

9 August 2011

Company Announcements Office  
Australian Securities Exchange  
20 Bridge Street  
SYDNEY NSW 2000

**Alloy**  
**RESOURCES LIMITED**

ABN 20 109 361 195

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WA 6153 Australia

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Dear Sir/Madam

**NOTICE OF GENERAL MEETING**

Please find attached a Notice of General Meeting and Explanatory Statement for a meeting to be held at the South of Perth Yacht Club, Canning Beach Rd, Applecross WA on 9 September 2011 commencing at 10am. The Notice has been dispatched to shareholders.

Yours sincerely  
**Alloy Resources Limited**



**Kevin Hart**  
Company Secretary



**ABN 20 109 361 195**

**NOTICE OF GENERAL MEETING**

**&**

**EXPLANATORY STATEMENT**

**To be held**

At 10.00am Friday, 9 September 2011

**at the**

South of Perth Yacht Club  
Coffee Point  
Canning Beach Road  
APPLECROSS WA 6153

**ALLOY RESOURCES LIMITED**  
ABN 20 109 361 195

**NOTICE OF GENERAL MEETING**

Notice is hereby given that the General Meeting of Alloy Resources Limited will be convened at 10.00am on Friday, 9 September 2011 at the South of Perth Yacht Club, Coffee Point, Canning Beach Road, Applecross, Western Australia.

**AGENDA**

**ORDINARY BUSINESS**

**1. Election of Director – Mr Andrew Viner**

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

*“That Mr Andrew Viner, who was appointed to the Board since the last Annual General Meeting of the Company, who retires in accordance with the Company’s Constitution and being eligible, offers himself for re-election as a Director.”*

**2. Ratification of Prior Issue of Equity Securities – Placement**

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

*“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders approve and ratify the prior issue of 19,000,000 ordinary fully paid shares pursuant to the Placement completed on 21 February 2011 on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

**3. Approval for Placement of Shares**

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

*“That, for the purpose of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Directors to allot and issue Shares raising a total of up to \$2,500,000 on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

**4. Authority for Directors to Participate in Placement**

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

*“That, subject to and conditional upon Resolution 3 being passed, for the purposes of Sections 208 and 195(4) of the Corporations Act, Listing Rule 10.11 and for all other purposes, approval is given for the Directors (or their nominees) to participate in the Placement by subscribing for up to \$250,000 worth of Shares on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

**5. Approval of the Grant of Options and Performance Rights to Director – Mr Andrew Viner**

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

*“That subject to Resolution 1 being passed, pursuant to and in accordance with ASX Listing Rule 10.14 and Section 208 of the Corporations Act 2001 and for all other purposes, Shareholders approve the issue of 3,500,000 unlisted options and 3,500,000 performance rights under the Alloy Resources Limited Incentive Option Scheme and Performance Rights Plan respectively to Mr Andrew Viner in accordance with the terms and conditions set out in the Explanatory Statement accompanying this Notice of Meeting.”*

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**NOTICE OF GENERAL MEETING**

**GENERAL NOTES**

1. The Company will disregard any votes cast on Resolution 2 by any person who participated in the issue and any associate of that person (or those persons).
2. The Company will disregard any votes cast on Resolution 3 by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, and any associates of those persons.
3. The Company will disregard any votes cast on Resolution 4 by the directors of the Company and any of their associates.
4. The Company will disregard any votes on Resolution 5 by Mr Andrew Viner or any person associated with him.
5. Notwithstanding the above, before a voting exclusion applies, the Company need not disregard a vote if:
  - (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
  - (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

**BY ORDER OF THE BOARD**



Kevin R Hart  
COMPANY SECRETARY

Dated this 3<sup>rd</sup> day of August 2011.

## ALLOY RESOURCES LIMITED

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### EXPLANATORY STATEMENT

The purpose of the Explanatory Statement is to provide shareholders with sufficient information to assess the merits of all of the Agenda items in the accompanying Notice of General Meeting.

The Directors recommend shareholders read this Explanatory Statement in full before making any decisions in relation to the Resolutions.

