; or
 - Despite not being fair the expert believes that there are sufficient reasons why shareholders should still obtain an overall benefit if the Transaction proceeds.
- 4.5.1 We have concluded that the Transaction is **reasonable**. In forming our opinion we have considered the following relevant factors:
- a) The terms of the Loan are reasonable in the circumstances as if Forge and the relevant parties were dealing at arms-length, as unrelated, sufficiently knowledgeable parties each acting on in its own interests free from undue influence. The Loan is being

advanced at an interest rate of 15% per annum for the initial two-year period, then during each rollover period it will accrue at 5% p.a. plus BBSW. Current bank lending rates average around 6.5% - 8.6%. A lending rate of 15% may be considered relatively high for a secured loan. However, given the current state of the financial market and Forge being in its early stages of exploration and development with no current income, we have assessed that this represents an arms length cost to the Company at this point in time, allowing for a high risk premium. The Security Interests being granted to Todd in connection with the loan are also being provided on terms that are customary for transactions and assets of this nature, were negotiated as unrelated parties on an arms length basis, and are reflective of normal project financing arrangements.

- b) The Transaction includes the potential acquisition in the future by Todd or Forge of additional interests in the Balla Balla joint venture or project under the Joint Venture Agreement or Joint Venture Option Agreement, the enforcement of cross charges under a Cross Security Deed and from enforcement of loan security documents. The circumstances under which these potential future acquisitions may occur are summarised in section 9.7. Based on our consideration of the details contained in section 9.7, we believe that the terms under which a potential future acquisition would arise are customary for joint venture arrangements and secured loan facilities of this nature and were negotiated by unrelated, sufficiently knowledgeable parties each acting in its own interests free from undue influence thus on an arms length basis. As the majority of the potential future acquisitions would occur at market values there would be no net cost to the shareholder and therefore these terms are reasonable to the Non-Associated Shareholders of Forge. The basis of this contention is the terms of the agreement describing these acquisitions at section 9.7. We also note in section 9.7 Forge intends to progress the Balla Balla project such that the Company may raise project finance to further develop the project, and thereby meet its repayment obligations to Todd.
- c) The Transaction will provide necessary funding to complete the Balla Balla acquisition and further develop Forge's existing mining projects. Currently the assets of Forge are in their exploration and development stage. Given its limited capital it will have difficulty in creating significant value with this business model. The investment by Todd will lead to further funding for the ongoing development of the Forge assets.
- d) The Transaction may provide an opportunity for Forge shareholders to experience significant growth in the value of shares based on the earnings potential of Balla Balla and the increased market capitalisation of Forge. The size of the Balla Balla acquisition and the shares being issued as part of the Transaction and Placement should increase both the liquidity and market capitalisation of Forge, as it is more attractive to the market and institutions due to the increase in size of the business. The resulting greater market awareness of Forge projects, including Balla Balla, should improve liquidity in Forge shares from the current low levels. The business will require further capital raisings to develop its projects, and the likely scenario may be an increase in the number of shares on issue and consequential investor interest in Forge. Management advise they intend to raise additional capital for further development of the Balla Balla project when required, after some development

expenditure is incurred. However, if Todd exercises its rights as set out in 10.3.4, further dilution of the interests of Non-Associated Shareholders may result.

- e) The continued involvement of Mr Curtis was expressed to be a key consideration to Todd's investment decision. Although a Non-executive Chairman of Forge, Mr Curtis plays a key role in the Company with responsibility for the strategic direction of the Company, appropriate allocation of resources to achieve these strategies, risk management and also in monitoring performance against these strategic goals. Mr Curtis assumes a key role in Forge because of the lack of executive depth in what is still currently a small organisation. The proposed issue of Shares to Mr Curtis will result in Mr Curtis being a significant Shareholder and accordingly would act as an incentive for Mr Curtis to continue his involvement with Forge. Retaining Mr Curtis as a substantial shareholder in Forge and his continued involvement in Forge is considered to be valuable in the growth and success of Forge.
- f) The Forge share price may fall in the event the Transaction is not approved and in the absence of an alternative and superior offer emerging to fund development and working capital requirements. Forge is not yet trading profitably and its share price has fallen from a high of \$1.60 in February 2011 to a price of around \$0.40 immediately prior to the announcement of the Transaction on 19 March 2012. Subsequent to this announcement the share price has traded at a high of \$0.50. If the Transaction is not approved by Forge shareholders, it is possible that Forge's share price may remain at current levels or decrease if Forge is not capable of raising capital to fund the development of its assets and working capital requirements.
- g) The recommending directors on the Forge Board are of the opinion that the Transaction is in the best interests of Shareholders to facilitate the strategic growth of Forge.
- h) We are unaware of any alternative proposal at the date of this report that could realise better value for Forge shareholders.
- i) In the event the Transaction is not approved, Forge will continue to rely on capital raising from smaller investors in an unattractive market to raise funds for early stage mineral development. Shareholders could hold out for a prospect of a more favourable proposal emerging, though in the current market the prospect of competing offers emerging may be unlikely. This is evident in the extensive process advisors of Forge had undertaken in canvassing interest from a variety of potential investors from fund managers to brokers, both in Australia and internationally, prior to securing the proposed investment from Todd. Market appetite for investments in minerals exploration is muted, particularly given iron ore prices have depreciated to levels similar to one year ago due to ongoing concerns over global economic growth, despite the outlook for iron ore remaining robust in the longer term.
- j) Forge has agreed to pay Todd a reimbursement fee of \$750,000 in certain circumstances if the Transaction does not proceed.
- k) A Top-Up Right exists where Todd may subscribe for additional shares to maintain its percentage interest in Forge and inject additional capital when required, in the event of a third party share issue. The Top-Up Right is subject to Forge obtaining an

ASX waiver. The terms of the Top-Up Right are detailed in section 9.8. On the basis that these top-up shares would be subscribed by Todd at the prevailing market value of the shares, or the same subscription price as under the third party share issue, we believe that the Top-Up Rights are reasonable when considered in the context of the Non-associated Shareholders

- l) Forge assets, including the Balla Balla project to be acquired under the Transaction are in exploration and development stage, thus do not generate recurring cash flow for the Company. It is unknown whether Forge will generate such cash flows when repayments are required under loan agreements entered into with Todd. It is the intention of Forge management to progress development of the Balla Balla project with the Transaction proceeds from Todd, such that the Company may obtain project financing or raise additional capital in order to meet its repayment obligations with Todd under the Transaction. It is noted the Company has received indicative interest from a potential project financier. Should Forge be unsuccessful in refinancing or source further capital when loan obligations fall due, the Company may risk forfeiting its interest in the Balla Balla project. In the event of default, Forge group assets might be required to be sold to meet loan obligations. However, any assets sold will be at market value and this is consistent with the ordinary risk of a mining exploration business.

4.5.2 Some relevant issues to consider in relation to the Transaction are that Forge:

- is still in its exploration and development phase and is still trading at a loss;
- does not have any free cash flows after allowing for capital commitments, and currently does not have sufficient cash reserves to achieve business objectives; and
- has not identified any other subscribers for the necessary funds required to meet the company's objectives.

4.6 *Accordingly, in our opinion, the Transaction is **not fair but reasonable** to the Non-Associated Shareholders of Forge.*

5 BASIS OF EVALUATION

- 5.1 In our assessment of whether the Transaction is fair and reasonable to Forge Non-Associated Shareholders, we have given due consideration to the Regulatory Guides issued by the ASIC, in particular, Regulatory Guide 74 “Acquisitions Agreed to by Shareholders”, Regulatory Guide 111 “Content of Experts Reports” and Regulatory Guide 112 “Independence of Experts Reports”.
- 5.2 ASIC Regulatory Guide 74 requires, amongst other things, that shareholders are provided with sufficient information to make an effective, informed decision on whether the proposed Transaction is fair and reasonable. Under Regulatory Guide 111, a transaction is “fair” if the value of the asset being acquired (in this case the consideration being paid by Todd) is equal to or greater than the value of the Securities being issued. Additionally, under Regulatory Guide 111 an offer is “reasonable” if it is fair. It is possible for an offer to be reasonable despite being unfair, if after considering other non-financial factors the shareholders should still vote in favour of the proposed transaction.
- 5.3 Our report has compared the likely advantages and disadvantages to Non-Associated Shareholders if the Transaction is agreed to, with the advantages and disadvantages to those shareholders if it is not. Comparing the consideration to be paid under the proposal and the value of the Securities being issued is only one element of this assessment.
- 5.4 Additionally we have considered whether any shareholder will obtain a level of control in Forge as a result of the proposed Transaction. In the event that a change in control arises from the proposed Transaction, proportionately greater benefits to non-associated shareholders must be demonstrated. In this case each of Mr Curtis and Todd will or may be in a position to obtain a controlling interest in Forge (being, for this purpose, an interest in more than 20% of the Shares) and this issue needs to be considered in comparing the value received by Non-Associated Shareholders in comparison to the value being paid.
- 5.5 Normal valuation practice is to determine the fair market value of an asset assuming a counter party transaction between a willing and not anxious buyer and a willing but not anxious seller, clearly at arm’s length. We have adopted this approach in determining the market value of Forge.
- 5.6 In evaluating the Transaction, we have considered the value of the Forge Securities being issued and other payments, and compared this to the amount of consideration to be paid.
- 5.7 We consider that the Transaction will be fair and reasonable if, the Non-Associated Shareholders in Forge will be better off if the Transaction is approved. We will also consider the Non-Associated Shareholder’s interests should the Transaction not proceed.

- 5.8 In our assessment of the Transaction we have considered, in particular the following:
- The operational and financial position of Forge;
 - The value of Forge Securities, under various methodologies;
 - The value of Balla Balla;
 - Share trading history of Forge shares;
 - Any control premium associated with the Transaction;
 - The market value of other payments and services associated with the Transaction;
 - The advantages and disadvantages associated with approving the Transaction;
 - The likely value and liquidity of Forge shares in the absence of the acquisition.
- 5.9 The documents and information relied on for the purpose of this valuation are set out in Appendix I. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld. The information provided was evaluated through analysis, enquiry and review for the purpose of forming an opinion as to whether the Transaction is fair and reasonable. However, in assignments such as this, time is limited and we do not warrant that our enquiries have identified or verified all of the matters which an audit or extensive examination might disclose. None of these additional tasks have been undertaken.
- 5.10 We understand the accounting and other financial information that was provided to us has been prepared in accordance with generally accepted accounting principles.
- 5.11 An important part of the information used in forming an opinion of the kind expressed in this report is the opinions and judgement of management. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 5.12 HCC are not the auditors of Forge or Todd. The auditors of Forge are Hall Chadwick Chartered Accountants and Business Advisors Sydney Partnership (“HC Sydney”), who earn an estimated annual fee of \$22,000 for this audit service. The partners of HC Sydney have a 100% interest in HCC. The team working on this report are different to staff involved in the audit of Forge. HCC adopts internal procedures and structures to safeguard our independence from Forge and manage any perceived conflict of interest arising from the role of HC Sydney as auditors of Forge. We have analysed and reviewed information provided by the Directors of Todd and the directors of Forge and made further enquiries where appropriate.
- 5.13 This report has been prepared after taking into consideration the current economic and market climate. We take no responsibility for events occurring after the date of this report which may impact upon this report or which may impact upon the assumptions referred to in the report. To the extent we become aware of a material change in circumstances since the date of our report, we will issue a supplementary report at the request of Forge if so required.

