

29 October 2009

The Directors  
Auvex Resources Limited  
23 Altona Street  
WEST PERTH WA 6005

Dear Sirs,

**Independent Expert's Report on the ratification and proposed issue of securities in Auvex Resources Limited**

**1. INTRODUCTION**

*Background*

- 1.1 On 3 March 2009 Auvex Resources Limited ("Auvex" or "the Company") and EMARS Mining Pty Limited ("EMARS") entered into a Subscription Agreement and Loan Agreement (as defined in section 2.1 of this report), which resulted in the issue of 10,000,000 shares, 20,000,000 options to subscribe for 20,000,000 shares and convertible notes (convertible into 15,000,000 shares) in Auvex to EMARS and an associated entity of EMARS, Roleystone Limited ("Roleystone") in June 2009, collectively referred to in this report as "Transaction A".
- 1.2 Although shareholder approval was obtained in accordance with section 611 item 7 of the Corporations Act at a general meeting on 22 January 2009 for the issue of the abovementioned securities to EMARS, Auvex require the ratification of Transaction A as they did not obtain an independent expert's opinion as to whether Transaction A was fair and reasonable to Non-Associated Shareholders in accordance with the recommendations of the Australian Securities & Investments Commission ("ASIC") in Regulatory Guide 74.
- 1.3 Transaction A is conditional on shareholder approval for the purpose of section 611 item 7 of the Corporations Act and ratification of the execution by Auvex of the Marketing Agreement (as defined in section 2.5 of this report) with EMARS in accordance with section 208 of the Corporations Act.
- 1.4 Auvex also proposes to seek shareholder approval to ratify 5,762,000 shares recently issued to Roleystone (and its nominee, Comtrack Pte Ltd), to issue a further 4,300,000 shares to Roleystone (or its nominee) at \$0.20 per share and to issue any additional shares to Roleystone (or its nominee) to maintain its

Hall Chadwick Corporate  
(NSW) Limited

ACN 080 462 488

Sydney  
Level 29  
St Martins Tower  
31 Market Street  
Sydney 2000  
New South Wales

GPO Box 3555  
Sydney, NSW 2001  
or  
DX 1451 Sydney

Telephone: (02) 9263 2600  
Facsimile: (02) 9263 2800  
Email: hcsyinfo@hall  
chadwick.com.au

percentage interest in Auvex if Auvex undertakes any further pre-IPO equity raisings ("Transaction B").

- 1.5 Transaction A, Transaction B and the execution of the Marketing Agreement are collectively referred to in this report as the "Transactions".
- 1.6 Approval of the Marketing Agreement with EMARS is conditional on the approval of Transaction A and Transaction B. Transaction A is conditional on the approval of the Marketing Agreement. Approval of Transaction B is not conditional on any other resolutions.

### ***Purpose of Report***

- 1.7 You have requested Hall Chadwick Corporate (NSW) Limited ("HCC") to prepare an Independent Expert's Report to advise the shareholders of Auvex other than those associated with the Transactions ("Non-Associated Shareholders"), whether the Transactions are fair and reasonable when considered in the context of the interests of Non-Associated Shareholders and to set out the reasons for our conclusions.
- 1.8 You have also requested that we provide an opinion as to the arms length nature of the Marketing Agreement with EMARS in order for Auvex shareholders to consider approval of the Marketing Agreement in accordance with section 208 of the Corporations Act.
- 1.9 HCC understands and has agreed that this report will accompany the notice to convene a meeting of Auvex shareholders, to assist the Non-Associated Shareholders in their consideration of the resolutions the subject of the Transactions to be put at a General Meeting expected to be held in November 2009.

### ***Opinions***

- 1.10 In our opinion, the Transactions are **not fair but reasonable** to the Non-Associated Shareholders of Auvex.
- 1.11 In our opinion, the terms of the Marketing Agreement are reasonable in the circumstances as if Auvex and EMARS were dealing at arms length.
- 1.12 The ultimate decision however on whether to accept the Transactions should be based on Auvex shareholders own assessment of their circumstances.

## **2. THE TRANSACTIONS**

- 2.1 On 3 March 2009 EMARS and Auvex entered into a Subscription Agreement ("Subscription Agreement") and Loan Facility and Secured Convertible Note Deed ("Loan Agreement"), which resulted in the issue of the following Auvex securities (referred to in this report as "Transaction A"):
- a) 10,000,000 shares at an issue price of \$0.20 per share;
  - b) 15,000,000 options with an exercise price of \$0.25 and an expiry date of 31 December 2011;
  - c) 5,000,000 options with an exercise price of \$0.50 and an expiry date of 31 December 2013; and
  - d) Convertible Notes with a face value of \$3,000,000, convertible into 15,000,000 shares at \$0.20 each at the option of the noteholder at any time prior to the date of repayment, which is the earlier of: (a) the date of repayment of the outstanding amount of the loan plus interest plus fees, costs and expenses incurred by EMARS in relation to the loan; and (b) 30 days after the 12 month anniversary of the date on which the loan was made to the company or such later date notified by EMARS to the Company in writing.
- 2.2 EMARS subsequently assigned all of its rights and benefits in the Subscription Agreement to its related entity, Roleystone with effect from 17 April 2009.
- 2.3 Although shareholder approval was obtained in accordance with section 611 item 7 of the Corporations Act at a general meeting on 22 January 2009 for the issue of the abovementioned securities to EMARS, Auvex require the ratification of Transaction A as they did not obtain an independent expert's opinion as to whether Transaction A was fair and reasonable to Non-Associated Shareholders in accordance with the recommendations of ASIC in Regulatory Guide 74.
- 2.4 As EMARS and Roleystone (and its nominee, Comtrack Pte Ltd) are associates, their relevant interests in Auvex are aggregated for the purposes of this report, and are collectively referred to in this report as "EMARS".
- 2.5 Transaction A is conditional on shareholder approval and ratification of the execution by Auvex of the Manganese Marketing and Management Services Agreement ("Marketing Agreement") with EMARS in accordance with section 208 of the Corporations Act. Details of the Marketing Agreement are included in section 6.
- 2.6 Auvex also proposes to seek shareholder approval to ratify 5,762,000 shares recently issued to Roleystone (and its nominee, Comtrack Pte Ltd), to issue a further 4,300,000 shares to Roleystone (or its nominee) at \$0.20 per share and to issue any additional shares to Roleystone to maintain its percentage interest in Auvex if Auvex undertakes any further pre-IPO equity raisings (collectively referred to in this report as "Transaction B").
- 2.7 The ratification and issue of shares, options and convertible notes ("securities") included as part of Transaction A and Transaction B above and the execution of the Marketing Agreement are collectively referred to in this report as the "Transactions". The Transactions require shareholder approval under the Corporations Act section 611 item 7. In addition, the Company seeks the approval of shareholders to ratify the execution of the

Marketing Agreement in accordance with section 208 of the Corporations Act and for all other purposes.

- 2.8 Approval of the Marketing Agreement with EMARS is conditional on the approval of Transaction A and Transaction B. Transaction A is conditional on the approval of the Marketing Agreement. Approval of Transaction B is not conditional on any other resolutions.
- 2.9 If the Transactions are approved and completed, EMARS and Roleystone (and their nominees) will be entitled to a combined interest of up to 46.6% in Auvex, assuming the conversion of all Convertible Notes, the exercise of all Roleystone's options and no conversion of existing options on issue to other parties. EMARS and Roleystone (and Roleystone's nominee ,Comtrack Pte Ltd) are associates and consequently their relevant interests have been aggregated for the purpose of this report and the relevant Corporations Act requirements.
- 2.10 Section 6 provides further details regarding the Transactions and the effect of the Transactions on the share capital of Auvex.

## **STRUCTURE OF REPORT**

Our report is set out under the following headings:

- 3 PURPOSE OF REPORT
- 4 OPINIONS
- 5 BASIS OF EVALUATION
- 6 BACKGROUND
- 7 OVERVIEW OF AUVEX
- 8 VALUATION METHODOLOGIES
- 9 VALUE OF AUVEX
- 10 ADVANTAGES AND DISADVANTAGES OF THE PROPOSAL
- 11 CONCLUSIONS

## **APPENDICES**

- I SOURCES OF INFORMATION
- II STATEMENT OF DECLARATION & QUALIFICATIONS
- III FINANCIAL SERVICES GUIDE

### **3 PURPOSE OF REPORT**

- 3.1 The purpose of this report is to advise the Non-Associated Shareholders of Auvex of the fairness and reasonableness of the Transactions detailed in section 2.

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

The ultimate decision whether to accept the terms of the Transactions 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 Transactions or matters dealt with in this report, shareholders should seek independent professional advice.

For the Transactions to be fair, the value of the consideration paid or being paid by EMARS must be equal to or greater than the value of the Auvex securities to be issued to EMARS. To be reasonable the shareholders must obtain an overall benefit if the Transactions proceed.

- 3.2 This report has been prepared to satisfy the requirements of the Corporations Act 2001 (Cth) ("Corporations Act").
- 3.3 EMARS and Roleystone (and its nominee ,Comtrack Pte Ltd) are associates of each other, and both are associated with Mr Xie Yuzheng and Mr Premjit Roy, directors of Auvex. Under the Corporations Act, an entity is a related party of a public company at a particular time if the entity is controlled by a related party. Emars is a related party of Auvex because it was controlled by Mr Xie and Mr Roy in the 6 months prior to the date of the meeting and Mr Xie and Mr Roy are directors of Auvex as at the date of the Meeting. Roleystone is a related party of Auvex because it is controlled by Mr Xie and Mr Roy who are directors of Auvex as at the date of this Meeting.
- 3.4 As EMARS and Roleystone (and its nominee, Comtrack Pte Ltd) are associates, their relevant interests in Auvex will be aggregated for the purposes of this report and Corporations Act requirements.