#### 1. Resolution 1 - Election of Director – Mr Andrew Viner

Mr Viner is a geologist with 28 years technical, managerial and corporate experience in mineral exploration and development. During his career he has generated and managed projects for a number of commodities, with a particular focus on precious metals in Australia, Asia and South America.

Mr Viner was founding Managing Director of Jackson Gold Limited from 2002 to 2007 and Executive Director of Matsa Resources Limited from 2008 to 2010. He is a member of the Australian Institute of Mining and Metallurgy and the Institute of Company Directors.

Mr Viner was appointed as Director on 21 June 2011 and is Managing Director of the Company.

#### 2. Resolution 2 - Ratification of Prior Issue of Equity Securities - Placement

On 21 February 2011, the Company announced that it had completed a placement of 19,000,000 ordinary fully paid shares (**Shares**) to professional and sophisticated investors in Australia at a subscription price of \$0.032 each share, to raise \$608,000 before the costs of the issue.

The Placement was completed on 21 February 2011 under the Company's 15% existing placing facility provided in Listing Rule 7.1 (**Placement**).

Listing Rule 7.1 provides that without Shareholder approval, a company must not issue or agree to issue new equity securities constituting more than 15% of its total issued capital within a 12 month period.

Listing Rule 7.4 allows an issue of securities made without the approval of Shareholders to be ratified by shareholders, in order to refresh the 15% capacity under Listing Rule 7.1, provided at the time the issue was made, the issue was made within the Company's existing 15% capacity under Listing Rule 7.1.

Shareholder approval is therefore now sought pursuant to Listing Rule 7.4 to ratify the Placement so that the Company refreshes its capacity to issue up to 15% of its issued ordinary capital, if required, in the next 12 months without first requiring Shareholder approval for those future issues.

Listing Rule 7.5 requires that the following information be provided to Shareholders for the purpose of obtaining Shareholder approval pursuant to Listing Rule 7.4:

- (a) the total number of equity securities issued was 19,000,000 Shares;
- (b) the Shares were issued at a price of \$0.032 per Share;
- (c) the Shares issued rank equally with existing Shares on issue;
- (d) the Shares were issued to professional and sophisticated investors who are clients of Argonaut Securities, none of whom are related parties of the Company; and
- (e) proceeds from the Placement will be used to fund the Company's exploration and evaluation programs at the Horse Well Gold Project and Cootamundra Manganese Project, and provide working capital.

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### EXPLANATORY STATEMENT

#### 3. Resolutions 3 and 4 - Placement of Shares

The Shares under Resolutions 3 and 4 are being issued as part of a placement to raise a total of up to \$2,500,000 before costs of the issue (**Placement**).

Resolution 4 is proposed to enable the existing Directors of the Company (or their nominees) to participate in the Placement. If Resolution 4 is not passed, the existing Directors of the Company will be unable to participate in the Placement. The Shares being offered to the existing Directors are being offered on the same terms and conditions as the Shares to be issued to the non-related parties under Resolution 3.

For the avoidance of doubt, the total number of Shares that will be issued under Resolutions 3 and 4 is that number of Shares which, when multiplied by the issue price, equals \$2,500,000. Any Shares issued under Resolution 4 to the Directors (or their nominees) (up to a total of \$250,000 worth of Shares) will be deducted from the number of Shares issued under Resolution 3.

#### **ASX Listing Rules**

Resolution 3 is required to be approved in accordance with ASX Listing Rule 7.1 and Resolution 4 is required to be approved in accordance with ASX Listing Rule 10.11.

Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities or other securities with rights of conversion to equity (such as an option) if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

Listing Rule 10.11 requires a listed company to obtain shareholder approval by ordinary resolution prior to the issue of securities to a related party of the Company (which includes a director).

Pursuant to Resolution 3, Shares will be issued to non-related parties as part of the capital raising and for this reason, approval for the issue of Shares to non-related parties is required pursuant to ASX Listing Rule 7.1.

Pursuant to Resolution 4, it is proposed that Shares may be issued to Mr Peter Harold, Mr Andrew Viner, Mr Peter Hepburn-Brown, Dr Jayson Meyers and Mr Kevin Hart or their nominees (**Related Parties**) under the Placement. The Related Parties are related parties of the Company because they are existing Directors of the Company. For this reason, approval for the issue of the Shares to the Related Parties (or their nominees) pursuant to Resolution 4 is required pursuant to ASX Listing Rule 10.11.