6 ADDITIONAL BACKGROUND INFORMATION

6.1 In addition to the information contained in section 2, we provide the following background regarding the Transaction.

Conditions precedent

6.2 Conditions precedent to completion of the Transaction as defined in the agreement include the following:

- a) Forge Shareholders approving all of the Forge Shareholder Resolutions relating to the Transaction by the required majorities;
- b) Australian Foreign Investment Review Board (FIRB) approval:
 - (i) FIRB approval to allow Todd and its related bodies corporate to undertake the Proposed Transaction; and
 - (ii) FIRB approval to allow Forge to undertake the Balla Balla acquisition (note: such approval is required because Forge will become a 'foreign person' if any foreign person acquires more than 15% of the Shares, which will occur as Todd will acquire an approximate 19.9% shareholding interest on completion of the Proposed Transaction);
- c) either:
 - (i) the purchase agreement between Forge Resources Swan and Atlas Iron for the proposed acquisition of the Balla Balla assets being partially novated so that Todd JV Partner can acquire directly from Atlas Iron a 25% interest in the Balla Balla project; or
 - (ii) Forge Resources Swan and Todd JV Partner reaching an agreement under which Forge Swan will after acquiring 100% of the Balla Balla assets on-sell a 25% interest to Todd JV Partner;
- d) receipt of other third party approvals, including consent from Atlas Iron and Ministerial consent in Western Australia for the transfer to Todd JV Partner of a 25% interest in the Balla Balla project (note: such Ministerial consent has been received); and
- e) as at the date the other conditions precedent have been satisfied or waived:
 - (i) all conditions precedent to completion under the sale and purchase agreement for the Balla Balla acquisition have been satisfied or waived (excluding the condition precedent that Forge has received net proceeds from a capital raising in an amount other than \$15 million); and
 - (ii) the purchase agreement for the Balla Balla acquisition has not been terminated.

Shares to Mr Curtis

6.3 Mr Curtis (Forge's Non-Executive Chairman) was the holder of 24,000,000 non-voting performance shares issued in the capital of Forge ("Performance Shares"). The Performance Shares were issued on or about 21 September 2010 (being the date that Forge listed on the ASX) pursuant to Forge's initial public offering prospectus ("IPO Prospectus"). They were issued to Mr Curtis in order to attract his services to Forge and to provide sufficient incentive for him to create shareholder value. Separately, Mr Curtis is the holder of 4.25 million fully paid ordinary shares in Forge at the date of this report,

of which 4 million was acquired at initial public offering where one option was issued for every three shares acquired (totalling 1,333,334 of the options currently on issue).

- 6.4 The following information has been provided by Forge on Mr Curtis' background and experience:

Mr Curtis has gained extensive industry knowledge from his early career as a banker to the resources industry and from his time spent as the President and Chief Executive Officer of Sino Mining International Limited, which he established in 1996. Sino Mining International Limited was then a wholly-owned subsidiary of China National Nonferrous Metals Industry Corporation ("CNNC"), a large Chinese trading company. Following disbandment of CNNC, Nicholas established Sino Mining Limited, which became Sino Gold Mining Limited ("**Sino Gold**") and was the Chairman until November 2005. Sino Gold was an Australian public company, also listed on the Hong Kong Stock Exchange, with gold assets in China. Sino Gold was purchased by Eldorado Gold Corporation of Canada in December 2009.

Prior to his time with Sino Gold, Mr Curtis held the positions of Executive Director of Macquarie Bank Limited and Managing Director of Asia Resource Capital Limited, a joint venture between Macquarie Bank Limited and CNNC.

Mr Curtis also serves as Chairman of Faces in the Street Urban Mental Health Research institute at St Vincent's Hospital, Sydney. Nicholas was a Non-Executive Director of Conquest Mining Limited from 12 May 2010 to 18 October 2011 prior to the company's restructure to become Evolution Mining. From June 2004 to August 2011, Mr Curtis served as a Director of the Garvan Institute of Medical Research and from August 2004 to October 2009 he was Chairman of the Board of St Vincent's & Mater Health Sydney Limited. In addition, he served as a Director of St Vincent's Health Australia Ltd and St Vincent's Healthcare Ltd from 1 June 2004 to 1 October 2010.

On 13 June 2011, Mr Curtis was awarded an AM (Member of the Order) for his services to the community through executive roles supporting medical research and healthcare organisations and also for his work fostering Australia-China relations.

- 6.5 The Performance Shares were issued on the following key terms:
- No voting rights or dividend entitlements;
 - Conversion into 24,000,000 Shares if either one of Forge's existing projects, or a project acquired after Forge's ASX listing on 21 September 2010, is identified as having a JORC compliant resource which supports a successful capital raising of at least \$15,000,000 at a price not less than \$0.35 per Share and the Company completing such a capital raising ("Milestone");
 - Expiry Date of 21 March 2012; and
 - if the Milestone is not achieved by the Expiry Date, then all of the Performance Shares will expire.
- 6.6 Notwithstanding that the Expiry Date of the Performance Shares has passed, the Board of Forge (excluding Mr Curtis) is of the opinion that the entry into definitive documentation for the Transaction substantially satisfied the performance milestones, for the following reasons:

- the fact that, as previously announced to the ASX, Forge now has a JORC compliant resource in the form of its Eucla West Mineral Sand Project tenements (and the Balla Balla Project which Forge proposes to acquire also has a JORC compliant resource attached to it); and
- the fact that, to date, an aggregate of \$2.5 million in share capital has been raised, at issue prices of more than \$0.35 per Share, to be expended on the Eucla West Mineral Sand Project, and that a further \$12.5 million of share capital will be raised under the Transaction, at an issue price of more than \$0.35 per Share, to be used to acquire the Balla Balla project and to further develop the Eucla West Mineral Sand Project.

6.7 However, under the terms of the Performance Shares, if the Milestone was not achieved by the Expiry Date of 21 March 2012 then on that date all of the Performance Shares were to expire. The Transaction, including the acquisition of Balla Balla and the Placement, will satisfy the requirements for the conversion of these Performance Shares, although these Milestones will be met after the expiry date of the performance milestones of 21 March 2012. A resolution is being put to Forge Shareholders to approve the issue of 24,000,000 Shares to Mr Curtis, consistent with the Performance Shares issued to Mr Curtis, as Todd have indicated that a key consideration for Todd in making and proceeding with its investment in Forge is that Mr Curtis be Chairman of Forge and be appropriately incentivised to oversee the development of the Balla Balla project.

7. OVERVIEW OF FORGE

7.1 Corporate History

- 7.1.1 Forge was formed on 8 October 2009 specifically to acquire mineral and energy related assets in Australia and overseas. The Company's strategy was to identify and acquire mineral and energy exploration assets and raise capital to develop them.
- 7.1.2 The Company entered into an agreement on 13 May 2010 for the acquisition of the New South Wales based exploration resource assets of Australian-American Mining Corporation NL for 3m shares in Forge. These assets are considered to be prospective for base metals and gold. This agreement was subject to a number of conditions precedent including a capital raising of \$3.8m and successful listing on ASX.
- 7.1.3 The Company lodged a Prospectus with ASIC on 30 July 2010 and on 17 September 2010 completed a capital raising of \$3.8m through the issue of 19m shares at \$0.20 each together with one free attaching option for every three shares subscribed for.
- 7.1.4 The Company completed the agreement with Australian-American Mining Corporation NL on the 17 September 2010 and its securities commenced trading on the ASX on 23 September 2010.

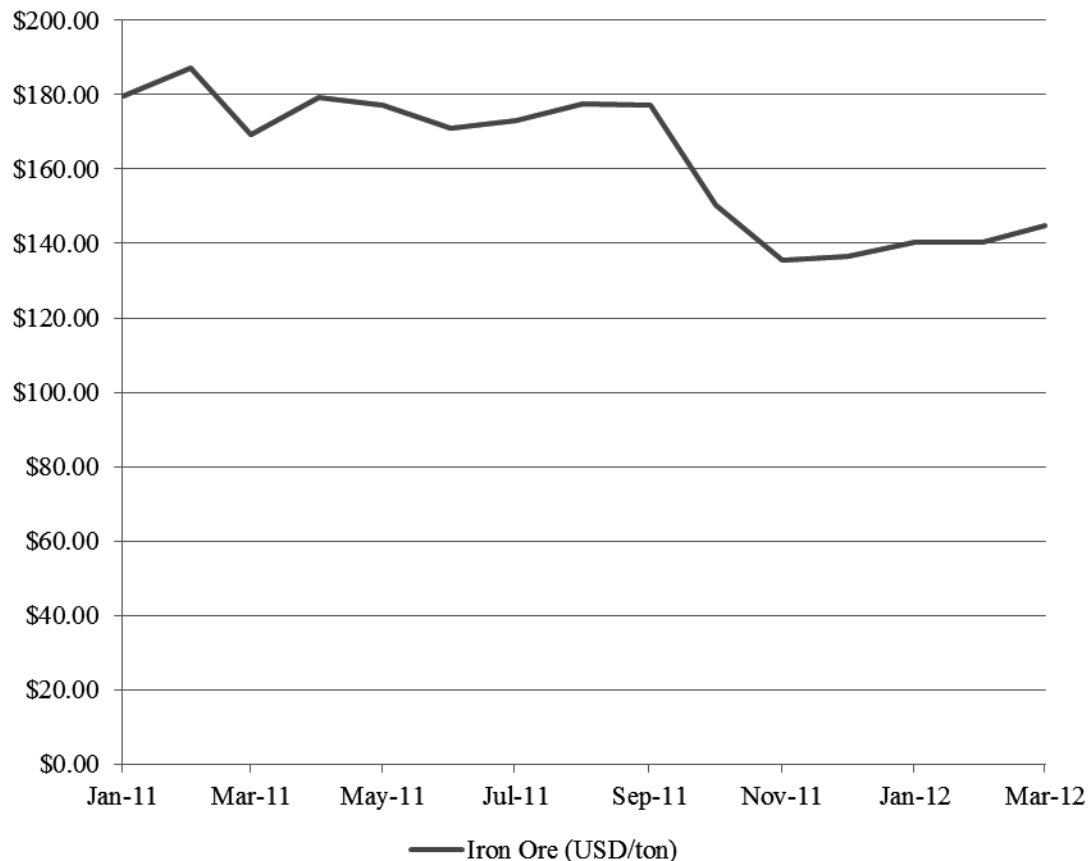
7.2 Current Activities

- 7.2.1 Forge is currently farming in to a mineral sands exploration project within the Eucla Basin. The Eucla West Project consists of three contiguous granted exploration licences located approximately 45km west of the Balladonia roadhouse, on the Eyre Highway in Western Australia. The project was proven to host significant heavy mineral sand occurrences in 2009 as a result of wide spaced reconnaissance drilling.
- 7.2.2 Forge announced on 6 February 2012 a maiden JORC compliant heavy mineral ("HM") resource estimate of 470 million tonnes @ 4.6% HM for the McLaren Heavy Mineral Sands Deposit within the Eucla West Mineral Sand Project tenements. The data from the Geological resource estimation indicates that potential additions to the resource can be achieved with both infill and extensional drilling, which is scheduled for the March 2012 quarter.
- 7.2.3 Forge is also advancing the exploration and development of its prospective gold and base metal projects located in New South Wales.
- 7.2.4 Further information on Forge's current exploration activities are disclosed in the Company's December 2011 quarterly report and other announcements released to the market.