#### **Corporations Act Requirements**

- 3.5 If the Transactions are approved, EMARS and their associates will be entitled to an interest of up to 46.6% in Auvex, assuming the conversion of all Convertible Notes, the exercise of all Roleystone's options and no conversion of existing options on issue to other parties. Section 606(1) of the Corporations Act states that a person must not acquire a relevant interest in issued voting shares in an unlisted company with more than 50 members if that person's or any other person's voting power increases to above 20%. Section 606(1) prohibits EMARS from acquiring the securities in Auvex under the Transactions, unless one of the exemptions of section 611 of the Corporations Act applies.
- 3.6 Item 7 of section 611 of the Corporations Act exempts an acquisition that is approved by a resolution of shareholders of Auvex passed at a general meeting. This is the exemption

which is being relied upon by the Auvex shareholders. At the general meeting of Auvex no votes will be allowed to be cast by those persons (or their associates) acquiring securities under the Transactions (that is, EMARS and its associates).

- 3.7 Section 208 of the Corporations Act specifies a public company must not give a financial benefit (including acquisition of an asset) to a related party without shareholder approval. Section 228(2) of the Corporations Act defines a related party as the following:
- Directors of the public company;
  - Directors of an entity that controls the public company;
  - If the public company is controlled by an entity that is not a body corporate – each of the persons making up the controlling entity; and
  - Spouses and de-facto spouses of the persons referred to above.

In addition to this, section 228(5) of the Corporations Act states that a person may be a related party for the purposes of the legislation if they were a related party as defined in section 228(2) within the previous 6 months.

However, section 210 of the Corporations Act states that member approval is not required to provide a financial benefit on terms that:

- Would be reasonable in the circumstances if the public company and the related party were dealing at arms length; or
- Was less favourable to the related party than such terms.

- 3.8 Shareholder approval is sought under section 208 for Auvex to enter into the Marketing Agreement with EMARS, a related party of the Company.
- 3.9 ASIC Regulatory Guide 74 "Acquisitions Agreed to by Shareholders" requires, amongst other things, that directors of a company need to provide shareholders with an analysis of whether a transaction is fair and reasonable, when considered in the context of the interests of the non-associated shareholders. Regulatory Guide 74 states that the directors may satisfy their obligation to provide this analysis by the independent directors commissioning 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.

#### 4. OPINIONS

4.1 In our opinion, the Transactions are *not fair but reasonable* to the Non-Associated Shareholders of Auvex.

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

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

##### *Fair*

4.4 For the Transactions to be fair, the value of the consideration paid or being paid by EMARS must be equal to or greater than the value of the Auvex securities to be issued to EMARS.

4.4.1 Auvex securities are being issued to both EMARS and Roleystone (and its nominee, Comtrack Pte Ltd) as part of the Transactions. EMARS and Roleystone (and its nominee, Comtrack Pte Ltd) are associates, and therefore their relevant interests in Auvex are being aggregated for the purposes of this report. References below to EMARS with respect to the issue of Auvex securities includes securities being issued to Roleystone (and its nominee, Comtrack Pte Ltd).

4.4.2 The consideration paid or being paid by EMARS for the Auvex securities, and the indicative value of the Auvex securities being issued to EMARS, is as follows:

Security issued	Consideration	Value	Note
<b>Transaction A</b>			
10,000,000 shares	2,000,000	2,314,824	1
15,000,000 options		842,796	2
5,000,000 options		223,374	3
Convertible Notes	3,000,000	3,472,235	4
Conversion Option		568,399	5
<b>Transaction A sub-total</b>	<b>5,000,000</b>	<b>7,421,628</b>	
<b>Transaction B</b>			
5,762,000 shares	1,152,400	1,333,801	6
4,300,000 shares	860,000	995,374	7
<b>Transaction B sub-total</b>	<b>2,012,400</b>	<b>2,329,175</b>	
<b>Transactions Total</b>	<b>7,012,400</b>	<b>9,750,803</b>	

(1) 10,000,000 shares to be ratified, which were issued at \$0.20 per share. Refer section 9.2 for valuation of shares.

(2) 15,000,000 options with an exercise price of \$0.25 each and an expiry date of 31 December 2011. Refer section 9.3 for valuation of options.

(3) 5,000,000 options with an exercise price of \$0.50 each and an expiry date of 31 December 2013. Refer section 9.3 for valuation of options.

- (4) Convertible Notes have a face value of \$3,000,000 and are convertible into 15,000,000 shares at \$0.20 each at the option of the noteholder at any time prior to the date of repayment. Refer section 9.2 for valuation of shares.
- (5) The conversion rights attaching to the Convertible Notes represent options to convert to Auvex shares (“Conversion Option”). We must therefore attribute a value to the option representing the additional value to the noteholder for the period in which the Auvex share value may vary from the current value. Refer section 9.4 for valuation of the Conversion Option.

We have assumed that circumstances and variables are exactly the same when the shares are issued as current circumstances and variables, notwithstanding the shares to be issued on conversion of the Convertible Notes may not be issued until a later date.

We have considered that the coupon rate on the Convertible Notes of 15% p.a. reflects a reasonable return to noteholders for the time-value of money and the risk associated with the loan being made by the noteholders, based on the current financial circumstances of Auvex.

- (6) 5,762,000 shares to be ratified, which were issued at \$0.20 per share. Refer section 9.2 for valuation of shares.
- (7) 4,300,000 shares to be issued at \$0.20 per share. Refer section 9.2 for valuation of shares.

4.4.3 In assessing the fairness of the Transactions, we must also assess the value of the Marketing Agreement with EMARS, which is a condition of Transaction A.

4.4.4 We have assigned a value of *nil* to the Marketing Agreement based on the following:

- a) The Marketing Agreement has been based on normal market terms and there is therefore no advantage or material value to Auvex;
- b) The terms of the Marketing Agreement are similar to arrangements between professional service providers that have no market value;
- c) The services to be provided under the Marketing Agreement are those that could be obtained by Auvex from other third parties on the same or similar commercial terms;
- d) EMARS and Auvex may not assign or transfer all or any of its rights or obligations under the Marketing Agreement without the prior written approval of the other party; and
- e) As Auvex has no income currently and returns are still highly prospective it is difficult to determine when and if they will extract any value from the Marketing Agreement.

4.4.5 The Transactions also include the issue of additional shares to Roleystone or its nominee to maintain its percentage interest in Auvex if Auvex undertakes any further pre-IPO equity raisings. There is no certainty that any additional shares will be issued. Considering the value of the shares and options included in section 4.4.2, we believe that it is not likely that these additional shares, if issued, would be issued at a value that would alter our opinion as to the fairness of the Transaction.

4.4.6 Therefore, as the consideration paid or being paid by EMARS for the Auvex securities of \$7,012,400 is lower than the value attributed to the Auvex securities of \$9,750,803, in our opinion the Transactions are **not fair**.

### ***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 for security holders to accept the offer in the absence of any higher bid before the close of the offer.
- 4.5.1 We have concluded that the Transactions are reasonable, for although the Transactions are not fair, we believe that there are sufficient reasons for shareholders to accept the Transactions as they should obtain an overall benefit if the Transactions proceed.
- 4.5.2 Some relevant issues we have considered in relation to the Transactions and in forming our opinion are that Auvex:
- is still in start-up phase and made an operating loss of \$1.8 million in the 2009 financial year, being its first full year of operation;
  - does not have any free cash flows nor does it have sufficient cash reserves to achieve growth objectives;
  - has not identified any other subscribers for the necessary funds required to meet the company's objectives;
  - has already received the funds from some of the shares issued to EMARS and Roleystone (and its nominee, Comtrack Pte Ltd) that are the subject of ratification under the Transactions, totalling \$3.15 million (15,762,000 shares at \$0.20 each) and the \$3 million from the issue of Convertible Notes to EMARS. If Auvex is required to repay these amounts they may not have the funds available; and
  - is not yet cash flow positive.
- 4.5.3 The Transactions provide an opportunity for Auvex to access the working capital required to continue its exploration and development activities and assist with the successful development and commercial exploitation of its mining areas.
- 4.5.4 The Transactions may provide an opportunity for shareholders to experience growth in the value of shares based on the commercial opportunities arising from the funds raised from the Transactions.
- 4.5.5 Given that Auvex requires a large amount of working capital to achieve its business objectives, it will have difficulty in meeting these objectives without the injection of these funds.
- 4.6 *Accordingly, in our opinion, the Transactions are **not fair but reasonable** to the Non-Associated Shareholders of Auvex.*

### ***Marketing Agreement at Arms Length***

- 4.7 Section 208 of the Corporations Act specifies a public company must not give a financial benefit to a related party without shareholder approval. Shareholder approval is being sought under section 208 for Auvex to enter into the Marketing Agreement with EMARS, as a related party of the Company.
- 4.7.1 The Marketing Agreement will provide Auvex with the marketing services it will require to sell manganese ore mined and produced from Auvex's current and future mining

operations, excluding Auvex's share of manganese ore produced from the Sunday Hill/Ant Hill joint venture project. The Marketing Agreement also includes EMARS appointing one representative to the sales committee in relation to the sale and marketing of manganese ore produced from the Sunday Hill/Ant Hill joint venture project.