The following information is provided to Shareholders for the purposes of obtaining Shareholder approval pursuant to ASX Listing Rules 7.1 and 10.11 for Resolutions 3 and 4:

- (a) the maximum number of Shares to be issued by the Company pursuant to Resolutions 3 and 4 is as follows:

<b>Resolution 3</b>	That number of Shares which, when multiplied by the Issue Price equals \$2,500,000.
<b>Resolution 4</b>	That number of Shares which, when multiplied by the Issue Price equals \$250,000.

As outlined above, the maximum number of Shares to be issued under Resolutions 3 and 4 is that number of Shares which, when multiplied by the Issue Price equals \$2,500,000. Any Shares issued under Resolution 4 will be deducted from the total number of Shares issued under Resolution 3;

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**EXPLANATORY STATEMENT****3. Resolutions 3 and 4 - Placement of Shares (cont'd)**

- (b) the issue price of the Shares issued pursuant to Resolutions 3 and 4 will be not less than 80% of the average market price for Shares calculated over the 5 days on which sales in the Shares are recorded before the day on which the issue is made or, if there is a prospectus, over the last 5 days on which sales in the securities were recorded before the date the prospectus is signed (**Issue Price**); The following example shows the number of Shares that may be issued using various issue prices:

<b>Issue price</b>	<b>No. of Shares to be issued</b>
3.0 cents	83,333,333
3.7cents (closing Share price on 26 July 2011)	67,567,568
5 cents	50,000,000
7 cents	35,714,286

- (c) it is anticipated that the Shares issued pursuant to Resolution 3 will be issued no later than 3 months after the date of the General Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment will occur on the same date;
- (d) it is anticipated that the Shares issued pursuant to Resolution 4 will be issued no later than 1 month after the date of the General Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules) and it is anticipated that allotment will occur on one date;
- (e) the Directors will determine to whom the Shares to be issued pursuant to Resolution 3 will be issued but these persons will not be related parties of the Company. The shares will be issued to professional and sophisticated investors as defined under the Corporations Act 2001;
- (f) Resolution 4, if passed, will enable the Related Parties to subscribe up to a total of that number of Shares which, when multiplied by the Issue Price equals \$250,000, However there is no obligation on any of those Related Parties to subscribe for those Shares. The maximum number of Shares that each individual Related Party can subscribe for under Resolution 4 is as follows:
- (i) \$50,000 worth of Shares to Mr Peter Harold;
  - (ii) \$100,000 worth of Shares to Mr Andrew Viner;
  - (iii) \$50,000 worth of Shares to Mr Peter Hepburn-Brown;
  - (iv) \$25,000 worth of Shares to Dr Jayson Meyers; and
  - (v) \$25,000 worth of Shares to Mr Kevin Hart.

In the event that the Related Parties do not subscribe for all of the Shares for which Shareholders have given approval for them to subscribe, those Shares will be issued to other investors under Resolution 3 as referred to in paragraph (e) above.

- (g) The Shares issued under Resolutions 3 and 4 will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares. Should the placement raise the maximum amount under Resolution 4 the funds will be applied in the following way:

<b>Project</b>	<b>\$</b>
Horse Well Project	1,500,000
Cootamundra Project	250,000
Barrytown Project	100,000
Working capital	650,000
	<hr/>
	2,500,000

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### EXPLANATORY STATEMENT

#### 3. Resolutions 3 and 4 - Placement of Shares (cont'd)

To the extent that placement funds raised are less than \$2.5 million, the Directors will allocate the lesser amount raised on a proportionate basis.

Given the inherent uncertainties associated with exploration programs, budgets may be altered to accommodate the results of exploration activities as they come to hand.

The expenditures shown above may be subject to change, and will be contingent upon results, circumstances and other opportunities. Expenses associated with the placement will be met from current working capital.