7.3 Balla Balla

- 7.3.1 Forge has signed binding documentation with Atlas for the acquisition of the Balla Balla Magnetite, Vanadium and Titanium Project (“Balla Balla”) for \$40 million plus a capped royalty payment structure based on tonnage sold.
- 7.3.2 Royalty payments to Atlas will include:
- a. 4% royalty on revenue, after government taxes and royalties, from the initial 5,500,000 tonnes of contained Fe within magnetite concentrate sales and 200,000 tonnes of contained TiO₂ within ilmenite sales.
 - b. On completion of the 4% royalty tonnages the royalty shall drop to 1% of revenue, after government taxes and royalties, on remaining tonnages up to a total of 36,000,000 tonnes of contained Fe within magnetite concentrate sales and 1,200,000 tonnes of contained TiO₂ within ilmenite sales.
- 7.3.3 Forge has since been in negotiations to secure the necessary funding to complete the entire Balla Balla purchase in a single payment. Forge has agreed terms with Atlas to extend the deadline for satisfying the conditions precedent to the SPA to 30 April 2012, subject to Forge paying Atlas in full together with a non-refundable deposit of \$500,000.
- 7.3.4 Balla Balla contains a large scale JORC compliant *resource* of 456 million tonnes at 45% Fe (iron), 0.64% V₂O₅ (vanadium oxide) and 13.7% TiO₂ (titanium dioxide) located on granted mining tenements close to the Pilbara coast in Western Australia, 120km south west of Port Hedland.
- 7.3.5 The JORC compliant *reserves* for Balla Balla as at January 2010 totalled 229 million tonnes. As defined in the JORC Code, A ‘*Resource*’ is that portion of a deposit in such form and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, quality, geological characteristics and continuity of a Resource are known, estimated or interpreted from specific geological evidence and knowledge. Resources are subdivided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories. A ‘*Reserve*’ is the economically mineable part of a Measured or Indicated Resource.
- 7.3.6 Forge has advised that mining tenements and major approvals have been granted, and water and conditional gas agreements are in place.
- 7.3.7 Forge has advised that a Definitive Feasibility Study was completed in February 2010 indicating robust project economics, based on an onsite processing plant with a phased production process starting at Phase 1 capacity of 6,000,000 tonne per annum (tpa) of Magnetite concentrate and 280,000 tpa of Ilmenite concentrate.
- 7.3.8 As detailed in the Company’s announcement on 16 December 2011, the opportunities identified by Forge for the Balla Balla project include:
- i) Advanced nature of project with low technical and resource risk;
 - ii) Compelling economics driven by low operating costs for magnetite production;
 - iii) Competitive advantage for steel mill customers; and
 - iv) Growth in demand for magnetite (titanium and vanadium) by steel mills.

7.3.9 We have assessed industry research and determined the outlook for magnetite, titanium and vanadium as positive in the medium term. Demand for magnetite iron ore is underpinned by the reliance of Chinese steel producers on magnetite as a key input. Since 2000, steel production has grown annually at almost 18% per annum. A gradual depletion of high grade hematite iron ore in recent years has resulted in an increasing number of steel mills incorporating magnetite in their production process, further strengthening demand. While prices have depreciated to levels similar to one year ago, the longer term outlook for iron ore remains robust. The following chart illustrates the movement in iron ore prices from around US\$180 per ton to near USD\$140 in recent months.



Monthly prices of China import Iron Ore Fines 62% FE spot (CFR Tianjin port), at United States dollars per metric ton

Source: *International Monetary Fund*

7.3.10 Titanium prices are expected to rise substantially in the next 3-4 years, as the shortfall between supply and demand is forecast to reach 1 million tonnes by 2015. Increasing affluence of the China market is leading to a significant increase in demand for titanium. Increasing demand for both titanium and vanadium are also driven by improvements in steel standards in China, requiring alloys of higher specifications which utilise such metals in production. The ability to process metallic ores of the type expected to be produced from the Balla Balla project is also increasingly attractive to steel mill customers, who gain competitive advantages through the production of higher quality steel products, or alternatively derive additional revenues from the sale of titanium and vanadium as by products.

7.4 Capital Structure

7.4.1 Forge has the following securities on issue as at the date of this report:

- 31,577,667 ordinary shares, of which 27,652,667 are quoted on the ASX with the balance subject to ASX escrow;
- 19,855,905 options expiring 31 July 2014 with an exercise price of \$0.20, of which 6,547,573 are quoted on the ASX with the balance subject to ASX escrow;
- 600,000 unlisted options expiring 15 June 2015 with an exercise price of \$0.67;
- 4,500,000 unlisted options expiring 1 December 2015 with an exercise price of \$0.54;
- 24,000,000 non-voting performance shares.

7.4.2 In the six months to 31 December 2011 Forge raised a total of \$2.5 million in capital from the issue of 5 million ordinary shares at a price of \$0.50 per share. These shares are included in the issued capital summary above.

7.5 Financial Information

7.5.1 For the financial year ended 30 June 2011 Forge earned revenue totalling \$727,566 and made a loss after income tax of \$1,780,818, inclusive of a non-cash \$1,315,200 share based payment.

7.5.2 Set out below is the Audited Consolidated Profit and Loss Statements of Forge for the financial years ended 30 June 2010 ("FY 2010") and 30 June 2011 ("FY 2011").

CONSOLIDATED PROFIT AND LOSS STATEMENT

	FY 2011	FY 2010
Revenue	<u>727,566</u>	<u>1,135</u>
Consulting expenses	(524,486)	(6,750)
Professional fees	(46,989)	(15,000)
Legal fees	(367,125)	(28,000)
Employee benefits expense	(19,783)	
Occupancy expenses	(54,796)	
Directors remuneration	(100,167)	
Share based payments	(1,315,200)	
Equity based compensation	(1,887)	
Depreciation and amortisation	(1,665)	
Other expenses	<u>(76,286)</u>	<u>(5,015)</u>
Loss before income tax	<u>(1,780,818)</u>	<u>(53,630)</u>
Income tax expense	-	-
Net loss after income tax expense	<u>(1,780,818)</u>	<u>(53,630)</u>

7.5.3 Forge's reviewed half year results for the six month period ended 31 December 2011 were released on 14 March 2012. A loss before income tax of \$1,295,108 was incurred for this period after revenue of \$77,745.

- 7.5.4 As at 30 June 2011 Forge had net assets of \$3,714,270, predominantly consisting of cash totalling \$2,923,991 and capitalised exploration and evaluation expenditure of \$813,622.
- 7.5.5 Cash assets disclosed in the lodged Appendix 5B (mining exploration entity quarterly report) as at 31 December 2011 totalled \$3,678,000. In this six month period, net cash *outflows* from operations totalled \$1,594,000, comprising predominantly administration expenses (\$1,231,000) and exploration payments (\$427,000). Proceeds from the issue of shares totalled \$2,500,000 for the six months to 31 December 2011.
- 7.5.6 Set out below is the Reviewed Consolidated Balance Sheet of Forge as at 31 December 2011.

CONSOLIDATED BALANCE SHEET	
As at 31 December 2011	
<u>CURRENT ASSETS</u>	
Cash and cash equivalents	3,678,137
Trade and other receivables	122,531
Other current assets	22,195
	<u>3,822,683</u>
<u>NON-CURRENT ASSETS</u>	
Plant & equipment	19,273
Exploration and evaluation expenditure	1,866,104
Other non-current assets	126,095
	<u>2,011,472</u>
TOTAL ASSETS	<u>5,834,335</u>
<u>CURRENT LIABILITIES</u>	
Trade and other payables	312,558
Short-term provisions	17,344
	<u>329,902</u>
TOTAL LIABILITIES	<u>329,902</u>
NET ASSETS	<u>5,504,433</u>
<u>EQUITY</u>	
Issued capital	8,395,506
Reserves	238,483
Accumulated losses	(3,129,556)
TOTAL EQUITY	<u>5,504,433</u>

7.6 Company Announcements

7.6.1 The following ASX announcements have been released by Forge in the last six months:

<u>Date</u>	<u>Headline</u>	<u>Pages</u>
19/03/2012	Forge Secures JV Partner For Balla Balla Project	5
15/03/2012	Trading Halt	2
14/03/2012	Half Yearly Report and Accounts	26
21/02/2012	Balla Balla Project Update	2
21/02/2012	Proxy Form	2
21/02/2012	Notice of Meeting	5
17/02/2012	CMY:High Grade Gold, Silver, Zinc Hits in Drilling, Mayfield	11
06/02/2012	Maiden JORC Resource Eucla West Project	6
30/01/2012	Quarterly Activities and Cashflow Report	26
03/01/2012	CMY: Exploration Progress Report	1
22/12/2011	Change of Director's Interest Notice	3
19/12/2011	Notice of Initial Substantial Shareholder	2
16/12/2011	S708A(5)(e) Notice	1
16/12/2011	Appendix 3B	8
16/12/2011	Eucla West Project Update	6
16/12/2011	AGO: Atlas agrees to sell Balla Balla to Forge for \$40mil	2
16/12/2011	Forge to Purchase Balla Balla Project from Atlas Iron	10
05/12/2011	Drilling Commences at Mayfield Prospect	2
02/12/2011	Appendix 3B	8
01/12/2011	Encouraging Drill Results Jerangle Prospect	4
24/11/2011	2011 AGM Results	2
03/11/2011	Proxy Form 2011 AGM	4
01/11/2011	Final Director's Interest Notice	2
31/10/2011	Resignation of Director	1
31/10/2011	Quarterly Activities/Cashflow Report	22
26/10/2011	Notice of Annual General Meeting	25
20/10/2011	Results of Extraordinary General Meeting	1
20/10/2011	EGM Presentation	20
14/10/2011	Appendix 3B	9
10/10/2011	Eucla West Mineral Sands Drilling Campaign Update	3
05/10/2011	Change of Director's Interest Notice	2
30/09/2011	Amended Annual Report	52
29/09/2011	Annual Report to shareholders	52
29/09/2011	Forge moves to Farmin on Eucla Basin Project	3
23/09/2011	Extension of Due Diligence Period - Eucla Basin Project	1
21/09/2011	Notice of Extraordinary General Meeting/Proxy Form	10
20/09/2011	Section 708A (5)(e) Notice	1
19/09/2011	Appendix 3B	8
13/09/2011	Secures Option for Eucla Basin Mineral Sands Project	8

<u>Date</u>	<u>Headline</u>	<u>Pages</u>
13/09/2011	Forge Secures \$2.5M Capital Raising	2
12/09/2011	IBG: Captains Flat Joint Venture Exploration Update	3
12/09/2011	Trading Halt	2

8. VALUATION METHODOLOGIES

8.1 Selection of Methodology

8.1.1 In order to assess the fairness of the Transaction a value needs to be attributed to Forge Securities, Balla Balla assets being purchased and sold, and consideration being paid.

8.1.2 In assessing the value of Forge we have considered a range of valuation methods. ASIC Regulatory Guide 111 *Content of Expert Reports* states that in valuing a company the expert should consider the following commonly used valuation methodologies:

- Market Value of Shares: the quoted price for listed securities in a liquid and active market;
- Capitalisation of Future Maintainable Earnings: the value of trading operations based on the capitalisation of future maintainable earnings;
- Discounted Cash Flow: the net present value of future cash flows;
- Realisation of Assets: the amount that would be available for distribution to security holders on an orderly realisation of assets;
- Comparable Market Transactions: the identification of comparable sale transactions.