- 4.7.2 We are of the opinion that the terms of the Marketing Agreement are reasonable in the circumstances as if Auvex and EMARS were dealing at arms length on the basis that:
- a) the terms on which this agreement is based are commercially acceptable to both EMARS and Auvex and have been based on normal market terms;
  - b) the fees to be paid to EMARS are at arms length market rates in comparison to similar market arrangements and a review of marketing budgets of comparable companies;
  - c) we have held discussions with industry representatives and ascertained that the terms of the Marketing Agreement are at appropriate market rates;
  - d) the services to be provided under the Marketing Agreement are those that could be obtained by Auvex from other third parties on the same or similar commercial terms;
  - e) EMARS and Auvex may not assign or transfer all or any of its rights or obligations under the Marketing Agreement without the prior written approval of the other party; and
  - f) Auvex have obtained an opinion from an expert in the field of marketing agreements in the minerals industry, who has concluded that:
    - 1. The management fee of \$50,000 per annum for consulting services appears reasonable for the duties involved;
    - 2. The practice of reimbursing costs incurred on marketing during the establishment of new operations on non joint venture tenements is reasonable; and
    - 3. The marketing fee of 3% of revenue from the sale of Non-Joint Venture Manganese appears to be reasonable.

## **5 BASIS OF EVALUATION**

- 5.1 In our assessment of whether the Transactions are fair and reasonable to Auvex 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 Transactions are fair and reasonable. Under Regulatory Guide 111, a transaction is “fair” if the value of the asset being acquired (in this case the consideration paid or being paid by EMARS and Roleystone) 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 accept the offer.
- 5.3 Our report has compared the likely advantages and disadvantages to non-associated shareholders if the Transactions are agreed to, with the advantages and disadvantages to those shareholders if it is not. Comparing the consideration to be paid under the Transactions 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 Auvex as a result of the Transactions. In the event that a change in control arises from the Transactions, proportionately greater benefits to non-associated shareholders must be demonstrated. In this case EMARS (which includes Roleystone (and its nominee, Comtrack Pte Ltd) as an associated party of EMARS) will obtain control of Auvex and this 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 Auvex securities.
- 5.6 In evaluating the Transactions, we have considered the value of the Auvex securities being issued and compared this to the amount of consideration to be paid by EMARS and Roleystone (and its nominee, Comtrack Pte Ltd).

We consider that the Transactions will be fair and reasonable if, on balance, the Non-Associated Shareholders in Auvex will be better off if the Transactions are approved. We will also consider the Non-Associated Shareholder’s interests should the Transactions not proceed.

- 5.7 In our assessment of the Transactions we have considered, in particular the following:
- The operational and financial position of Auvex;
  - The value of Auvex securities, under various methodologies;
  - Any control premium associated with the Transactions;
  - The advantages and disadvantages associated with approving the Transactions;

- The likely value of Auvex shares in the absence of the Transactions.
- 5.8 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 Transactions are 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.
- 5.9 We understand the accounting and other financial information that was provided to us has been prepared in accordance with generally accepted accounting principles.
- 5.10 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.
- 5.11 HCC are not the auditors of Auvex, EMARS or Roleystone. We have analysed and reviewed information provided by the directors and auditors of Auvex and made further inquiries where appropriate.
- 5.12 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.

## **6 BACKGROUND**

- 6.1 Auvex was founded to explore and exploit manganese (Mn) deposits in Australia. Further information on Auvex's business operations can be found at section 7 of this report.
- 6.2 EMARS Mining Pty Limited is an Australian registered company and part of the 'Roy Group of Companies', based in India as a manufacturer-exporter of iron ore.
- 6.3 On 3 March 2009 EMARS and Auvex entered into the Subscription Agreement and the Loan Agreement, which resulted in the issue of the following Auvex securities (referred to in this report as "Transaction A"):
- a) 10,000,000 shares at an issue price of \$0.20 per share;
  - b) 15,000,000 options with an exercise price of \$0.25 and an expiry date of 31 December 2011;
  - c) 5,000,000 options with an exercise price of \$0.50 and an expiry date of 31 December 2013; and
  - d) Convertible Notes with a face value of \$3,000,000, convertible into 15,000,000 shares at \$0.20 each at the option of the noteholder at any time prior to the date of repayment, which is the earlier of: (a) the date of repayment of the outstanding amount of the loan plus interest plus fees, costs and expenses incurred by EMARS in relation to the loan; and (b) 30 days after the 12 month anniversary of the date on which the loan was made to the company or such later date notified by EMARS to the Company in writing. Auvex must pay interest on the Convertible Notes at the rate of 15% per annum calculated daily from 22 December 2008 until the Convertible Notes are repaid in full or converted into Auvex shares.
- 6.4 EMARS subsequently assigned all of its rights and benefits in the Subscription Agreement to its related entity, Roleystone with effect from 17 April 2009.
- 6.5 On 22 January 2009 Auvex obtained shareholder approval for the issue of the above securities to EMARS and Roleystone. Auvex now requires the ratification of Transaction A as Auvex did not obtain an independent expert's opinion as to whether Transaction A was fair and reasonable for Non-Associated Shareholders in accordance with the recommendations of ASIC in Regulatory Guide 74.
- 6.6 Transaction A is conditional on shareholder approval for the purpose of section 611 item 7 of the Corporations Act and ratification of the execution by Auvex of the Marketing Agreement with EMARS in accordance with section 208 of the Corporations Act. Details of the Marketing Agreement are included in section 6.11.
- 6.7 Auvex is also seeking shareholder approval for the following, referred to in this report as "Transaction B":
- (a) ratify the allotment and issue of 5,700,000 shares at \$0.20 each to Roleystone's nominee, Comtrack Pte Ltd;
  - (b) ratify the allotment and issue of 62,000 shares at \$0.20 each to Roleystone;
  - (c) issue a further 4,300,000 shares to Roleystone (or its nominee) at \$0.20 per share; and

- (d) allot and issue further shares (at an issue price of at least \$0.20) that Roleystone may subscribe for in any equity raising undertaken by the Company prior to, and excluding any initial public offer undertaken by the Company, to maintain Roleystone and EMARS's aggregated relevant interest in Auvex's issued share capital at the date of such issue of further shares.
- 6.8 The ratification and issue of shares, options and convertible notes ("securities") included as part of Transaction A and Transaction B above and the execution of the Marketing Agreement are collectively referred to in this report as the "Transactions". The Transactions require shareholder approval under the Corporations Act section 611 item 7. In addition the Company seeks the approval of shareholders to ratify the execution of the Marketing Agreement in accordance with section 208 of the Corporations Act and for all other purposes.
- 6.9 Auvex has also begun preparation of a prospectus for a public offer and, subject to successfully raising funds under the prospectus, applying for admission to the official list of the Australian Securities Exchange (ASX). EMARS have consented to this course of action by Auvex. A prospectus for the initial public offer of Auvex's shares will be made available when the shares are offered. Anyone who wishes to acquire the shares offered under the initial public offer will need to complete the application form that will be in or will accompany the Company's prospectus.
- 6.10 The objective of the Transactions is to raise sufficient working capital to allow Auvex to continue its exploration activities, fund production and marketing costs, and place Auvex into a position where it can list on the ASX. Of the funds raised from Transaction B, \$700,000 has been used to partially repay a loan owing to SJ Crushing Pty Ltd, an entity associated with Mr Steve Crabbe, a past director of Auvex. On payment of this amount, Mr Steve Crabbe resigned as a director of Auvex.
- 6.11 As part of the Marketing Agreement between Auvex and EMARS:
- a) EMARS will appoint one representative to the sales committee in relation to the sale and marketing of manganese ore produced from the joint venture project known as the 'Sunday Hill/Ant Hill Project' and will receive a management fee for advisory services provided to the sales committee of \$50,000 per 12 month period ("Management Fee"), being the terms that were commercially acceptable to both EMARS and Auvex. Other than the Management Fee, Auvex will not be liable for any costs incurred by EMARS on or after the date of shareholder approval of the Marketing Agreement in connection with the Management Services.
  - b) EMARS will exclusively market and sell "Non-Joint Venture Manganese", being manganese ore mined and produced from Auvex's current and future mining operations, excluding Auvex's share of manganese ore produced from the joint venture project known as the 'Sunday Hill/Ant Hill Project'. EMARS will receive a marketing fee equivalent to 3% of revenue ("Marketing Fee"), being the terms that were commercially acceptable to both EMARS and Auvex. Auvex shall be liable for all marketing costs incurred by EMARS in connection with these marketing services prior to the commencement of production. After the commencement of production EMARS is responsible for meeting these marketing costs. EMARS is appointed by and accountable to Auvex to:
    - i) prepare strategies for the marketing of the Non-Joint Venture Manganese

(including to identify markets and prospective buyers and provide advice relating to the long and short term planning of the marketing and sale of Non-Joint Venture Manganese);