#### **Chapter 2E of the Corporations Act**

Under Chapter 2E of the Corporations Act, a public company cannot give a "financial benefit" to a "related party" unless one of the exceptions to Section 208 apply or shareholders have in general meeting approved the giving of that financial benefit to the related party.

A "financial benefit" is defined in the Corporations Act in broad terms and includes a public company issuing securities.

For the purposes of this meeting, a "related party" includes a director of the Company. Accordingly, the proposed issue of Shares to each of the Directors involves the provision of a financial benefit to a related party of the Company.

Section 210 of the Corporations Act provides that an entity does not need to obtain Shareholder approval to give a financial benefit to a related party if the giving of the financial benefit would be reasonable in the circumstances if the related party and the entity are dealing at arm's length (or terms less favourable than arm's length).

Notwithstanding that the Directors will be subscribing for Shares under the Placement on the same terms as all other investors, the Board is of the view that it is prudent to seek Shareholder approval under Section 208 of the Corporations Act.

#### **Information required by Chapter 2E of the Corporations Act**

In addition to the information provided regarding Resolution 4 above, in accordance with the requirements of Sections 217 to 227 of the Corporations Act the following information is provided to allow Shareholders to assess the proposed issue of Shares to each of the Related Parties.

If Resolution 4 is passed, the exact number of Shares to be issued to the Related Parties is not known at the current time as the number of Shares which may be issued is determined on the Issue Price.

The issue of any Shares to the Related Parties will increase the number of Shares on issue in the Company and will dilute the interest of Shareholders accordingly. The exact level of any dilution is not able to be accurately stated until such time as the number of Shares to be issued and their exercise price is known. However, the dilution can be calculated at the time by dividing the number of Shares issued by the total number of Shares on issue in the Company, multiplied by 100.

The following table set out each Director's current entitlement to Shares and Options in the Company.

<b>Director</b>	<b>Number of Shares</b>	<b>Options Expiring 30/11/2012<sup>(1)</sup></b>
Peter Harold	750,000	1,000,000
Jayson Meyers	4,500,000	1,000,000
Peter Hepburn-Brown	6,078,119	1,000,000
Kevin Hart	1,537,500	1,000,000
Andrew Viner	1,000,000	-

<sup>(1)</sup> Options are exercisable by payment of 25 cents each.

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**EXPLANATORY STATEMENT**

**3. Resolutions 3 and 4 - Placement of Shares (cont'd)**

Details of the nature and amount of each major element of the emoluments of each Director for the year ended 30 June 2011 is as follows.

<b>Director</b>	<b>Salary and Fees \$</b>	<b>Consulting \$</b>	<b>Superannuation Contributions \$</b>	<b>Total \$</b>
Peter Harold	35,000	-	-	35,000
Andrew Viner (3)	7,928	-	714	8,642
Jayson Meyers (1)	35,000	102,300	9,995	147,295
Peter Hepburn-Brown	-	126,000	11,340	137,340
Kevin Hart (2)	35,000	-	-	35,000
<b>TOTAL</b>	<b>112,928</b>	<b>228,300</b>	<b>22,049</b>	<b>363,277</b>

**Note 1**

Dr. Jayson Meyers has an interest as a Director in Resource Potentials Pty Ltd. This firm provides geophysical consulting, geological and geochemical database management services, and administration support to the company in the ordinary course of business. The value of the transactions in the financial year ending 30 June 2011 amount to \$49,047 (2010: \$44,900).

**Note 2**

Mr Hart has an interest as a Partner in a Chartered Accounting firm, Endeavour Corporate. This firm provides company secretarial and accounting services to the Company in the ordinary course of business. The value of transactions in the financial year ending 30 June 2011 amounted to \$83,052. (2010: \$79,125). Terms and conditions were not more favourable than those available, or which might reasonably be expected to be available for a similar transaction to unrelated parties on an arms length basis.

**Note 3**

Mr Viner commenced as Managing Director on 21 June 2011. Mr Viner's annual remuneration package is \$275,000 per annum.

None of the Directors wish to make a recommendation to Shareholders about Resolution 4 as they have a material personal interest in the outcome of the Resolution.

The Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 4.