We consider each of these valuation methodologies below.

8.1.3 *Market Value of Shares as Quoted on the ASX*

This method involves the valuation of an entity based on its actively traded equities, which represent the market capitalisation of the share capital of the entity, in a liquid and knowledgeable market.

Any assessment of the market value of the quoted equities needs to consider the following:

- The liquidity of the quoted equity based on the volume and frequency of trading;
- The number of ‘unusual’ and/or ‘abnormal’ trades that occur; and
- The timing and level of dissemination of information to the market.

If a quoted ordinary equity is traded in an active, liquid and knowledgeable market, then the market price of the quoted ordinary equity should represent the ‘fair’ market value of the quoted ordinary equity.

A premium may also need to be applied to the value of the quoted ordinary equity to determine the value of the equity holding in the circumstances where a party is acquiring or increasing a controlling equity position.

We consider that adopting a market value of shares methodology to determine an indicative value of Forge is appropriate as it reflects all publicly available information on the company and therefore we believe it is a reliable reflection of the current value of Forge shares.

8.1.4 *Capitalisation of Future Maintainable Earnings*

Under the earnings based valuation method, the value of the business is determined by capitalising the estimated future maintainable earnings of the business at an appropriate capitalisation rate or multiplier of earnings. The multiple is a coefficient, representing the risk that the business may not achieve projected earnings.

This method is appropriate in valuing a business when there is a history of earnings, the business is established and it is assumed the earnings are sufficiently stable to be indicative of ongoing earnings potential.

This method is not considered to be appropriate for the valuation of Forge because Forge is still in its exploration and development stage of operations and is not yet trading at a profit.

8.1.5 *Discounted Cash Flow – Net Present Value*

Discounted cash flow valuations involve calculating the value of a business on the basis of the net cash flows that will be generated from the business over its life. The cash flows are discounted to reflect the time value of money and the risk involved with achieving the forecast cash flows. A terminal value at the end of the forecast period is then determined and that value is also discounted back to the valuation date to give an overall value of the business.

Although the discounted cash flow approach relies on the availability of long-term earnings and cash flow forecasts, it is particularly suited to situations where cash flows are not stable or where significant cash outflows will be incurred prior to cash inflows being earned. The forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operational cycle for more cyclical industries.

The future profits of Forge are dependent on the successful exploration and development of its mining interests. Directors have advised that at this stage they are unable to provide reliable cash flow forecasts on which to base a valuation and a cash flow valuation approach is not appropriate.

8.1.6 *Realisation of Assets*

The net assets or cost based approach to value is based on the assumption that the value of all assets (tangible and intangible) less the value of all liabilities should equal the value of the entity. The net asset value is determined by nominating every asset and liability on and off the company's balance sheet to current market values.

This approach is generally not appropriate where assets are employed productively and are earning more than the cost of capital. It is often used as a cross check to assess the relative riskiness of the business.

As Forge is predominantly a revenue based business, the book value of the assets are not representative of the inherent value of the business. The business operated by Forge is based on exploration assets, the value of which may change significantly as exploration

and evaluation activities progress. Hence, the valuation of net assets may not be representative of the value of a mining exploration business such as Forge. We did not consider it necessary to conduct a valuation of mining exploration assets for the purposes of this report and accordingly have not engaged a geological expert to conduct such a valuation. These reasons include:

- i. Forge – As its assets, including the Eucla West Mineral Sands project and the New South Wales based gold and base metals projects such as Mayfield, are still at an exploration phase a mining valuation would be subject to many varying assumptions. Such exploration projects have not reached a stage where pre-feasibility studies or definitive feasibility studies have been undertaken in respect of any potential resource. It is therefore considered that a market priced valuation would be likely to be more correct.
- ii. Balla Balla – As the asset is being purchased for cash consideration by independent parties it was considered that this price would be the most correct valuation. While the project has progressed beyond the exploration stage with JORC-compliant resources and a draft feasibility study (“DFS”) completed, it remains at an early stage of development, thus any analysis remains subject to many varying assumptions. Additional work will be required to update the DFS for current pricing of required inputs and consideration of commercial issues, including access to transport infrastructure and government approvals. A market-based valuation is considered more appropriate than a geological expert given the number of variables.

As at 31 December 2011 Forge had net assets of \$5,504,433, predominantly cash of \$3,678,137 and capitalised exploration and evaluation expenditure of \$1,866,104. On an undiluted basis this equates to a value per share of \$0.17, considerably below the current market price of the Forge shares. Accordingly a net asset valuation approach is not appropriate.

As the agreement to acquire Balla Balla from Atlas has only recently been executed, the SPA terms comprising a \$40 million purchase price plus a capped royalty payment structure based on tonnage sold (as detailed in section 7.3) should reflect its current market value. The acquisition of Balla Balla has been announced to the market, therefore it is also arguable that the market value of the Forge shares should reflect this information. Further, the price paid by Atlas itself in August 2010 to acquire the Balla Balla assets is publicly-available information and represents the market value at the time, when a value of between \$60 million and \$80 million was attributed to the project.

Based on the information above, we consider the amounts agreed to be paid by Forge for 100% of Balla Balla, and amounts agreed for the sale of 25% of Balla Balla, represent reasonable arms length market values at the present time.

8.1.7 *Comparable Market Transactions*

This methodology involves the identification of comparable sale transactions to a similar industry company or business to that being valued.

We have determined that this method is not considered appropriate for valuing Forge due to the following:

- iii. Lack of historical or current earnings as a basis for applying a multiple of revenues or earnings;
- iv. Lack of proven resources to allow a comparison to occur;
- v. There are other more appropriate methods available.

Although we have not selected this method as our primary valuation method, we have used a comparison for Atlas against the Balla Balla asset

8.2 Valuation of Options

The Black-Scholes formula is commonly used for assessing the value of options over shares. HCC has selected this as the preferred method as it takes into account the key parameters effecting the option valuation.

The Black-Scholes formula is as follows:

$$P_o = P_s N(d_1) - \frac{EN(d_2)}{(1+r)^t}$$

$$d_1 = \frac{\log(P_s / (E/(1+r)^t)) + (q\sqrt{t})/2}{q\sqrt{t}}$$

$$d_2 = d_1 - q\sqrt{t}$$

where:

P_o	=	the current value of the option
P_s	=	the current price of the share
E	=	the exercise price of the option
t	=	the time remaining before expiration (in years)
r	=	the continuously compounded risk free rate of interest
q	=	an estimate of the standard deviation of the continuously compounded annual rate of return on the shares
$N(d_1) \text{ \& } N(d_2)$	=	the probability that a deviation less than d will occur in a normal distribution with a mean of zero and a standard deviation of one.

The assumptions underlying the Black-Scholes formula are as follows:

- the underlying share pays no dividends during the life of the option;
- the option can only be exercised on the expiration date;
- there are no margin requirements, taxes or transaction costs;
- the risk-free interest rate is constant over time and the market operates continuously;
- the volatility of the share is constant and is defined as the standard deviation of the share's price movement;
- short selling is permitted.

8.3 Premium for Control

8.3.1 When considering transactions involving a substantial equity holding of a company, it is appropriate to address whether a premium for control should attach to the transaction. A premium for control is the difference between the price for each share that a buyer would be prepared to pay to obtain a controlling interest in a company and the price per share that would be required to purchase a share that does not carry with it a controlling interest. In most cases, the value of a controlling interest in the shares in a company significantly exceeds the listed market value of the shares. This reflects the fact that:

- a) the owner of a controlling interest in the shares in a company obtains access to all free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder;

- b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds;
- c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company;
- d) the entity taking over the company is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

8.3.2 Our experience suggests that the premium for control (over and above the market price of the Company's shares) ranges, on average, between 20% and 35%. However, the appropriate premium for control depends on the specific circumstances and, in particular, the level of synergy benefits able to be extracted by potential acquirers and the degree of confidence about the level and achievability of potential synergies and their timing. The following table and Appendix IV provides details of control premiums paid by acquirers of iron ore companies listed on the ASX, which shows a range of implied control premiums from 20% to 36% and an average control premium of 26.7%. We believe these transactions are similar to the Forge proposed Transaction and have used it as a comparison, but have discounted it to adjust for the factors detailed in section 8.3.6.

Announcement Date	Target	Acquirer	Implied Control Premium (%)	Deal Value (AU\$m)
24/07/2006	Aztec Resources Ltd	Mount Gibson Iron Ltd	20.9	280
14/03/2008	Midwest Corporation Ltd	Sinosteel Corporation	36.0	1,068
20/08/2009	Polaris Metals NL	Mineral Resources Ltd	20.0	139
07/09/2009	Warwick Resources Ltd	Atlas Iron Ltd	26.5	49
10/03/2010	Aurox Resources Ltd	Atlas Iron Ltd	26.5	131
21/12/2010	Giralia Resources NL	Atlas Iron Ltd	30.0	984
Mean Average Premium			26.7	

- 8.3.3 The premium for control paid in takeovers is observable but caution must be exercised in assessing the value of a company or business based on the market rating of comparable companies or businesses. The premium for control is an outcome of the valuation process, not a determinant of value. Premiums are paid for reasons that vary from case to case and may be substantial due to synergy or other benefits available to the acquirer. In other situations premiums may be minimal or even zero. It is inappropriate to apply an average premium of 20-35% without having regard to the circumstances of each case. In some situations there is no premium. There are transactions where no corporate buyer is prepared to pay a price in excess of the prices paid by institutional investors through a raising.
- 8.3.4 A shareholder or group of associated shareholders are deemed to influence a company when they have control of more than 20 per cent of the issued shares in a company. At this time a premium for control should normally be considered.
- 8.3.5 A premium for control is relevant to the Transaction. It will result in Todd owning approximately 25.5% of the shareholding in Forge assuming the conversion of Options held by Todd but prior to the exercise of Options held by parties not associated with the Transaction. On a fully diluted basis, Todd's equity interest in Forge will be approximately 19.9% and they will be entitled to appoint a director to the Forge board.

The Transaction will also result in Mr Curtis owning a 35.1% interest in Forge on an undiluted basis and 27.1% on a fully diluted basis assuming the issue of options to Todd and Riverstone on completion of the Transaction and also taking into account Mr Curtis' current holding of 1,333,334 options. As a non-executive director on the board of Forge, Mr Curtis will continue to participate in and influence the strategic direction of Forge following completion of the Transaction.

- 8.3.6 We have applied a premium for control of 20% rather than up to 35% to the value of Forge shares based on the following:
- a) Neither Todd or Mr Curtis will separately obtain full control of Forge and shareholders will retain an opportunity to obtain a premium on any subsequent increase in control by either of these two parties or alternatively a sell-down to a third party;
 - b) On a fully diluted basis, assuming the conversion of all Forge options into shares, Todd will hold an interest of 19.9%, which does not constitute a controlling interest;
 - c) Todd and Mr Curtis will not control the free cash flows of Forge;
 - d) Todd and Mr Curtis will not have control over decision making regarding operational and administrative matters, although they may have the capacity to influence such decisions, based on holding two board seats in aggregate;
 - e) Forge is still in its exploration and development stage and is incurring losses, hence will require further capital raisings in the future as it is unlikely to generate sufficient cash flows to sustain its operations. It therefore may require further capital to be raised potentially changing the separate control positions of Todd and Mr Curtis;
 - f) No free cash flows are available to be extracted by obtaining any control of Forge, after allowing for capital commitments on exploration projects;
 - g) The Transaction does not give rise to synergy benefits for either Todd or Mr Curtis, as neither conducts a primary business of mining exploration and development.