- ii) provide advice on pricing formulae, security aspects and risk mitigation, hedging strategies, product logistics including delivery and shipping options, product liability and transit insurances, customer payment terms including the use of either credit insurance or letters of credit as applicable;
  - iii) carry out all agreed marketing activities and submission of annual sales plans;
  - iv) prepare and file reports and returns (except returns with respect to taxes based upon or measured by income) required by law with respect to marketing activities;
  - v) prepare and submit to Auvex quarterly and yearly forecasts and budgets of marketing costs (for the period up until the commencement of production), revenues from contracts of sale and projected sales of Non-Joint Venture Manganese;
  - vi) report significant results of marketing activities to Auvex as soon as practicable after receipt of such results;
  - vii) supervise and administer the contracts of sale including, without limitation, the collection of the payments from sales of Non-Joint Venture Manganese for depositing into the Auvex account;
  - viii) handle any claims or disputes with purchasers under the contracts of sale (including, with the prior approval of Auvex, enforcement of any contract of sale) and settle those claims or disputes with the prior approval of Auvex not to be unreasonably withheld or delayed.
- c) EMARS and Auvex may not assign or transfer all or any of its rights or obligations under the Marketing Agreement without the prior written approval of the other party.
- d) The Marketing Agreement will continue:
- i) in respect of the Marketing Management Services, for the Life of the Sunday Hill and Ant Hill Project (Management Services Term); and
  - ii) in respect of the Marketing Services, for the Life of the Auvex Operations (Marketing Services Term),

unless terminated earlier due to a non-remedied default, breach of any terms or conditions, an insolvency event or sale of the underlying tenements. In the case of sale, EMARS is entitled to compensation for the termination of the Marketing Agreement in relation to those tenements sold and the amount of compensation is considered to be commercial.

The “Life of the Sunday Hill and Ant Hill Project” means the period for which Auvex holds a direct or indirect interest in the Joint Venture Tenement.

The “Life of the Auvex Operations” means the period from the date of the Marketing Agreement during which a Non-Joint Venture Manganese ore body remains within an

Auvex operations area which may be or become economically mineable and in relation to which mining operations may be carried out to recover manganese including the period during which mining operations are carried out within the Auvex operations area.

6.12 The following table shows the effect on the share capital of Auvex after the Transactions:

Effect on Ordinary Shares	Number of Shares
Shares on issue at the date of this Report (1)	78,868,010
Shares issued as part of Transaction B	4,300,000
Total shares on issue after Transactions	83,168,010
Conversion of Convertible Notes	15,000,000
Shares on issue after Transactions and Conversion of Convertible Notes	98,168,010
Exercise of options issued as part of Transaction A (3)	20,000,000
Shares on issue after Transactions, Conversion of Convertible Notes and exercise of options held by EMARS and Roleystone	118,168,010
Exercise of options held by parties not associated with the Transactions (4)	21,500,000
Fully diluted shares on issue in Auvex	139,668,010

1) As at the date of this Report, Auvex's issued capital and the securities held by EMARS and Roleystone (and its nominee, Comtrack Pte Ltd) in Auvex is as follows:

	Shares	Options	Convertible Notes
EMARS and Roleystone (and nominee)	15,762,000 <sup>(2)</sup>	20,000,000 <sup>(3)</sup>	3 <sup>(5)</sup>
Others	63,106,010	21,000,000 <sup>(4)</sup>	Nil
<b>Total</b>	<b>78,868,010</b>	<b>41,000,000</b>	<b>3</b>

2) Represents shares being ratified under Transaction A (10,000,000) and Transaction B (5,762,000). 5,700,000 of these shares are held in the name of Roleystone's nominee, Comtrack Pte Ltd and the remaining of these shares are held in the name of Roleystone.

3) Options to be ratified as part of Transaction A have the following terms:  
15,000,000 options with an exercise price of \$0.25 and an expiry date of 31 December 2011  
5,000,000 Exercise price of \$0.50 and an expiry date of 31 December 2013

4) Options currently on issue have the following terms:  
11,000,000 options with an exercise price of \$0.25 and an expiry date of 30 April 2013  
10,000,000 options with an exercise price of \$0.35 and an expiry date of 30 April 2013

The 21,000,000 options do not include 1,000,000 options which the Company intends to issue to Mr Steve Crabbe (a former director), 250,000 Options which the Company intends to issue to Mr Yuzheng Xie and 250,000 Options which the Company intends to issue to Robert Mandanici (a former director), after the date of the Notice of Meeting. The issue of these options was approved by Auvex shareholders at the Company's Annual General Meeting held on 21 August 2009.

5) Convertible Notes with face values totalling \$3,000,000 convertible into 15,000,000 shares.

- 6.13 The following table sets out the current voting power of Roleystone and EMARS (and their associates) in Auvex, their resulting voting power if all of Roleystone's Options are exercised and EMARS' Convertible Notes are converted and the increase in their voting power if Shareholders approve the allotment and issue of 4,300,000 Shares to Roleystone (or its nominee) under Transaction B.

	<b>Shares</b>	<b>Upon exercise of all Options<sup>(1)</sup></b>	<b>Upon conversion of all Convertible Notes<sup>(2)</sup></b>
Number of Shares held by Roleystone and EMARS	15,762,000	35,762,000	50,762,000
<b>Voting Power</b>	<b>19.99%</b>	<b>36.17%</b>	<b>44.58%</b>
Total issued Shares	78,868,010	98,868,010	113,868,010
<b><i>Increase in Voting Power upon issue of 4,300,000 Shares under Transaction B</i></b>			
Number of Shares held by Roleystone and EMARS	20,062,000	40,062,000	55,062,000
<b>Percentage held<sup>(3)</sup></b>	<b>24.12%</b>	<b>38.83%</b>	<b>46.6%</b>
Total issued Shares post-issue of 4,300,000 Shares under Transaction B	83,168,010	103,168,010	118,168,010

- (1) Assumes that none of the Convertible Notes are converted and that no Options held by any persons other than Roleystone are exercised. At the date of this Report, none of the Options have been exercised and none of the Convertible Notes have been converted.
- (2) Assumes that all of Roleystone's Options have been exercised and all of the Convertible Notes are converted. At the date of this Report, none of the Options have been exercised and none of the Convertible Notes have been converted.
- (3) The voting power of Roleystone and EMARS will not increase in excess of the percentage voting power set out in this table as a result of the issue of any additional Shares to Roleystone (or its nominee) to maintain Roleystone and EMARS' percentage interest in Auvex if Auvex undertakes any further pre-IPO equity raisings under Transaction B.

- 6.14 If the Transactions are approved and completed, EMARS and Roleystone will be entitled to a combined interest of up to 46.6% in Auvex, assuming the conversion of all Convertible Notes, the exercise of all Roleystone's options and no conversion of existing options on issue to other parties. EMARS and Roleystone are associates and consequently their relevant interests have been aggregated for the purpose of this report and the relevant Corporations Act requirements.

## **7. OVERVIEW OF AUVEX**

### **7.1 Corporate History**

- 7.1.1 Auvex is an Australian unlisted public company incorporated on 4 January 2008 with the business objective to explore and exploit manganese (“Mn”) deposits in Australia.
- 7.1.2 Auvex’s current business activity is mineral exploration and trial mining. Auvex has manganese rights over tenements situated in highly prospective areas within the East Pilbara and Gascoyne manganese provinces of Western Australia and the Georgina Basin in the Northern Territory.
- 7.1.3 Auvex intends to establish itself as a successful miner and exporter of manganese ore and associated minerals for the steel making industry.
- 7.1.4 Auvex has employed an experienced mining and processing team to ensure Mn resources can be expeditiously mined and marketed.

### **7.2 Projects**

- 7.2.1 This section contained a summary of the information provided by Auvex on current exploration projects:

#### **Mesa Farmin Agreement**

- 7.2.2 In a farmin and joint venture agreement dated 29 April 2008 (“Mesa Farmin Agreement”), Mesa Minerals Limited (formerly known as Hitec Energy Limited) (“Mesa”) granted to Auvex the exclusive right to explore Mining Lease 46/237 and 46/238 and Exploration Licences 46/771 and 772 (“Mesa Tenements”). As at 28 February 2009 Auvex had earned a 50% interest in the Mesa Tenements by funding expenditure of \$7,250,000 on the Mesa Tenements.
- 7.2.3 Mesa is an Australian public listed company with a market capitalisation of approximately \$23.3 million. Mesa’s principal activity is the commercialisation of its mineral processing technologies. Mesa and Auvex are parties to a Sales Agency Heads of Agreement affecting the Mesa Tenements whereby Mesa will be responsible for all promotion, marketing, sales and distribution of any manganese produced from the Mesa Tenements.
- 7.2.4 The Mesa Farmin Agreement covers two mining leases (46/237 and 46/238) known as Ant Hill and Sunday Hill in Western Australia. Trial mining at Ant Hill has produced approximately 30,000 tonnes of high grade Mn that is being transported to Port Hedland for shipping to China under the first ore sale contract. A second ore sale of approximately 30,000 tonne of medium grade Mn ore is expected in late November or December 2009.
- 7.2.5 Auvex intends to begin mining and processing from Ant Hill and Sunday Hill at the rate of 215,000 tonnes per annum. Auvex, as manager of the joint venture, has submitted a mining proposal to allow full-scale mining of 300,000 tonne of high grade Mn ore by early 2010, should Auvex and Mesa jointly decide to proceed with that mining proposal,

increasing to 500,000 tonne within 3 years, subject to receiving further berthing access in Port Hedland.