**Section 195 Corporations Act**

Section 195(1) of the Corporations Act provides a general restriction on a director who has a material personal interest in a resolution being considered at a directors' meeting of the company being present during any discussion on the resolution or voting on the resolution at the directors' meeting.

Section 195(4) of the Corporations Act provides that where there are insufficient directors to form a quorum at a directors' meeting because of Section 195(1), the directors can call a general meeting of shareholders to consider the matter.

The Directors are unable to form a quorum to consider any matters relating to the issue of Shares under Resolution 4, as each of the Directors has a material interest in the outcome of the Resolution. Therefore, the Directors are seeking approval under Section 195(4) to deal with the matter.

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**EXPLANATORY STATEMENT**

**4. Resolution 5 - Approval of the Grant of Options and Performance Rights to Director – Mr Andrew Viner**

Resolution 5 seeks Shareholder approval to allow the Company to issue:

- (a) 3,500,000 unlisted options pursuant to the Alloy Resources Limited Incentive Option Scheme (**Option Scheme**) and on the terms and conditions set out below (**Options**); and
- (b) 3,500,000 performance rights pursuant to the Alloy Resources Limited Performance Rights Plan (**Performance Rights Plan**) and on the terms and conditions set out below (**Performance Rights**),

to Mr Andrew Viner, Managing Director, or his nominee.

ASX Listing Rule 10.14 requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities under an employee incentive scheme to a director of the entity, an associate of the director, or a person whose relationship with the entity, director or associate of the director is, in ASX's opinion, such that approval should be obtained.

The issue of the Options and Performance Rights to Mr Andrew Viner requires the Company to obtain Shareholder approval because this issue constitutes giving a financial benefit and, as a Director, Andrew Viner is a related party of the Company.

The granting of the Options and Performance Rights as contemplated by Resolution 5 also constitutes the providing of a financial benefit to a related party. Section 208 of the Corporations Act prohibits a company from giving a financial benefit, other than in certain defined circumstances, to a related party without prior Shareholder approval.

A "related party" for the purposes of the Corporations Act is defined widely. It includes a director of a public company and specified members of the director's family. It also includes an entity over which a director maintains control.

The granting of the Options and Performance Rights to Andrew Viner constitutes a financial benefit to a related party of the Company within the meaning of the Corporations Act and does not fall within one of the exceptions provided in the Corporations Act. Accordingly, Shareholder approval is sought for the issue of the Options and the Performance Rights.

***Listing Rule 10.14***

The following information is provided to Shareholders in accordance with Listing Rule 10.15:

- (a) the maximum number Options to be issued to Andrew Viner is 3,500,000 and the maximum number of Performance Rights to be granted to Andrew Viner is 3,500,000;
- (b) the Options will be issued for nil consideration;
- (c) the Performance Rights will be issued for nil consideration and no consideration will be payable upon vesting of the Performance Rights on the achievement of the specified performance;
- (d) no Options have been issued under the Option Scheme since its approval at the Company's annual general meeting held on 25 November 2010;
- (e) the Board may determine in its discretion who is entitled to participate in the Option Scheme and issue an invitation to that person. As at the date of this Notice of Meeting Andrew Viner is entitled to participate in the Option Scheme;

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**EXPLANATORY STATEMENT**

**4. Resolution 5 - Approval of the Grant of Options and Performance Rights to Director – Mr Andrew Viner (cont'd)**

- (f) no Performance Rights have been issued under the Performance Rights Plan since its approval at the Company's annual general meeting held on 25 November 2010;
- (g) the Board may determine in its discretion who is entitled to participate in the Performance Rights Plan and issue an invitation to that person. As at the date of this Notice of Meeting Andrew Viner is entitled to participate in the Performance Rights Plan; and
- (h) the Company will issue the Options and Performance Rights within twelve months of the date of the meeting.

**Chapter 2E of the Corporations Act**

Pursuant to and in accordance with the requirements of Sections 217 to 227 of the Corporations Act the following information is provided to Shareholders to allow them to assess the proposed issue of the Options and Performance Rights the subject of this resolution.

**(a) The Related Party to Whom the Proposed Resolution would permit the Financial Benefit to be Given**

The Options and Performance Rights will be granted to the Company's Managing Director, Mr Andrew Viner (or his nominee).