As Todd and Mr Curtis are both part of this transaction, we have assessed their interests together, notwithstanding they have indicated they are not associates.

We have assessed the premium should be discounted to 20% for the reasons described above.

9 VALUE OF FORGE SECURITIES AND OTHER PAYMENTS

9.1 General

- 9.1.1 This section sets out of assessment of the value of the Forge Securities and assets being issued and sold to Todd as part of the Transaction as follows:
- a) Ordinary Shares
 - b) Options
 - c) 25% interest in Balla Balla
 - d) JV Option
 - e) Future acquisitions and disposals under Joint Venture Agreement and future disposals upon enforcement of security interests.
 - f) Top-Up Rights granted to Todd
- 9.1.2 We have selected the market value of shares as the valuation methodology for Forge shares as detailed in section 8.
- 9.1.3 We are of the opinion that a secondary valuation methodology for Forge is not required as none of the alternate methodologies are appropriate due to the fact that the exploration assets held by Forge are not currently contributing to earnings. Forge has also not commissioned any industry expert to value the assets of the Company. We have indicated in section 8.1.6 that a net asset or market approach to the value of Balla Balla is appropriate to reflect the recent market transactions conducted on arms length terms.
- 9.1.4 The Black-Scholes formula will be used to assess the value of the Options to be issued to Todd and Riverstone.

9.2 Ordinary Shares

- 9.2.1 In our opinion the value of Forge for the purpose of the Transaction should be examined on the basis of the current market value of the shares listed on the ASX, up to the date of the Transaction announcement on 19 March 2012. The market value reflects all publicly available information on the company and therefore we believe it is a reliable reflection of the current value.
- 9.2.2 Following is a graph of the trading of Forge shares over the last twelve months:



9.2.3 The announcement regarding the Transaction was made on 19 March 2012. In the last three months up to and including 16 March 2012, Forge shares have traded in the range of \$0.290 to \$0.430, with a volume weighted average price of \$0.380.

9.2.4 The table below sets out the movement of Forge share prices and trading up to and including 16 March 2012:

	Low \$	High \$	VWAP (1)	Volume	% of total shares traded
March '11	0.320	0.410	0.366	108,100	0.3%
Feb-Mar '11	0.290	0.430	0.388	905,304	2.9%
3 months	0.290	0.430	0.380	1,011,549	3.2%
6 months	0.290	0.440	0.380	2,296,454	7.3%
12 months	0.290	1.480	0.701	12,784,167	40.5%

(1) The VWAP was calculated using the total value of all transactions divided by the total trading volume in the time period considered.

9.2.5 In the one month to 16 March 2012, no trading activity occurred on eight of the 20 ASX trading days. On days where trading in Forge shares did take place within the one month period, daily volumes averaged less than 24,000 shares.

9.2.6 Although the liquidity of the share trading has been relatively low, with 40.5% of total shares on issue traded in the last 12 months, and only 3.2% traded in the first three months of 2012, the price at which the shares have traded still provides the most appropriate indication of the current market value of the shares. On most days Forge shares are traded, there is no intra-day movements in the share price. Between trading

days, small price movements of \$0.01 to \$0.03 are common where there are no significant announcements by the Company. Larger price movements are accompanied by updates from Forge on trading and operations, or the announcement of periodic reporting.

9.2.7 We conclude that the value of the Forge shares under the market value approach for the purpose of this report is in the range of **\$0.342 to \$0.418, with a VWAP of \$0.380 per share**, being the VWAP in the last three months of trading. The upper and lower end of the range reflects a 10% variance to the VWAP selected. We note this valuation is on a portfolio basis and does not reflect a premium for control. The amount of \$0.380 per share was also the last traded price on 19 December 2011, following the announcement of the Balla Balla project acquisition from Atlas.

9.2.8 Inclusive of a 20% premium for control, we conclude that the value of the Forge shares for the purpose of this report is in the range of **\$0.410 to \$0.502, with a VWAP of \$0.456 per share**. As each of Todd and Mr Curtis will obtain a controlling interest in Forge (ie. more than 20%) when the shares are issued as part of the Transaction, we have used this valuation range in valuing the Ordinary Shares.

9.3 Options

9.3.1 The Transaction includes the issue to Todd by Forge of 6,500,000 Options with a \$0.50 exercise price and two year exercise period.

9.3.2 The Commission to Riverstone also includes the issue by Forge of 1,000,000 Options with a \$0.50 exercise price and three year exercise period.

9.3.3 The assumptions underlying the Black-Scholes formula outlined in Section 8.2 above for the Options to be issued to Todd are as follows:

Ps	=	Low: \$0.342, High: \$0.418, VWAP: \$0.380 Value of Forge shares under the market value approach above
E	=	\$0.50
t	=	2 years
r	=	3.6%: 2 year Australian government bond rate for exercise period
q	=	75% (1)

1) The historical volatility of the listed FRG shares, based on the standard deviation of the continuously compounded rate of return on the shares for the prior twelve months, adjusted for the historically high volatility of the market and FRG shares in recent times, which volatility is not expected to occur to the same extent in the future. An analysis of iron ore exploration companies listed on the ASX shows that the volatility of many of these companies, some more established than others, has a mean average of 50%, as shown below:

Atlas Iron Limited	41%
Amex Resources Limited	58.5%
BC Iron Limited	34%
Brumby Resources Limited	87%
Iron Ore Holdings Limited	48.5%
Northern Iron Limited	48.5%
Red Hill Iron Limited	33%

Forge, being in its early stages of exploration and experiencing greater movement in its share value would have a higher expected share return volatility.

9.3.4 The assumptions underlying the Black-Scholes formula outlined in Section 8.2 above for the Options to be issued to Riverstone are as follows:

Ps	=	Low: \$0.342, High: \$0.418, VWAP: \$0.380
		Value of Forge shares under the market value approach above
E	=	\$0.50
t	=	3 years
r	=	3.7%: 3 year Australian government bond rate for exercise period
q	=	75% (9.3.3 Note 1)

9.3.5 Based on our analysis of Forge shares and the application of the Black Scholes formula above, we are of the opinion that the indicative valuation of the Forge options being issued pursuant to the Transaction are as follows

	Low	High	Midpoint
Options to Todd	\$0.108	\$0.156	\$0.131
Options to Riverstone	\$0.142	\$0.195	\$0.168

9.4 Conclusion on the Value of Forge Securities

9.4.1 In our opinion the value of the Forge Securities (on a per share basis) are as follows:

Security / Payment	Low	High	Midpoint	Section
	\$	\$	\$	
Ordinary Shares	0.342	0.418	0.380	9.2
Ordinary Shares (including a 20% control premium)	0.410	0.502	0.456	9.2
Options to Todd	0.108	0.156	0.131	9.3
Options to Riverstone	0.142	0.195	0.168	9.3

9.5 Balla Balla

9.5.1 As the agreement to acquire Balla Balla from Atlas was negotiated at arms length and has only recently been executed, the SPA terms inclusive of a \$40 million purchase price plus a capped royalty payment structure based on tonnage sold (as detailed in section 7.3) should reflect its current market value. Atlas and Forge entered into the agreement as unrelated, sufficiently knowledgeable parties each acting in its own interests, free from undue influence, constituting an arms length arrangement. The acquisition of Balla Balla has been announced to the market, therefore it is also arguable that the market value of the Forge shares should reflect this information. At the time the asset was acquired by Atlas in August 2010 as part of a broader transaction, a value of between \$60 million and \$80 million was attributed to the Balla Balla project and is considered the market price at the time. Atlas also had associated port capacity to export product once the Balla Balla project reaches production stage, which would be reflected in the project's value at the time, which has not been secured by Forge. Although the JORC-compliant resources and results of the draft feasibility study have remained unchanged since the acquisition by Atlas. This factor plus a reduction in iron ore prices, particularly over the past year, coupled with difficulty in raising finance for the project in depressed capital markets, has led to a reduction in market value of the Balla Balla project to \$40 million plus the royalty stream.

9.5.2 Based on the information provided, we consider the amounts agreed to be paid by Forge to Atlas for Balla Balla represent a reasonable market value for 100% of Balla Balla at the present time, of \$40,000,000. This values 25% of Balla Balla being purchased by Todd at \$10,000,000, and represents a market transaction between unrelated, sufficiently knowledgeable parties each acting in its own interests, free from undue influence. We have ignored the effect of the sale of a minority interest, which would typically be at a lower value, as Todd are obtaining a degree of control over Forge and the 75% interest in Balla Balla to be retained by Forge.

9.6 JV Option

9.6.1 The Loan and accrued interest at 15% p.a. at the end of the initial two year period totals approximately \$36,368,750. Under the terms of the JV Option Todd has the ability to acquire from Forge an additional 7.5% interest in the unincorporated joint venture for Balla Balla for a purchase price of \$36,400,000 The JV Option will expire on the earliest of:

- i. project finance being obtained and drawn for Balla Balla; or
- ii. the repayment date of the Loan; or
- iii. the end of 10 years.

9.6.2 The 7.5% interest Todd is able to acquire in Balla Balla for \$36,400,000 has been determined based on arms length negotiations between Forge and Todd, and consideration by both parties of the likely net present value of Balla Balla under certain resource and pricing assumptions. We have assessed that this arrangement has been conducted at arms length and therefore represents a reasonable market value for the additional interest in Balla Balla Todd may choose to acquire.

9.6.3 We have used the Black –Scholes formula outlined in Section 8.2 to value the option for the additional interest in Balla Balla Todd may choose to acquire.

9.6.4 The assumptions underlying the Black-Scholes formula are as follows:

Ps	=	\$3,000,000 (7.5% of \$40,000,000, being the current value of Balla Balla)
E	=	\$36,400,000
t	=	10 years (maximum JV Option term)
r	=	3.6%: 2 year Australian government bond rate for exercise period
q	=	75% (as per 9.3.2 note 1)

9.6.5 Based on the above analysis and the application of the Black Scholes formula above, we are of the opinion that the indicative valuation of the option for the additional 7.5% interest in Balla Balla Todd may choose to acquire is **\$1,364,836**.

9.7 Potential Future Acquisitions

9.7.1 Under the joint venture and loan security documents which Forge and Todd propose to enter into (including the Joint Venture Agreement), there are various situations in which Forge or Todd could, in the future, acquire from each other additional direct or indirect

interests in the Balla Balla project (the “Potential Future Acquisitions”). In summary, the Potential Future Acquisitions are as follows.

1) *Enforcement of loan security documents*

The Loan will be secured by security interests over Forge's ownership interests in the Balla Balla project as set out in a General Security Deed. In summary, Todd will have security interests over the shares in the Forge subsidiary which will hold the Forge group's interests in the Balla Balla project, and will also have security interests over that Forge subsidiary's interests in the assets and tenements of Balla Balla. Potential Future Acquisitions by Todd may arise from the enforcement of those security interests, such as an event of default occurring whereby Todd is entitled to enforce its security interest under the General Security Deed and/or Tenement Mortgage by (among other remedies available to a secured creditor) taking possession of, managing or selling any of the secured assets (which could include the entirety of Forge's ownership interests in the Balla Balla joint venture). Todd would also be entitled to appoint a receiver, or receiver and manager, to exercise Todd's powers of enforcement under the security interest documents.