### Other Exploration Areas

- 7.2.6 Horseshoe Range in WA is 100% owned by Auvex, with the potential for at least 3 million tonnes of Mn resource based on known outcrops. Auvex expect production at 200,000 tonnes per annum by early 2011.
- 7.2.7 Georgina Basin in Northern Territory is 100% owned by Auvex, with outcropping manganese to be explored in the medium to long term. Outcrop samples are high grade – being approximately 45% and cover an area of 800,000 ha of Mn belt. Subject to exploration success, Auvex believe full time production may be underway within 18 months. Auvex hope to generate resources from this lease to sustain 500,000 tonne per annum of high grade Mn.
- 7.2.8 Mt Egerton in WA is 100% owned by Auvex and has potential for multi million tonne deposits. Rock chip samples are high grade and low in contaminants. Auvex has a 3-year timeframe to explore and commence production in this area.

### 7.3 Independent Geology Appraisal

- 7.3.1 All information contained in section 7.3 represents extracts from an Independent Geology Appraisal Report of the mineral assets of Auvex prepared and issued by Brian Davis of Geologica Pty Ltd (“Geologica”) on 27 October 2009 (“Geologica Report”).

Tenement	Prospect Name	Holder	Mineral Rights	Area (km <sup>2</sup> )	Status
M46/238	Ant Hill	Mesa Energy Ltd	50%	8.001	Granted
M46/237	Sunday Hill	Mesa Energy Ltd	50%	7.291	Granted
ELA46/771	Sunday Hill	Mesa Energy Ltd	50%	93.00	Application
ELA46/772	Gunstock Well	Mesa Energy Ltd	50%	52.70	Application
L46/67	Misc Licence	Mesa Energy Ltd	50%	0.22	Application
E52/1561	Horseshoe Range	AAMEX Woods, Coumbe	100% Mn & Fe only	15.55	Granted
P52/1279	Horseshoe Range	Auvex	100%	0.042	Granted
P52/1280	Horseshoe Range	Auvex	100%	0.11	Granted
E52/1529	Mt Padbury	Montezuma Mining Company Ltd	100% Mn rights only	217.7	Granted
E52/2276	Mt Egerton	Auvex	100%	34.21	Granted
00E52/2373	Mt Egerton	Auvex	100%	146.17	Application
E52/2374	Sawback Ranges	Auvex	100%	351.43	Application
E59/1528	Bibijy	Auvex	100%	186.6	Application
E26904	Tarlton Downs	Auvex	100%	1564.86	Granted

(NT)					
ELA27044 (NT)	Algamba	Auvex	100%	361.77	Application
ELA27313 (NT)	Mt Pozieres	Auvex	100%	1201.01	Application
ELA27314 (NT)	Lucy Creek North	Auvex	100%	1204.28	Application
ELA27315 (NT)	Desert Bore	Auvex	100%	1197.84	Application
E26380 (NT)	Lucy Creek	South Boulder Mines Ltd (SBM)	100% Mn rights	701.50	Granted
E25982 (NT)	Horse Creek	SBM	100% Mn rights	1239.00	Granted
E25983 (NT)	Halfway Dam	SBM	100% Mn rights	1265.00	Granted
			TOTAL	9848.284	

### Regional Geology

- 7.3.2 Auvex has manganese rights over tenements situated in highly prospective areas within the East Pilbara and Gascoyne manganese provinces of Western Australia as well as the Georgina Basin in the Northern Territory.
- 7.3.3 The East Pilbara tenements are situated 61 kilometres to the SE of Nullagine and about 360 kilometres SE of Port Hedland, in a well known manganese province. Manganese deposits in the region include historic manganese mines at Ant Hill, Sunday Hill, Meecharra as well as the currently operating Woodie Woodie mine.
- 7.3.4 The Gascoyne district hosts several manganese mines that were exploited between 1948 and 1967 near Peak Hill. The mines were exploited at a time when manganese grades above 48% Mn were required for sales. None of the manganese deposits have been fully quantified by survey, sampling and drilling. There has been a lack of intensive exploration in the district, particularly in the Mt Egerton area where reconnaissance has shown extensive manganese outcrops.
- 7.3.5 The Georgina Basin, Northern Territory is a recognized Palaeozoic sedimentary basin and is a new manganese province where Elkedra Diamonds NL identified extensive areas of manganese in 2002 extending eastwards from Lucy Creek manganese mine. These manganese occurrences were discovered to be low in iron as well as contaminant elements such as silica, phosphorous and aluminium.
- 7.3.6 Geologica concludes that the geological setting of the Auvex tenements is favourable for the discovery of manganese resources.

### 7.3.7 Tenement Geology and Prospectivity

Tenement	Status	Name	Manganese Occurrence	Relative Future Potential
M46/238	Granted	Ant Hill	Mine & Indicated Mineral Resource	4MT so far defined, likely to be another 8MT
M46/237	Granted	Sunday Hill	Inferred Mineral Resource	Likely to be confirmed 10MT+
ELA46/771	Application	Sunday Hill	Outcrops seen	unknown
ELA46/772	Application	Gunstock Well	Outcrops seen	unknown
L46/67	Application	Misc Licence	Road reserve only	N/A
E52/1561	Granted	Horseshoe Range	Surface samples and assays confirm manganese units	Units mapped to be extensive over 4km+ Possibly 10MT+
P52/1279	Granted	Horseshoe Range	Surface samples and assays confirm extensive manganese and iron units	unknown
P52/1280	Granted	Horseshoe Range	Surface samples and assays confirm extensive manganese and iron units	unknown
E52/1529	Granted	Mt Padbury	Surface samples and assays confirm extensive manganese and iron units	Unknown – could be more than 10MT
E52/2276	Granted	Mt Egerton	Reconnaissance manganese samples	Units likely to be extensive over 10km+ -up to 10MT
E52/2373	Application	Mt Egerton	Reconnaissance manganese samples	Units likely to be extensive over 10km+ -up to 10MT
E52/2374	Application	Sawback Ranges	Reconnaissance manganese samples	unknown
E59/1528	Application	Bibijy	Reconnaissance iron samples	Unknown could be a significant iron deposit
E26904 (NT)	Granted	Tarlton Downs	Reconnaissance manganese samples	Extensive manganese possible – tens of millions of tonnes
ELA27044 (NT)	Application	Algamba	Reconnaissance manganese samples	Extensive manganese possible – tens of millions of tonnes
ELA27313 (NT)	Application	Mt Pozieres	Unknown	
ELA27314 (NT)	Application	Lucy Creek North	Reconnaissance manganese samples	Extensive manganese possible – tens of millions of tonnes
ELA27315 (NT)	Application	Desert Bore	Reconnaissance manganese samples	Extensive manganese possible – tens of millions of tonnes
E26380 (NT)	Granted	Lucy Creek	Old pit and reconnaissance manganese samples	Extensive manganese possible – tens of millions of tonnes
E25982 (NT)	Granted	Horse Creek	Unknown	
E25983 (NT)	Granted	Halfway Dam	Reconnaissance manganese samples	Extensive manganese possible – tens of millions of tonnes

7.3.8 Geologica concludes there are sufficient occurrences of manganese mineralization at economic grades to rate the Auvex exploration tenements as highly prospective.

## 7.4 Financial Information

7.4.1 Set out below is the Audited Balance Sheet of Auvex as at 30 June 2009.

<b>AUVEX RESOURCES LIMITED</b>	
<b>BALANCE SHEET</b>	
<b>AS AT 30 JUNE 2009</b>	
<b><u>CURRENT ASSETS</u></b>	
Cash and cash equivalents	849,633
Trade and other receivable	267,881
	<u>1,117,514</u>
<b><u>NON-CURRENT ASSETS</u></b>	
Plant & equipment	203,749
Mining properties (1)	9,531,691
	<u>9,735,440</u>
<b>TOTAL ASSETS</b>	<u>10,852,954</u>
<b><u>CURRENT LIABILITIES</u></b>	
Trade and other payables	457,313
Borrowings (2)	2,886,864
	<u>3,344,177</u>
<b><u>NON-CURRENT LIABILITIES</u></b>	
Borrowings (3)	1,600,000
	<u>1,600,000</u>
<b>TOTAL LIABILITIES</b>	<u>4,944,177</u>
<b>NET ASSETS</b>	<u>5,908,777</u>
<b><u>EQUITY</u></b>	
Issued capital	7,760,133
Accumulated losses	(1,851,356)
<b>TOTAL EQUITY</b>	<u>5,908,777</u>

1. Mining properties represents capitalised exploration and evaluation costs carried forward in respect of mining areas of interest. The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas.
2. Current borrowings of \$2,886,864 represents the Convertible Notes issued to EMARS as part of Transaction A, with a face value of \$3,000,000, less \$113,136, being the value of the conversion rights recorded against issued capital.
3. Borrowings of \$1,600,000 represents a loan from SJ Crushing Pty Ltd, a company controlled by Steven Crabbe, a director of Auvex. The loan is unsecured and repayable by 28 July 2010

with an interest rate equal to the Reserve Bank of Australia rate plus 2%. Of the funds raised from Transaction B, \$700,000 was used to partially repay this loan.