**(b) Nature of the Financial Benefit**

The proposed financial benefit to be given is the grant of a maximum of 3,500,000 Options to Mr Andrew Viner to subscribe for fully paid ordinary shares in the capital of the company at an exercise price being 150% of the market closing price of the Company's ordinary fully paid shares for the trading day prior to issue (**Exercise Price**), and a maximum of 3,500,000 Performance Rights.

The Options will have an expiry date of 30 August 2015 and will be issued in accordance with the terms and conditions set out in Appendix A of this Explanatory Statement.

The Performance Rights will vest equally over 3 years and have an expiry date of 21 June 2015. The Performance Rights will be issued in accordance with the terms and conditions set out in Appendix B of this Explanatory Statement.

The Directors of the Company consider the indicative theoretical value attributable to the Options at a valuation date of 22 July 2011 to be as follows, notwithstanding that the Options will not be issued until after 9 September 2011, being the date of the General Meeting of the Shareholders of the company.

	<b>Exercise Price</b>	<b>Expiry</b>	<b>Theoretical Value</b>
Options	\$0.06	30 August 2015	2.11 cents
Performance Rights	\$0.00	21 June 2015	4.0 cents

The Black and Scholes valuation methodology was used as a basis for the calculations using the following assumptions:

The share price of a fully paid Alloy Resources Limited share as at the valuation date of 22 July 2011 was \$0.04.

The risk free interest rate used was 4.43% (based on the 3 year Australian Treasury bond rate).

A volatility factor of 80% was used to value the options as determined based on the Company's previous history and the market generally.

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**EXPLANATORY STATEMENT**

**4. Resolution 5 - Approval of the Grant of Options and Performance Rights to Director – Mr Andrew Viner (cont'd)**

The Options vest on the date of issue and are exercisable on or before 30 August 2015. The Performance Rights vest equally over 3 years from the commencement date and expire 4 years from the commencement date being 21 June 2015.

Mr Andrew Viner must be an Executive Director at each vesting date for the Performance Rights to vest and become exercisable.

Based on the above assumptions, the value of the 3,500,000 Options and using the indicative values attributed is as follows:

	<b>Theoretical Value (cents)</b>	<b>Number of Options/Rights issued</b>	<b>Total value (\$)</b>
Options	2.11	3,500,000	73,850
Performance Rights	4.00	3,500,000	140,000

**(c) Directors Recommendations**

Peter Harold is not a beneficiary in the proposed issue of Options and Performance Rights and recommends that Shareholders vote in favour of Resolution 5 for the following reasons:

- (a) the issue of the Options and Performance Rights is in the best interests of the Company because they provide the Director with an incentive to enhance the future value of the Company's shares for the benefit of all Shareholders; and
- (b) the issue of the Options and Performance Rights is a reasonable and appropriate way to retain Mr Viner's professional services at reasonable market rates; and
- (c) it is not considered that there are any significant opportunity costs to the Company or benefits foregone by the Company in issuing the Options and Performance Rights upon the terms proposed.

Peter Hepburn-Brown is not a beneficiary in the proposed issue of Options and Performance Rights and recommends that Shareholders vote in favour of Resolution 5 for the reasons set out in sub-paragraphs (a) to (c) above.

Jayson Meyers is not a beneficiary in the proposed issue of Options and Performance Rights and recommends that Shareholders vote in favour of Resolution 5 for the reasons set out in sub-paragraphs (a) to (c) above.

Kevin Hart is not a beneficiary in the proposed issue of Options and Performance Rights and recommends that Shareholders vote in favour of Resolution 5 for the reasons set out in sub-paragraphs (a) to (c) above.

In forming their recommendations, each Director considered the experience of Mr Viner and his considerable ongoing responsibilities in his role as Managing Director. The number of Options and Performance Rights has also been determined having regard to providing ongoing equity incentives over time to advance the Company and its assets. Regard has also been given to less tangible issues such as alignment of interests to the Company through an equity holding.

Mr Viner declines to make a recommendation on Resolution 5 because he has a material personal interest in the outcome of the resolution, on the basis that he will be granted Options and Performance Rights in the Company should the resolution be passed. Therefore, he is not in a position to recommend either for or against the proposed resolution.