2) *Acquisitions under the Joint Venture Agreement*

Under a proposed Joint Venture Agreement, Forge and Todd will operate the Balla Balla project as an unincorporated joint venture, with Forge to have an initial 75% interest and Todd to have an initial 25% interest. Forge is to be appointed as manager of the joint venture. Each joint venture partner will have an obligation to fund joint venture expenditure, and a right to receive product from the Balla Balla project, in proportion to their respective joint venture interests, with the exception of any phosphate project on the tenements, whereby the joint venture partners will each have a 50% interest. The Joint Venture Agreement contemplates various circumstances in which one joint venture partner could sell all or part of their interest in the joint venture to the other. In summary, the circumstances are as follows.

- a) Rights of pre-emption: Where a joint venturer (the *Selling Party*) proposes to sell all or part of its joint venture interest to a third party for consideration involving cash and has received a bona fide offer from a third party, the Selling Party must first offer to sell that interest to the other joint venturer on the same terms. The other joint venturer has 45 days, from the date of receiving the offer, within which to accept that offer.
- b) Change of control or less than minimum interest: Where a joint venturer ceases to be a subsidiary of its ultimate holding company or has less than a 7.5% interest in the joint venture (in each case the *First Party*), the other joint venturer (the *Other Party*) is entitled to purchase the entire interest which the First Party has in the joint venture. The Other Party can initiate this right by causing the First Party to make a deemed sale offer. The purchase price for the First Party's joint venture interest will be a fair market price as determined by an independent expert (such expert to be one nominated by the Institute of Arbitrators & Mediators Australia), unless the circumstances of the transaction are such that none of ASX Listing Rule 10.1, 11.1.2 or 11.2 has any potential application (in which case the price will be a fair market price agreed between the parties, with expert determination only required if the parties cannot agree the price within 30 days after the deemed sale offer is made). The Other Party has 60 days, from the date the purchase price has been agreed or determined,

within which to accept the offer. Completion is to occur within 60 days after acceptance

- c) Default: If a joint venturer has not paid any monies it is required to pay under the Joint Venture Agreement within 14 days of the due date (the *Defaulting Party*), the other joint venturer (the *Non-Defaulting Party*) may by notice to the Defaulting Party and the joint venture manager state that it wishes to purchase all (but not some only) of the Defaulting Party's interest in the joint venture (a *Buy-Out Election*). Where a Non-Defaulting Party makes a Buy-Out Election, it cannot enforce its charge under the Cross Security Deed unless the Defaulting Party suffers an insolvency event. The purchase price for the First party's joint venture interest will be a fair market price as determined by an independent expert (such expert to be one nominated by the Institute of Arbitrators & Mediators Australia), unless the circumstances of the transaction are such that none of ASX Listing Rule 10.1, 11.1.2 or 11.2 has any potential application (in which case the price will be a fair market price agreed between the parties, with expert determination only required if the parties cannot agree the price within 14 days after the Buy-Out Election is made).
- d) Sole risk proposal: The Joint Venture Agreement contains a regime whereby one joint venturer can elect to develop and mine a deposit on a sole-risk basis if the joint venturers cannot agree that the joint venture will develop and mine such deposit.
 - (A) The joint venturer who is in favour of the development of the iron ore project (which by definition excludes a phosphate project or any other project), can choose to:
 - (1) make a sole risk election in relation to the development of such projection, whereupon the other joint venturer can trigger a buy-out right which requires each joint venturer to submit a confidential offer to an independent auditor to buy all (but not part of) the other joint venturer's interest in the joint venture; or
 - (2) trigger a 'buy-out right' as described above.

Under the buy-out right regime, the joint venturer who makes the higher offer (as assessed by an independent auditor) will then purchase all of the other joint venturer's interest in the joint venture.

- (B) Where a sole risk operation is undertaken, the non-participating joint venturer can elect to participate in the sole risk operation by purchasing an interest in the operation which is equal to the joint venturer's then percentage interest in the joint venture. The purchase consideration will be a cash amount equal to three times the amount of the non-participating joint venturer's percentage share (based on its percentage interest in the joint venture) of all costs and expenses incurred by the sole risking joint venturer up to the date of the other joint venturer's purchase election.

3) *Enforcement of a cross charge*

Under a proposed Deed of Cross Security, Forge and Todd will grant security interests to the other in respect of their ownership interests in the Balla Balla joint venture. The security interest becomes enforceable if a joint venture partner fails to pay secured monies required to be paid. If that default continues for 30 days, then the non-defaulting joint venture partner may (among other remedies available to a secured creditor) enforce the security interest and take possession of, manage or sell the defaulting party's interests in the joint venture. The non-defaulting joint venture partner would also be entitled to appoint a receiver, or receiver and manager, to exercise the non-defaulting joint venture partner's powers of enforcement.

- 9.7.2 The precise terms and timing of the Potential Future Acquisitions under the Joint Venture Agreement will not be known at the time of this report. However a Potential Future Acquisition is unlikely to occur at a price less than market value or otherwise at an undervalue. In the case of an exercise of pre-emptive rights, the consideration payable for the relevant asset will be equal to the amount which a third party is willing to pay for the relevant asset, which if negotiated on an arm's-length basis would at least represent the market value of the relevant asset. In the case of a buy-out offer under a sole risk proposal, it is expected that each partner will be motivated to offer a high price in order to avoid the risk of being bought out by the other. In the case of a buy-in to a sole risk operation, the consideration will be based on cost recovery plus a premium. In all other cases, the consideration payable for the relevant asset will be equal to a fair market price to be agreed between the joint venture parties or as determined by an expert.
- 9.7.3 We understand it is the intention of Forge management to progress development of the Balla Balla project with the Transaction proceeds from Todd. It is expected to reach a stage of development which enables Forge to obtain specific project financing, in order to meet the Company's repayment obligations to Todd under the Transaction. Should the Company be unsuccessful in refinancing, or by raising additional debt or by issuing further equity to raise funds, the option of Todd to increase its holding in the Balla Balla project equates to the value of the repayments in aggregate and may be exercised. The right held by Todd to acquire all interest held by Forge in the Balla Balla project in the event of default may also be exercised.
- 9.7.4 Based on our consideration of the above, we believe that the terms under which a Potential Future Acquisition would arise are customary for joint venture arrangements and secured loan facilities of this nature, were negotiated on an arms length basis, and therefore are fair to the Non-Associated Shareholders of Forge.

9.8 Top-Up Right

- 9.8.1 The Master Agreement contains a top-up right regime under which Todd will, from the time of completion of the proposed Transaction until the Balla Balla joint venture agreement is terminated, have a right to subscribe for additional Forge shares to maintain its shareholding percentage if Forge issues additional shares to third parties other than in certain circumstances (eg. pursuant to a pro rata entitlement offer, pursuant to the exercise of existing options, or pursuant to the terms of an employee incentive plan which has been unanimously approved by directors) (the "Top-Up Right").
- 9.8.2 Under the Top-Up Right, Todd will be entitled to subscribe for the relevant number of top-up shares at the same subscription price as under the third party share issue. If the

third party share issue involves non-cash consideration and no cash price has been ascribed as the subscription price, the subscription price for top-up shares will be the 20 day VWAP of Forge shares prior to the date of announcement of the third party issue.

- 9.8.3 The Top-Up Right will apply for so long as the Todd group holds a beneficial interest in at least 10% of the Forge shares. The issue of any Forge shares under the Top-Up Right is subject to Forge having obtained from ASX a waiver of ASX Listing Rule 6.18 and all necessary regulatory approvals (including FIRB approval) and Forge shareholder approvals being obtained.
- 9.8.4 Based on our consideration of the above, we believe that the terms under which these top-up shares would be subscribed for by Todd are fair to the Non-associated Shareholders on the basis that these top-up shares would be subscribed for by Todd at the prevailing market value of the shares, or the same subscription price as under the third party share issue.

10 ADVANTAGES & DISADVANTAGES OF THE TRANSACTION

10.1 Approach to assessing Fairness and Reasonableness

HCC has followed the guidelines of ASIC Regulatory Guide 111 in assessing the fairness and reasonableness of the Transaction. In forming its conclusions in this report, HCC compared the advantages and disadvantages for Non-Associated Shareholders if the Transaction proceeds.

10.2 Advantages of the Transaction

- 10.2.1 The Transaction will provide necessary funding to complete the Balla Balla acquisition and further develop Forge's existing mining projects. Currently the existing assets of Forge are in their early exploration and development stage, including the Eucla West Mineral Sands project and various New South Wales-based gold and base metals projects. Given its limited capital it will have difficulty in creating significant value with this business model.
- 10.2.2 The Transaction may provide an opportunity for Forge shareholders to experience significant growth in the value of shares based on the earnings potential of Balla Balla and the increased market capitalisation of Forge. The size of the Balla Balla acquisition and the shares being issued as part of the Transaction and Placement should increase both the liquidity and market capitalisation of Forge, as it is more attractive to the market and institutions due to the increase in size of the business. The resulting greater market awareness of Forge projects, including Balla Balla, should improve liquidity in Forge shares from the current low levels. The business will probably require further capital raisings to develop its projects, and the likely scenario will be an increase in the number of shares on issue and consequential investor interest in Forge. Management advise they intend to raise additional capital for further development of the Balla Balla project when required, after some development expenditure is incurred. However, if Todd exercises its rights as set out in 10.3.4, further dilution of the interests of Non-Associated Shareholders may result.
- 10.2.3 The continued involvement of Mr Curtis was expressed to be critical to Todd's investment decision. Although a Non-executive Chairman of Forge, Mr Curtis plays a key role in the Company with responsibility for the strategic direction of the Company, appropriate allocation of resources to achieve these strategies, risk management and also by monitoring performance against these strategic goals. Mr Curtis assumes a key role in Forge because of the lack of executive depth in what is still currently a small organisation. The proposed issue of Shares to Mr Curtis will result in Mr Curtis being a significant Shareholder and accordingly would act as an incentive for Mr Curtis to continue his involvement with Forge. Retaining Mr Curtis as a substantial shareholder in the Company and his continued involvement in Forge is considered to be valuable in the growth and success of the Company.
- 10.2.4 In the event the Transaction is not approved, Forge will continue to rely on capital raising from smaller investors in an unattractive market to raise funds for early stage mineral development. Shareholders could hold out for a prospect of a more favourable proposal emerging, though in the current market the prospect of competing offers emerging may be unlikely. This is evident in the extensive process advisors of Forge had undertaken in canvassing interest from a variety of potential investors from fund managers to brokers, both in Australia and internationally, prior to securing the proposed investment from

Todd. Market appetite for investments in minerals exploration is muted, particularly given iron ore prices have depreciated to levels similar to one year ago due to ongoing concerns over global economic growth, despite the outlook for iron ore remaining robust in the longer term.