7.4.2 Set out below is the Profit and Loss Statement of Auvex for the years ended 30 June 2008 and 30 June 2009.

<b>AUVEX RESOURCES LIMITED</b>		
<b>PROFIT AND LOSS STATEMENT</b>		
	For the year ended 30 June 2009	For the year ended 30 June 2008
Interest income	52,364	-
Fuel tax credits	21,099	
Employee benefits expense	(955,385)	
Depreciation expense	(42,280)	
Exploration expenditure	(261,821)	
Marketing expenses	(88,328)	
Administration expenses	(366,535)	(23,895)
Finance costs	(186,575)	
Loss before income tax benefit	(1,827,461)	(23,895)
Income tax expense	-	-
Net loss after income tax expense	(1,827,461)	(23,895)

## **8. VALUATION METHODOLOGIES**

### **8.1 Selection of Methodology**

- 8.1.1 In order to assess the fairness of the Transactions a value needs to be attributed to Auvex securities.
- 8.1.2 In assessing the value of securities in an unlisted company such as Auvex we have considered a range of valuation methods. ASIC Regulatory Guide 111 *Content of Expert Reports* states that in valuing an unlisted company the expert should consider the following commonly used valuation methodologies:

- Realisation of Assets: the amount that would be available for distribution to security holders on an orderly realisation of assets;
- Capitalisation of Future Maintainable Earnings: the value of trading operations based on the capitalisation of future maintainable earnings, plus the estimated realisable value of any surplus assets;
- Discounted Cash Flow: the net present value of future cash flows, plus the estimated realisable value of any surplus assets; and
- Comparable Market Transactions: the identification of comparable sale Transactions for a similar industry company to that being valued.

We consider each of these valuation methodologies below.

#### *8.1.3 Realisation of Assets*

The asset 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.

This approach is generally not appropriate where assets are employed productively and are earning more than the cost of capital.

Auvex is in its early stages of exploration and development with no historical earnings. The main assets of the company are investments in prospective exploration areas. The notional realisation of assets is therefore an appropriate valuation method.

For the purpose of this report we are relying upon an Independent Geology Appraisal Report of these mineral assets of Auvex prepared and issued by Brian Davis of Geologica Pty Ltd on 27 October 2009 (“Geologica Report”).

The Geologica Report has been prepared specifically for the evaluation of the Transactions and to provide Directors with an independent valuation of Auvex’s mining properties.

We have satisfied ourselves as to Brian Davis and Geologica Pty Ltd’s qualifications and independence from Auvex and have placed reliance on the report. . The Geologica Report has been compiled by Brian Davis, who is a member of the AusIMM (Australasian Institute of Mining and Metallurgy). Mr Davis has sufficient experience which is

relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Davis has consented to our reliance on the Geological Report and has not withdrawn this consent.

The other assets and liabilities of Auvex being principally cash, receivables, payables and borrowings are easily dealt with in this valuation type.

Based on the above, we believe the net asset backing method is the most appropriate to adopt in valuing the assets of Auvex.

#### *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.

HCC have assessed that it is not appropriate to value the business of Auvex using an income approach by capitalising future earnings as the company is in its early stages of exploration and does not have any historical earnings on which to base a valuation.

#### *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 flow that will be generated from the business over its life. The cash flows are discounted to reflect the risk involved with achieving forecast cash flows.

Although technically the most theoretically correct method to value a business, discounted cash flow methodology is usually very susceptible to changes in business inputs and assumptions, making it the most difficult to apply in valuing a 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.

As management of Auvex are unable to forecast future cash flows with any confidence, a value cannot be placed on the company using the discounted cash flow method and therefore the use of the discounted cash flow method is not appropriate.

#### *8.1.6 Comparable Market Transactions*

This methodology involves the identification of comparable sale Transactions for a similar industry business to that being valued.

The reason the market sometimes values assets based on methods other than multiples of profit, is because these types of businesses can be purchased by existing industry participants and operated without incurring substantial additional costs. The acquired businesses are managed within the purchaser's existing infrastructure which means they can be purchased at multiples of other factors, usually revenue, rather than earnings, as much of the overhead costs can be removed on purchase.

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

- i. Lack of comparable transactions: Most of the other businesses in the mining sector are different in terms of type and stage of business operations and their geographical locations and prospectivity;
- ii. Lack of historical or current earnings as a basis for applying a multiple of revenues or earnings;
- iii. There are other more appropriate methods available.

Auvex directors have confirmed there is no alternative offers to subscribe for shares in the company.

## 8.2 Valuation of Options

The Black-Scholes formula is commonly used for assessing the value of options to subscribe for shares. Other valuation methodologies can include computing the difference between the share price and the option exercise price and taking into consideration the benefit to the option holder of having the use of the funds required to exercise the option less the present value of the foregone dividends on the shares.

As the Black-Scholes formula is a recognised and accepted model for the valuation of options 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
$N(d_1) \& N(d_2)$	=	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 Transactions 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 if a premium for control should attach to the transactions. 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 ordinary market value of the shares. This reflects the fact that:

- a) the owner of a controlling interest in the shares in a company obtains control over 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.

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 a buyer is not 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 percent 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 Transactions, as it will result in EMARS and Roleystone owning a combined interest (as associated parties) of up to 46.6% of the shareholding in Auvex.
- 8.3.6 For the reasons detailed above, we have determined that the change in the level of ownership is sufficient in the Transactions to require a premium for control to be included when valuing the Auvex shares and options.
- 8.3.7 As detailed above, although a premium for control ranges, on average, between 20% and 35%, we have applied a premium for control of only 10% to the value of Auvex shares, based on the following:
- a) EMARS will not obtain full control of Auvex;
  - b) EMARS will not have control over any significant cash flows;
  - c) Auvex shareholders will still have an opportunity to obtain a premium on any subsequent increase in control by EMARS or alternatively a sell-down by them to another party.
  - d) Auvex is not a public listed company and therefore does not have access to capital or liquidity of shares that a listed company may have;
  - e) Auvex is still in its start-up phase of operations and any free cash flows are required to be reinvested into the company in order to reach their business objectives.

## **9 VALUE OF AUVEX**

### **9.1 Selected Methodologies**

9.1.1 In valuing Auvex we have selected the Realisation of Assets methodology for shares, and the Black Scholes method for options as detailed in section 8.

9.1.2 *Financial information relied upon in applying the selected valuation method*

For the purpose of this report we are relying upon the Independent Geology Appraisal Report of the mineral assets of Auvex prepared and issued by Brian Davis of Geologica Pty Ltd on 27 October 2009 (“Geologica Report”).

Brian Davis B.Sc. Dip.Ed is a Registered Practising Geoscientist of the AIG (RPGeo number 10015), a corporate member of the AusIMM (Australasian Institute of Mining and Metallurgy) and is considered a “Competent Person” as defined by the 2004 JORC Code as incorporated in the ASX Listing Rules.

The following information represents extracts from the Geologica Report dealing with the report preparation by Brian Davis:

“All work conducted on this data is done in compliance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, 1998 edition (the Valmin Code) as well as the Code for Reporting of Exploration Results and Mineral Resources 2004 (the JORC Code). These codes and guidelines are binding upon members of the Australian Institute of Mining and Metallurgy (AusIMM) and the Australian Institute of Geoscientists (AIG) as well as being part of the legal framework for the Australian Stock Exchange (ASX) Listing Rules.”

### **9.2 Value of Auvex Shares – Realisation of Assets**

9.2.1 The Geologica Report provides an evaluation of the mining and exploration properties owned by Auvex as detailed in section 7.3.

9.2.2 This section contains extracts from the Summary section of the Geologica Report:

“This report was prepared with the assumption that the tenements were in good standing at the time of writing (September 2009) and would be granted under the normal conditions (usually successfully granted) prevailing at the time. The various merits of the tenements are assessed in this report.

The principal points associated with the tenements are:

- The Gascoyne and East Pilbara tenements in WA are easily accessible by bitumen or good quality gravel road off the Great Northern Highway. These routes provide good access to the Ports of Geraldton or Port Hedland. All the access roads are in good condition and unless there are rare heavy rainfall events access is unrestricted throughout the year.

- The Georgina Basin tenements in the Northern Territory are accessed via the Plenty Highway which, although remote connects through to the Stuart Highway to Darwin port or via Mt Isa to the Queensland coastal ports.
- The geological setting of the tenements is favourable and they are located in well known or emerging manganese provinces. Prospectivity for manganese is proven from historic records or current production in the East Pilbara and the East Gascoyne tenements. The Georgina Basin and West Gascoyne tenements are located within new manganese provinces based on recent exploration sampling of these greenfields areas.
- Exploration potential to increase manganese resources, and in some areas for other minerals such as iron ore and base metals is excellent.
- The potential land tenure risk, including Native Title risk is considered negligible, as is the sovereign risk associated with both the WA and NT tenements.
- There are no perceived natural disaster risks on the tenement package. Cyclone events are rare, slope stability is generally good, no earthquakes have been recorded and flood, storm or fire events occur infrequently (less than 1 in 100 years).

Current production costs (mid 2009) for manganese are estimated to be approximately US\$140/tonne or about 78% of the US\$180/tonne at the US\$4.50/dmtu average +40% manganese price at September 2009.

The gross value of the properties is estimated to occur within the range between US\$9.07 million and US\$35.95 million using four different valuation methods. A realistic and reasonable estimate of mean value is considered to be **US\$18.4 million**.

However it is emphasized that this should not be considered a complete or accurate evaluation due to the fact that some of the properties are undeveloped exploration leases and no resource has yet been defined on them. Therefore a conservative approach has been taken.