10.3 Disadvantages of the Transaction

- 10.3.1 An opportunity may be lost to obtain a takeover premium for the company's shares unless Todd and Mr Curtis sold their interest in Forge or subscribed for a 100% interest.
- 10.3.2 The transaction will result in the dilution of current Non-Associated shareholders ownership, where the current 31.6 million shares on issue will comprise 39.2% of total shares on issue on completion of the Transaction and Placement. If all options, including those issued in relation to the transaction are exercised and converted into ordinary shares, the proportion of current shares will be reduced to 27.9% of total shares on issue on a fully diluted basis. Further, the Top-Up Right granted to Todd to maintain its percentage interest (of 19.9% on a fully diluted basis) will enlarge the dilution effect of future capital raisings.
- 10.3.3 There may be other opportunities Forge will not be able to undertake to realise greater shareholder value if it accepts this Transaction due to the significant interest being obtained by Todd and Mr Curtis. There is a liquidity risk associated with Todd and Mr Curtis collectively holding 47% of issued capital on a fully diluted basis (55% on an undiluted basis prior to the exercise of any options), which may make the trading of shares less attractive because of the substantial holding by these two parties. This is possibly offset through the existence of a much more substantial Forge business potentially attracting greater investor interest following completion of the Transaction.
- 10.3.4 The Transaction includes the potential acquisition in the future by Todd or Forge of additional interests in the Balla Balla joint venture or project under the Joint Venture Agreement or Joint Venture Option Agreement, the granting of cross charges under a Cross Security Deed, the granting by Forge to Todd of security interests under a General Security Deed and Tenement Mortgage in connection with the Loan and provision of an unlimited guarantee. These may result in the further dilution of Forge's relevant interest in the Balla Balla joint venture. It is the intention of Forge management to progress development of the Balla Balla project with the Transaction proceeds from Todd, such that the Company may obtain project financing and meet repayment obligations under the Transaction. The option of Todd to increase its holding in the Balla Balla project equates to the value of the repayments in aggregate and may be exercised, should Forge be unsuccessful in refinancing, raising additional debt or issuing further equity to raise funds. Further, under the loan agreements, Todd holds a right to acquire all the interest still held by Forge in the Balla Balla joint venture in the event of default, although the purchase consideration would most likely be at market value. However, Forge may lose the use of this asset if this was to occur.
- 10.3.5 The significant interest in Forge obtained by Todd and Mr Curtis as a result of the Transaction may have an adverse effect on the Forge share price in the short term. There is a risk investors may apply a discounted valuation to Forge, due to a perceived change in control of the Company in favour of Todd and Mr Curtis. We consider the share price effect would be compensated by the positive effect of the greater certainty this financing provides to the Company's operations proceeding, particularly in advancing the Balla Balla project.

11 CONCLUSION AS TO FAIRNESS AND REASONABLENESS

11.1 Fairness

11.1.1 For the Transaction to be fair, the value of the consideration being paid for the Forge Securities and other assets the subject of the Transaction must be equal to or greater than the value of these Forge Securities and assets.

11.1.2 Based on the analysis contained in this report, we have summarised in the table below the indicative valuation range of the Forge Securities being issued and the payments being made by Forge, and compared this to the value of the consideration being paid for the Forge Securities. Refer to paragraph 4.4.2 for further detail on each component:

Component	Value Range			Consideration
	Low	High	Midpoint	
Shares to Todd	6,566,400	8,025,600	7,296,000	8,000,000
Options to Todd	698,781	1,010,812	850,402	-
25% of Balla Balla	10,000,000	10,000,000	10,000,000	10,000,000
JV Option	1,364,836	1,364,836	1,364,836	-
Placement	3,078,000	3,762,000	3,420,000	4,500,000
Shares to Mr Curtis	9,849,600	12,038,400	10,944,000	-
Commission - cash	1,837,500	1,837,500	1,837,500	-
Commission - Options	141,648	194,741	167,684	-
Transaction Total	33,536,765	38,233,889	35,880,422	22,500,000

11.1.3 As the value range of \$33,536,765 to \$38,233,889 attributed to Forge Securities to be issued, assets to be transferred and payments to be made the subject of the Transaction exceeds the value of consideration of \$22,500,000 to be provided by Todd and Mr Curtis, in our opinion the Transaction is **not fair**.

11.2 Reasonableness

ASIC Regulatory Guide 111 states that a transaction is reasonable if:

- The Transaction is fair; or
- Despite not being fair the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

We have concluded that the Transaction is **reasonable**. In forming our opinion we have considered the following relevant factors set out in detail at 4.5.1 and summarised below:

- a) We have also considered in 4.5.1 whether the terms of the Loan and Security interests granted to Todd are reasonable in the circumstances. We conclude the arrangements are reflective of normal project financing arrangements for mining exploration operations.
- b) The Transaction includes the potential acquisition in the future by Todd or Forge of additional interests in the Balla Balla joint venture or project under the Joint Venture Agreement or Joint Venture Option Agreement, the enforcement of cross charges under a Cross Security Deed, and from enforcement of loan security documents. The

circumstances under which these potential future acquisitions may occur are summarised in section 9.7. Based on our consideration of the details contained in section 9.7, we believe that the terms under which a potential future acquisition by Todd or Forge of additional interests in the Balla Balla joint venture would arise, are customary for joint venture arrangements and secured loan facilities of this nature and were negotiated on market terms. The majority of the potential future acquisitions would occur at arms length market values which appears to be reasonable.

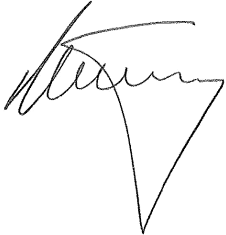
- c) The Transaction will provide necessary funding to complete the Balla Balla acquisition and further develop Forge's existing mining projects.
- d) The Transaction may provide an opportunity for Forge shareholders to experience significant growth in the value of shares based on the earnings potential of Balla Balla and the increased market capitalisation of Forge.
- e) The proposed issue of Shares to Mr Curtis will result in Mr Curtis being a significant Shareholder and accordingly an incentive to continue his involvement with Forge, which is considered valuable in the growth and success of Forge.
- f) If the Transaction is not approved by Forge shareholders, it is possible that Forge's share price may remain at current levels or decrease if Forge is not capable of raising capital to fund the development of its assets and working capital requirements.
- g) The recommending directors on the Forge Board are of the opinion that the Transaction is in the best interests of Shareholders to facilitate the strategic growth of Forge.
- h) We are unaware of any alternative proposal at the date of this report that could realise better value for Forge shareholders.
- i) In the event the Transaction is not approved, Forge will continue to rely on capital raising from smaller investors in an unattractive market to raise funds for early stage mineral development.
- j) Forge has agreed to pay Todd a reimbursement fee of \$750,000 in certain circumstances if the Transaction does not proceed.
- k) Forge does not currently generate any recurring cash flow as assets are at an exploration and development stage. In the event of default, Forge group assets might be required to be sold to meet loan obligations. However, any assets sold will be at market value consistent with the ordinary risk of a mining exploration business. Forge may also raise further capital from the markets to meet its obligations with Todd.
- l) Forge will also grant to Todd Top-Up Rights to subscribe for additional shares to maintain its percentage interest in Forge which are detailed at section 9.8. We believe that the Top-Up Rights are reasonable when considered in the context of the Non-associated Shareholders, based on our assessment at paragraph 4.5.1.

Accordingly, in our opinion, having considered the advantages of the Transaction and the alternatives to not proceeding with the Transaction, in our opinion the Non-Associated Shareholders of Forge should benefit if the Transaction proceeds and therefore, in our opinion, the Transaction is **reasonable**.

11.3 General

- Appendix I – Details the Sources of Information that were reviewed and relied on in preparing this report;
- Appendix II – Details the Qualifications and experience of HCC and of the persons involved in preparing this report which also contains declarations that form part of, and should be read in conjunction with the report;
- Appendix III – Financial Services Guide;
- Appendix IV – Implied Control Premiums

Yours faithfully
Hall Chadwick Corporate (NSW) Limited

A handwritten signature in black ink, appearing to read 'DKENNEY', written over a large, empty triangular shape.

DAVID KENNEY

APPENDIX I - SOURCES OF INFORMATION

- Forge Resources Limited Audited Financial Report for the year ended 30 June 2011;
- Forge Resources Limited Reviewed Financial Report for the half year ended 31 December 2011;
- Forge Resources Limited Quarterly Report as at 31 December 2011 and other financial reports lodged by the company with Australian Securities Exchange (ASX);
- Forge Resources Limited Notice of General Meeting and Explanatory Memorandum;
- Master Agreement dated 16 March 2012 between Forge and Todd relating to the Transaction, together with the agreed forms of the following:
 - Share Subscription Agreement;
 - Option Deed;
 - Facility Agreement;
 - General Security Deed;
 - Tenement Mortgage;
 - Joint Venture Agreement;
 - Cross Security Deed;
 - Cross Charge Priority Deed; and
 - Joint Venture Option Agreement.
- Forge share and option registry details;
- Forge share trading history;
- Company announcements, media releases, expert's reports on prior transactions, project details and industry information disclosed on the websites of Forge, Atlas and comparable companies;
- Historical corporate information and company announcements held on the Australian Securities Exchange website;
- Bureau van Dijk Zephyr database;
- Discussions with Forge Management on business operations, Transaction objectives and other matters relevant to the report.
- ASIC Regulatory Guide 74 'Acquisitions Agreed to by Shareholders';
- ASIC Regulatory Guide 76 'Related party transactions';
- ASIC Regulatory Guide 111 'Content of Expert Reports';
- ASIC Regulatory Guide 112 'Independence of Expert's Reports'; and
- APES 225 'Valuation Services'.

APPENDIX II - STATEMENT OF DECLARATION & QUALIFICATIONS

Confirmation of Independence

Prior to accepting this engagement HCC determined its independence with respect to Forge and Todd with reference to ASIC Regulatory Guide 112 (RG 112) titled “Independence of Expert’s Reports”. HCC considers that it meets the requirements of RG 112 and that it is independent of Forge and Todd.

Also, we confirm we are not aware of any business relationship or financial interest of a material nature with Forge or Todd, its related parties or associates that would compromise our impartiality.

Mr David Kenney, a director of Hall Chadwick Corporate (NSW) Limited, who is a registered company auditor, has prepared this report. Neither he nor any related entities of Hall Chadwick Corporate (NSW) Limited have any interest in the promotion of this Transaction nor will Hall Chadwick Corporate (NSW) Limited receive any benefits, other than normal professional fees, directly or indirectly, for or in connection with the preparation of this report. Our fee is not contingent upon the success or failure of the proposed transaction, and has been calculated with reference to time spent on the engagement at normal professional fee rates for work of this type. Accordingly, HCC does not have any pecuniary interests that could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion under this engagement.

HCC are not the auditors of Forge or Todd. The auditors of Forge are Hall Chadwick Chartered Accountants and Business Advisors Sydney Partnership (“HC Sydney”), who earn an estimated annual fee of \$22,000 for this audit service. The partners of HC Sydney have a 100% interest in HCC. The team working on this report are different to staff involved in the audit of Forge. HCC adopts internal procedures and structures to safeguard our independence from Forge and manage any perceived conflict of interest arising from the role of HC Sydney as auditors of Forge. We have analysed and reviewed information provided by the Directors of Todd and the directors of Forge and made further enquiries where appropriate..

HCC provided a draft copy of this report to the Directors and management of Forge for their comment as to factual accuracy, as opposed to opinions, which are the responsibility of HCC alone. Changes made to this report, as a result of the review by the Directors and management of Forge have not changed the methodology or conclusions reached by HCC.