The general conclusion is that the exploration projects are likely to lead to a successful mining operation provided that the following milestones are achieved:

- Successful exploration and drilling programs
- JORC-compliant estimation of resources and reserves
- A sustainable commodity price
- No regulatory or legal encumbrances”

9.2.3 The Geologica Report has applied a number of valuation methodologies. The following are extracts from the Geologica Report regarding the valuation methods selected:

“The Prospectivity method (Method 2) and the Yardstick method (Method 1) rely on a knowledge and understanding of the local geology and geochemistry as a guide to prospectivity and thus value. The Mesa Joint Venture has been considered separately using trial mining and cash flow data.

On reviewing each method it was felt that the Yardstick method (1) is probably the least reliable and the least likely to reflect the true value of the properties and it was assigned a weighting of 15%. The Prospectivity ranking method (2) is considered quite a robust

method because it takes into consideration the multiplicity of factors relating to those specific tenements. Therefore it has a preferred weighting of 35% (10% higher than an average weighting). The Multiple of Expenditure (Method 3) was assigned above average weighting (30%) as it is also applicable to those specific tenements. The NPV method (Method 4) has been given slightly less than average weighting (20%) due to the fact that it is heavily reliant on mining data from only one of the two resources and only has a brief mining history (135,000 tonnes from a resource of 5MT – equivalent to 2.7%). See table below:

<b>Method</b>	<b>Description</b>	<b>Value In US\$ million</b>	<b>Preferred weighting</b>	<b>Result US\$ million</b>
<b>1</b>	Yardstick	26.4	15%	3.96
<b>2</b>	Prospectivity Ranking	12.95	35%	4.53
<b>3</b>	Multiple of Expenditure	<b>9.07</b>	30%	2.72
<b>4</b>	DCF & NPV	<b>35.95</b>	20%	7.19
		Average at equal weight= 21.09		Average at preferred weight + <b>18.4</b>

After consideration of the weighting of the four methods to reflect the relative applicability of each method the preferred valuation figure considered fair and reasonable is **US\$18.4 million.**”

9.2.4 The Geologica Report concludes that the valuation range of the Auvex mining assets is between US\$9.07 and US\$35.95 million with a realistic and reasonable estimate of mean value of US\$18.4million. This equates to an Australian Dollar value of between \$9.9 million and \$39.5 million, with a reasonable mean estimate of **\$20.2 million**, using the average exchange rate for the month of October 2009 of AUD1:US0.91.

9.2.5 The Geologica Report includes the following summary of risks associated with the valuation:

“Any valuation of an exploration tenement has inherent risks associated with it. The risks are summarized below:

- Further exploration may not locate a viable manganese source
- A discovered resource may not be economic to mine
- The exploration company may be financially incapacitated
- Access to the area may be denied (e.g. by landholder)
- A natural disaster may occur (flooding, earthquake etc)
- Government policy may prohibit development
- Exploration and mining costs may be incorrectly assessed
- Metal unit price or in-ground metal values are subject to market changes.”

9.2.6 Our assessment of the net asset value of Auvex is shown in the table below, based on Auvex’s audited balance sheet as at 30 June 2009 and the independent valuation of Auvex’s assets performed by Geologica. Due to the large valuation range within the Geologica Report, we have selected the mean valuation of \$20.2 million as an indicative value of the Auvex mining properties.

Book Value of Net assets at 30 June 2009	5,908,777
Less: Book value of mining properties	(9,531,691)
Add: Independent valuation of mining properties	<u>20,219,780</u>
Realisable Value of Net Assets	<b>16,596,866</b>

9.2.7 Auvex currently has 78,868,010 shares on issue. This results in a net asset backing per share of \$0.21 per share.

9.2.8 We have not made any adjustment for the shares already issued to EMARS and Roleystone that are the subject of ratification under the Transactions, as the funds from these share issues has already been received by the Company.

**9.2.9 Inclusive of a 10% premium for control, we value the Auvex shares under the Realisation of Assets approach at \$0.231 per share.**

### 9.3 Value of Options

The options being issued as part of the Transactions are as follows:

- 1) 15,000,000 options with an exercise price of \$0.25 and an expiry date of 31 December 2011; and
- 2) 5,000,000 options with an exercise price of \$0.50 and an expiry date of 31 December 2013.

The assumptions underlying the Black-Scholes formula for both parcels of options to be issued are as follows:

Ps	=	current value of the Auvex shares under the Realisation of Assets approach detailed above (mean value of \$0.21 per share excluding premium for control)
E	=	\$0.25 / \$0.50
t	=	27 months / 51 months
r	=	4.5% / 5.1%
		Australian government bond rate for relevant exercise periods
q	=	50% estimate

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

- 1) 15,000,000 options with an exercise price of \$0.25 and an expiry date of 31 December 2011: Valued at \$0.056 per option.
- 2) 5,000,000 options with an exercise price of \$0.50 and an expiry date of 31 December 2013: Valued at \$0.045 per option.

### 9.4 Value of Conversion Option

9.4.1 The Convertible Notes have a face value of \$3,000,000 and are convertible into 15,000,000 shares at a predetermined fixed price of \$0.20 each at the option of the noteholder at any time prior to the date of repayment, which is the earlier of: (a) the date

of repayment of the outstanding amount of the loan plus interest plus fees, costs and expenses incurred by EMARS in relation to the loan; and (b) 30 days after the 12 month anniversary of the date on which the loan was made to the company or such later date notified by EMARS to the Company in writing.

9.4.2 The conversion rights attaching to the Convertible Notes represent options to convert to Auvex shares (“Conversion Option”). We must therefore attribute a value to the option representing the additional value to the noteholder for the period in which the Auvex share value may vary from the current value.

9.4.3 We have considered that the coupon rate on the Convertible Notes of 15% p.a. reflects a reasonable return to noteholders for the time-value of money and the risk associated with the loan being made by the noteholders, based on the current financial circumstances of Auvex. We therefore separately attribute a value to the Conversion Option, being an additional value to the noteholder.

9.4.4 The assumptions underlying the Conversion Option calculation under the Black-Scholes formula detailed at section 8.2 are as follows:

Ps	=	current value of the Auvex shares under the Realisation of Assets approach detailed above (mean value of \$0.21 per share excluding premium for control)
E	=	as per Ps above (1)
t	=	8 months to 21 June 2010
r	=	3.9%, Australian government bond rate for exercise period
q	=	50% estimate

1) We have separately valued the Auvex shares to be issued on the conversion of Convertible Notes and compared this to the conversion price of \$0.20 per share. To avoid double counting the valuation of the Conversion Option, the exercise price in this formula is the current share price, which will result in a valuation of only the additional value to the noteholder for the period in which the Auvex share value may vary from the current value.

9.4.5 Based on our analysis of Auvex shares and the application of the Black Scholes formula, we are of the opinion that the value of the Conversion Option to be issued pursuant to Transaction A is \$0.038 per option.

## **10 ADVANTAGES & DISADVANTAGES OF THE PROPOSAL**

### **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 Transactions. In forming its conclusions in this report, HCC compared the advantages and disadvantages for Non-Associated Shareholders if the Transactions proceed.

### **10.2 Advantages of the Transactions**

10.2.1 The Transactions provide an opportunity for Auvex to access the working capital required to continue its exploration and development activities and assist with the successful development and commercial exploitation of its mining areas.

10.2.2 The Transactions may provide an opportunity for shareholders to experience growth in the value of shares based on future business opportunities arising from the funds raised from the Transactions.

10.2.3 Given that Auvex requires a large amount of working capital to achieve its business objectives, it will have difficulty in meeting these objectives without the injection of these funds.

10.2.4 Auvex has already received the funds from some of the shares issued to EMARS and Roleystone (and its nominee, Comtrack Pte Ltd) that are the subject of ratification under the Transactions, totalling \$3.15 million (15,762,000 shares at \$0.20 each), and the \$3 million from the issue of Convertible Notes to EMARS, which has contributed towards its exploration activities.

### **10.3 Disadvantages of the Transactions**

10.3.1 There may be other opportunities Auvex will not be able to undertake in the business if it accepts the Transactions due to the controlling interest being obtained by EMARS and Roleystone. An opportunity may be lost to obtain a takeover premium for the Company's shares unless EMARS sold their interest in Auvex or subscribed for a 100% interest.

10.3.2 The Transactions will result in the dilution of current shareholders ownership percentages.

## 11 CONCLUSIONS

### 11.1 Fairness

For the Transactions to be fair, the value of the consideration paid or being paid by EMARS must be equal to or greater than the value of the Auvex securities to be issued to EMARS.

Auvex securities are being issued to both EMARS and Roleystone (and/or its nominees including Comtrack Pte Ltd) as part of the Transactions. EMARS and Roleystone (and its nominee, Comtrack Pte Ltd) are associates, and therefore their relevant interests in Auvex are being aggregated for the purposes of this report. References below to EMARS with respect to the issue of Auvex securities includes securities being issued to Roleystone (and its nominee, Comtrack Pte Ltd).

The consideration paid or being paid by EMARS for the Auvex securities, and the indicative value of the Auvex securities being issued to EMARS, is as follows:

Security issued	Consideration	Value
<b>Transaction A</b>		
10,000,000 shares	2,000,000	2,314,824
15,000,000 options		842,796
5,000,000 options		223,374
Convertible Notes	3,000,000	3,472,235
Conversion Option		568,399
<b>Transaction A sub-total</b>	<b>5,000,000</b>	<b>7,421,628</b>
<b>Transaction B</b>		
5,762,000 shares	1,152,400	1,333,801
4,300,000 shares	860,000	995,374
<b>Transaction B sub-total</b>	<b>2,012,400</b>	<b>2,329,175</b>
<b>Transactions Total</b>	<b>7,012,400</b>	<b>9,750,803</b>

In assessing the fairness of the Transactions, we must also assess the value of the Marketing Agreement with EMARS, which is a condition of Transaction A.

We have assigned a value of *nil* to the Marketing Agreement based on the following:

- a) The Marketing Agreement has been based on normal market terms and there is therefore no advantage or material value to Auvex;
  - b) The terms of the Marketing Agreement are similar to arrangements between professional service providers that have no market value;
  - c) The services to be provided under the Marketing Agreement are those that could be obtained by Auvex from other third parties on the same or similar commercial terms;
  - d) EMARS and Auvex may not assign or transfer all or any of its rights or obligations under the Marketing Agreement without the prior written approval of the other party;
- and

- e) As Auvex has no income currently and returns are still highly prospective it is difficult to determine when and if they will extract any value from the Marketing Agreement.

The Transactions also include the issue of additional shares to Roleystone or its nominee to maintain its percentage interest in Auvex if Auvex undertakes any further pre-IPO equity raisings. There is no certainty that any additional shares will be issued. Considering the value of the shares and options included in section 4.4.2, we believe that it is not likely that these additional shares, if issued, would be issued at a value that would alter our opinion as to the fairness of the Transaction.

Therefore, as the consideration paid or being paid by EMARS for the Auvex securities of \$7,012,400 is lower than the value attributed to the Auvex securities of \$9,750,803, in our opinion the Transactions are **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.

Some relevant issues we have considered in relation to the Transactions and in forming our opinion are that Auvex:

- is still in start-up phase and made an operating loss of \$1.8 million in the 2009 financial year, being its first full year of operation;
- does not have any free cash flows nor does it have sufficient cash reserves to achieve growth objectives;
- has not identified any other subscribers for the necessary funds required to meet the company's objectives;
- has already received the funds from some of the shares issued to EMARS and Roleystone (and its nominee, Comtrack Pte Ltd) that are the subject of ratification under the Transactions, totalling \$3.15 million (15,762,000 shares at \$0.20 each) and the \$3 million from the issue of Convertible Notes to EMARS. If Auvex is required to repay these amounts it is unlikely they will have the funds available; and
- is not yet cash flow positive.

The Transactions provide an opportunity for the company to access the working capital required to continue its exploration and development activities and assist with the successful development and commercial exploitation of its mining areas.

The Transactions may provide an opportunity for shareholders to experience growth in the value of shares based on the commercial opportunities arising from the funds raised from the Transactions.

Given that the company requires a large amount of working capital to achieve its business objectives, it will have difficulty in meeting these objectives without the injection of these funds.

Accordingly, in our opinion, having considered the advantages of the Transactions and the alternatives of not proceeding with the Transactions, in our opinion the Non-Associated Shareholders of Auvex should benefit if the Transactions proceed and therefore, in our opinion, the Transactions are reasonable.

### **11.3 Marketing Agreement at Arms Length**

Section 208 of the Corporations Act specifies a public company must not give a financial benefit to a related party without shareholder approval. Shareholder approval is being sought under section 208 for Auvex to enter into the Marketing Agreement with EMARS, as a related party of the Company.

The Marketing Agreement will provide Auvex with the marketing services it will require to sell manganese ore mined and produced from Auvex's current and future mining operations, excluding Auvex's share of manganese ore produced from the Sunday Hill/Ant Hill joint venture project. The Marketing Agreement also includes EMARS appointing one representative to the sales committee in relation to the sale and marketing of manganese ore produced from the Sunday Hill/Ant Hill joint venture project.

We are of the opinion that the terms of the Marketing Agreement are reasonable in the circumstances as if Auvex and EMARS were dealing at arms length on the basis that:

- a) the terms on which this agreement is based are commercially acceptable to both EMARS and Auvex and have been based on normal market terms;
- b) the fees to be paid to EMARS are at arms length market rates in comparison to similar market arrangements and a review of marketing budgets of comparable companies;
- c) we have held discussions with industry representatives and ascertained that the terms of the Marketing Agreement are at appropriate market rates;
- d) the services to be provided under the Marketing Agreement are those that could be obtained by Auvex from other third parties on the same or similar commercial terms;
- e) EMARS and Auvex may not assign or transfer all or any of its rights or obligations under the Marketing Agreement without the prior written approval of the other party; and
- f) Auvex have obtained an opinion from an expert in the field of marketing agreements in the minerals industry, who has concluded that:
  - 1) The management fee of \$50,000 per annum for consulting services appears reasonable for the duties involved;
  - 2) The practice of reimbursing costs incurred on marketing during the establishment of new operations on non joint venture tenements is reasonable; and
  - 3) The marketing fee of 3% of revenue from the sale of Non-Joint Venture Manganese appears to be reasonable.

#### 11.4 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

Yours faithfully  
Hall Chadwick Corporate (NSW) Limited



DREW TOWNSEND



DAVID KENNEY

## **APPENDIX I - SOURCES OF INFORMATION**

- Auvex Resources Limited Audited Financial Report for the year ended 2009;
- Auvex Resources Limited Notice of General Meeting;
- Auvex Resources Limited Explanatory Memorandum;
- Auvex Company registry details;
- Geologica Pty Ltd Independent Geology Appraisal Report dated 27 October 2009;
- EMARS Executed Loan Facility & Secured Convertible Note Deed dated 3 March 2009;
- EMARS Executed Subscription Agreement dated 3 March 2009;
- Letter of agreement between EMARS, Roleystone and Auvex dated 29 September 2009;
- Manganese Marketing and Management Services Agreement between Auvex and EMARS dated 23 October 2009;
- Mesa Executed Sales Agency Heads of Agreement dated 29 April 2008;
- Mesa Executed Farmin and JV Agreement dated 29 April 2008;
- Regulatory Guide 74 'Acquisitions Agreed to by Shareholders';
- Regulatory Guide 111 'Content of Expert Reports';
- Regulatory Guide 112 'Independence of Expert's Reports';
- 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 Auvex, EMARS and Roleystone 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 Auvex, EMARS and Roleystone.

Also, in accordance with section 648 (2) of the Corporations Act we confirm we are not aware of any business relationship or financial interest of a material nature with Auvex, its related parties or associates that would compromise our impartiality.

Mr Drew Townsend and Mr David Kenney, directors of Hall Chadwick Corporate (NSW) Limited and registered company auditors, have prepared this report. Neither they nor any related entities of Hall Chadwick Corporate (NSW) Limited have any interest in the promotion of these Transactions 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 Transactions, 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 provided a draft copy of this report to the Directors and management of Auvex 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 Auvex 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 Auvex and EMARS 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.

The sources of information that we relied upon are outlined in Appendix I of this report.

Auvex has provided an indemnity to HCC for any claims arising out of any mis-statement or omission in any material or information provided by Auvex 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 Auvex. 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 accompany the Notice of General Meeting to be sent to Auvex 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 Transactions are fair and reasonable. HCC consent to the issue of this report in the form and context in which it is included in the Notice of General Meeting to be sent to Auvex shareholders.

Shareholders should read all documents issued by Auvex that consider the Transactions in their 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 unassociated shareholders of Auvex. Neither HCC, nor any member or employee thereof undertakes responsibility to any person, other than an unassociated shareholder of Auvex, 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 Auvex documents (including the Notice of Meeting and Explanatory memorandum) to which our report is included or 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 in accordance with Australian Auditing Standards (AUS), nor do they constitute a review in accordance with AUS 902 applicable to review engagements.

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 its date.

### **APPENDIX III - FINANCIAL SERVICES GUIDE**

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.

The Corporations Act 2001 requires HCC to provide this Financial Services Guide (“FSG”) in connection with its provision of an independent expert’s report (“Report”) which is included in a document provided to members by the company for which HCC prepares the Report.

HCC does not accept instructions from retail clients. HCC provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. HCC does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, HCC’s client is the Entity to which it provides the Report. HCC receives its remuneration from the Entity. In respect of the Report for Auvex Resources Limited (“Auvex”) in relation to the proposed issue of securities to EMARS Mining Pty Limited and associated entities (“EMARS”), HCC will receive a fee for its services on a time cost basis estimated to be \$17,500, excluding GST.

No related body corporate of HCC, or any of the directors or employees of HCC or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Report.

HCC is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission. The following information in relation to the independence of HCC is stated in Appendix II of the Auvex Report:

*“Hall Chadwick Corporate (NSW) Limited (“HCC”) has a license to prepare reports under the Corporations Act and its representatives are qualified to provide this report. Prior to accepting this engagement HCC determined its independence with respect to Auvex, EMARS and Roleystone 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 Auvex, EMARS and Roleystone.*

*Also, in accordance with section 648 (2) of the Corporations Act we confirm we are not aware of any business relationship or financial interest of a material nature with Auvex, its related parties or associates that would compromise our impartiality.*

*Mr Drew Townsend and Mr David Kenney, directors of Hall Chadwick Corporate (NSW) Limited and registered company auditors, have prepared this report. Neither they nor any related entities of Hall Chadwick Corporate (NSW) Limited have any interest in the promotion of the Transactions 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 Transactions, 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 has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, membership number 11442.

HCC is only responsible for the Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to HCC who is not responsible for that document. HCC will not respond in any way that might involve any provision of financial product advice to any retail investor.