Reliance on Information

The statements and opinions given in this report are given in good faith and in the belief that such statements and opinions are not false or misleading. In the preparation of this report HCC has relied upon information provided on the basis it was reliable and accurate. HCC has no reason to believe that any information supplied to it was false or that any material information (that a reasonable person would expect to be disclosed) has been withheld from it. HCC evaluated the information provided to it by Forge as well as other parties, through enquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base its report. Accordingly, we have taken no further steps to verify the accuracy, completeness or fairness of the data provided.

Our procedures and enquiries do not include verification work, nor constitute an audit or review in accordance with Australian Auditing Standards. HCC does not imply and it should not be construed that it has audited or in anyway verified any of the information provided to it, or that its enquiries could have verified any matter which a more extensive examination might disclose.

The sources of information that we relied upon are outlined in Appendix I of this report.

Forge has provided an indemnity to HCC for any claims arising out of any mis-statement or omission in any material or information provided by Forge to HCC in preparation of this report.

Qualifications

Hall Chadwick Corporate (NSW) Limited (“HCC”) carries on business at Level 29, St Martin’s Tower, 31 Market Street, Sydney NSW 2000. HCC holds Australian Financial Services Licence No. 227902 authorising it to provide financial product advice on securities to retail clients. HCC’s representatives are therefore qualified to provide this report.

Consent and Disclaimers

The preparation of this report has been undertaken at the request of the Directors of Forge. It also has regard to relevant ASIC Regulatory Guides. It is not intended that the report should be used for any other purpose than to be included in or accompany the Notice of General Meeting to be sent to Forge shareholders. In particular, it is not intended that this report should be used for any purpose other than as an expression of HCC’s opinion as to whether or not the Proposed Transaction is fair and reasonable. HCC consent to the issue of this report in the form and context in which it is included in or accompanies the Notice of General Meeting to be sent to Forge shareholders.

Shareholders should read all documents issued by Forge that consider the proposed Transaction in its entirety, prior to proceeding with a decision. HCC had no involvement in the preparation of these documents, with the exception of our report.

This report has been prepared specifically for the Non-associated shareholders of Forge. Neither HCC, nor any member or employee thereof undertakes responsibility to any person, other than an Non-associated shareholder of Forge, in respect of this report, including any errors or omissions howsoever caused. This report is "General Advice" and does not take into account any person's particular investment objectives, financial situation and particular needs. Before making an investment decision based on this advice, you should consider, with or without the assistance of a securities advisor, whether it is appropriate to your particular investment needs, objectives and financial circumstances.

HCC its officers, representatives, employees and agents disclaim all liability (except for any liability which by law cannot be excluded), for any error, inaccuracy in, or omission from the information contained in the documents for any loss or damage suffered by any person directly or indirectly through reliance on this information.

Our procedures and enquiries do not include verification work, nor constitute an audit or review in accordance with Australian Auditing Standards (AUS).

Our opinions are based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. Furthermore, financial markets have been particularly volatile in recent times. Accordingly, if circumstances change significantly, subsequent to the issue of the report, our conclusions and opinions may differ from those stated herein. There is no requirement for HCC to update this report for information that may become available subsequent to this date.

APPENDIX III - FINANCIAL SERVICES GUIDE

Dated 24 April 2012

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by Hall Chadwick Corporate (NSW) Limited ABN 28 080 462 488, Australian Financial Services Licence Number 227902 (HCC).

This FSG includes information about:

- HCC and how they can be contacted
- the services HCC is authorised to provide
- how HCC are paid
- any relevant associations or relationships of HCC
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that HCC has in place.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that HCC is authorised to provide

HCC holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for securities and interests in managed investment schemes, including investor directed portfolio services, to retail clients.

We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of finance products.

HCC's responsibility to you

HCC has been engaged by the independent directors of Forge Resources Limited ("Forge" or the "Client") to provide general financial product advice in the form of a Report to be included in or accompany the Notice of Meeting (Document) prepared by Forge in relation to the proposed issue of shares by Forge (the "Transaction").

You have not engaged HCC directly but have received a copy of the Report because you have been provided with a copy of the Document. HCC nor the employees of HCC are acting for any person other than the Client.

HCC is responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As HCC has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees HCC may receive

HCC charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay HCC \$35,000 (excluding GST and out of pocket expenses) for preparing the Report. HCC and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of this Report.

HCC officers and representatives receive a salary or a partnership distribution from Hall Chadwick Sydney professional advisory and accounting practice (the Hall Chadwick Sydney Partnership). Remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

HCC does not pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures HCC is controlled by and operates as part of the Hall Chadwick Sydney Partnership. HCC's directors may be partners in the Hall Chadwick Sydney Partnership. Mr David Kenney, who is a director of HCC and a partner in the Hall Chadwick Sydney Partnership, has prepared this report. The financial product advice in the Report is provided by HCC and not by the Hall Chadwick Sydney Partnership.

From time to time HCC, the Hall Chadwick Sydney Partnership and related entities (HC entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

HC entities have provided, and continue to provide, a range of audit, tax and advisory services to the Client for which professional fees are received. The auditors of Forge are Hall Chadwick Chartered Accountants and Business Advisors Sydney Partnership ("HC Sydney"), who earn an estimated annual fee of \$22,000 for this audit service. The partners of HC Sydney have a 100% interest in HCC. HCC are not the auditors of Forge or Todd. The team working on this report are different to staff involved in the audit of Forge. HCC adopts internal procedures and structures to safeguard our independence from Forge and manage any perceived conflict of interest arising from the role of HC Sydney as auditors of Forge. We have analysed and reviewed information provided by the Directors of Todd and the directors of Forge and made further enquiries where appropriate

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the Transaction.

Complaints resolution

If you have a complaint, please let HCC know. Formal complaints should be sent in writing to:
The Complaints Officer
Hall Chadwick Corporate (NSW) Limited
GPO Box 3555
Sydney NSW 2001

If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer, Drew Townsend, on 02 9263 2600 and he will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing,

External complaints resolution process

If HCC cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Financial Ombudsman Service Limited
GPO Box 3, Melbourne Victoria 3001
Telephone: 1300 78 08 06
Facsimile (03) 9613 6399
Email: info@fos.org.au

The Australian Securities and Investments Commission also has a free call infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

HCC has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact HCC at:
Hall Chadwick Corporate (NSW) Limited
GPO Box 3555
Sydney NSW 2001
Telephone: 02 9263 2600
Facsimile: 02 9263 2800

APPENDIX IV –IMPLIED CONTROL PREMIUMS OF IRON ORE TRANSACTIONS

Set out in the schedule below are details of control premiums paid by acquirers of iron ore companies listed on the ASX. While the value of the transactions vary considerably, the range of implied control premium are within the range of 20% to 36%, with an average control premium of 27.8%. All transactions listed below result in a change of control in the target entity, where control was gained by the acquirer upon completion.

Announcement Date	Target	Acquirer	Implied Control Premium (%)	Deal Value (AU\$m)	
24/07/2006	Aztec Resources Ltd	Mount Gibson Iron Ltd	20.9	280	A
14/03/2008	Midwest Corporation Ltd	Sinosteel Corporation	36.0	1,068	B
20/08/2009	Polaris Metals NL	Mineral Resources Ltd	20.0	139	C
07/09/2009	Warwick Resources Ltd	Atlas Iron Ltd	26.5	49	D
10/03/2010	Aurox Resources Ltd	Atlas Iron Ltd	26.5	131	E
21/12/2010	Giralia Resources NL	Atlas Iron Ltd	30.0	984	F
Mean Average Premium			26.7		

Notes:

A – Aztec Resources owned the Koolan Island iron ore project, located off the Kimberley coast in Western Australia, with a mineral resource of 53 million tonnes, including 22.2 Mt in ore reserves at grade of 64.6% Fe. In 2005, Aztec Resources announced the completion of a Bankable Feasibility study. At the time of the 100% acquisition by Mount Gibson Iron, production had not commenced and was forecast to produce approximately 4 Mt per annum for a mine life of nine years. Further exploration drilling was expected to provide additional resources for the project.

B – Midwest Corporation was an exploration and development company, with principal assets in three iron ore projects in the mid-west region of Western Australia. The Koolanooka/Blue Hills DSO project had a JORC mineral reserve of 8.4 million tonnes at a grade of 57.7% Fe, with an installed capacity of 1 Mt per annum at the time and expected to increase to 1.5 Mt by the end of 2008. A scoping study for the Weld Range hematite project, with a JORC mineral resource of 133.4 Mt at an average grade of 58.5% Fe, was completed in early 2007 and a pre-feasibility study scheduled for completion in the third quarter of 2008. The Koolanooka Magnetite project had a JORC mineral resource of 430 Mt at 35% Fe, for which a scoping study was completed in 2006 and further metallurgical test work was in progress as the time of the 100% acquisition by Sinosteel was announced.

C – Polaris acquired iron ore assets of Heron Resources Limited in 2006 and was focused on exploration and development of such assets, located in the Southern Cross region of the Eastern Goldfields area in Western Australia. Its key asset was the Yilgarn iron ore project, which had a JORC indicated and inferred resource of 27.7 Mt at an average grade of 58.9% Fe. Other nearby deposits of Bungalbin East, J4 and J5 were considered by Polaris to have potential for over 100 Mt of mineralisation at the time. Mineral Resources Limited acquired 100% of Polaris as a result of the transaction.

D – Warwick was an iron ore explorer focused on the Pilbara region of Western Australia at the time of the 100% acquisition by Atlas. It holds JORC inferred resources in two projects: 12.6 Mt at a grade of 57.5% Fe from the Jimblebar Range project, and 13.8 Mt at a grade of 53.9% Fe in the Caramulla South project. Warwick also holds tenements in the Woggaginna, Jigalong and Western Creek exploration projects, where drilling is at various stages of progress. While such activities have been insufficient to define a Mineral Resource at the time of the acquisition, Warwick is targeting between 113 and 221 Mt from the three projects.

E – Aurox held the Balla Balla project as its major asset, which had a mineral resource of 456 Mt at 45% Fe, as announced to the market in June 2010. It has performed drilling at two other early stage exploration projects for copper, gold and iron ore, known as the Yalgoo Project and Indee Southwest Project, however Aurox had not defined any resource on such projects at the time of the 100% acquisition by Atlas.

F – Giralia was an iron ore exploration company with principal assets located in the North Pilbara region of Western Australia at the time of the 100% acquisition by Atlas. It fully owned the McPhee Creek DSO Project, with Indicated Resources of 65.3 Mt at a grade of 56.3% Fe and Inferred Resources of 194.7 Mt at a grade of 56.2% Fe. Giralia owned a 75% interest in the Daltons joint venture, where Indicated Resources of 28.9 Mt at a grade of 57.9% Fe and Inferred Resources of 6.2 Mt at a grade of 54.1% Fe were identified at the time of the acquisition. It also holds a number of iron ore assets including the Marra Mamba (Inferred Resource of 52.4 Mt at 56.7% Fe), Anthiby Well channel iron deposits (Inferred Resource of 37.6 Mt at 53.6% Fe), the Beebyn hematite asset (Inferred Resource of 7.2 Mt at 57.2% Fe) and the Yerecoin magnetite asset (Inferred Resource of 186.8 Mt at 30.9% Fe). In addition to iron ore, Giralia holds interests in the Beverley uranium mine and Snake Well gold project.

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