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**EXPLANATORY STATEMENT**

**4. Resolution 5 - Approval of the Grant of Options and Performance Rights to Director – Mr Andrew Viner (cont'd)**

**(d) Directors Interest**

With the exception of Mr Viner, no other Director has a material personal interest in the outcome of the resolution.

**(e) Other information reasonably required by the members to make a decision and that is known to the Company or any of its Directors**

The Options and Performance Rights form part of the Company's long term incentive for employees and are to be granted in addition to the total fixed remuneration set out below. The exercise price of the Options is linked to improved share price performance. Importantly, this provides ongoing incentive to increase shareholder value over time and the exercise price reflects levels in excess of the current market price of the Company's shares.

Exercise of the Options is allowable immediately after issue, but only likely to occur if there is sustained upward movement in the Company's share price.

The terms and conditions of the Options and Performance Rights are set out in Appendix A and B respectively. The Options and Performance Rights shall be issued for nil consideration to Mr Viner, and will be issued within twelve months of the date of the meeting.

If the Options proposed to be granted to Mr Viner are exercised, and the vesting conditions relating to the Performance Rights are satisfied, the Company's issued shares would increase by 7,000,000 shares to a total of issued capital of 153,044,870 shares (assuming no other outstanding options are exercised and no further shares are issued).

The exercise of the options and the performance rights will provide the Company with additional working capital of \$210,000 and will represent approximately 4% of the total issued capital of the company on a fully diluted basis.

As at 22 July 2011 the issued capital of the Company comprised 146,044,870 ordinary fully paid shares, 4,000,000 unlisted options expiring 30 November 2012, exercisable by payment of 25 cents each.

The following table sets out Mr Viner's current entitlement to shares.

<b>Director</b>	<b>Number of Shares</b>
Andrew Viner	1,000,000

Under the terms of Mr Viner's employment contract, his annual remuneration inclusive of superannuation, contributions will be \$275,000 per annum. In addition, Mr Viner's short term incentive is up to 30% of base salary on meeting certain key performance indicators as set by the Board from time to time.

The market price of the company's shares during the term of the Options will ordinarily determine whether or not option holders exercise the options.

If the market price of the Company's shares is in excess of the exercise price of the Options it is likely that the Options will be exercised. A benefit would accrue on the exercise of the Options by the payment of the amount determined under this notice and the sale of the ordinary shares for an amount in excess of these amounts.

In the last 12 months, the highest price for ordinary fully paid shares in the company trading on ASX was 7.6 cents which occurred on 9 June 2011. The lowest price was 1.8 cents which occurred on 27 August 2010. On 26 July 2011 the closing price was 3.7 cents.

All shares issued pursuant to the exercise of Options and Performance Rights under Resolution 5 will rank pari passu with the existing ordinary shares on issue.

There is no other information known to the Directors that is reasonably required by Shareholders to make a decision whether or not it is in the Company's interest to pass Resolution 5.

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## APPENDIX A – TERMS AND CONDITIONS OF INCENTIVE OPTION SCHEME

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The following is a summary of the key terms and conditions of the Option Scheme pursuant to which the Options the subject of Resolution 4 will be granted:

- (a) **Entitlement to Participate:** the Board will determine in its discretion who is entitled to participate in the Scheme and issue an invitation to that person. The Board will consider factors such as seniority and position of the potential participant, length of service, record of employment and potential contribution to growth and profitability of the Company.
- (b) **Exercise Price:** the Board will determine in its discretion the exercise price of the Options. To the extent that the Listing Rules specify or require a minimum price, the exercise price must not be less than any minimum price specified.
- (c) **Lapsing Date:** the lapsing date of an Option issued under the Scheme is two (2) years after the date of the grant of the Option, or such other date as the Board determines in its discretion at the time of the grant of that Option (**Lapsing Date**).
- (d) **Lapsing of Options:** the options of any participant in the Scheme will lapse where:
  - (i) the relevant person ceases to be an employee or director of, or to render services to, the company for any reason whatsoever and the Exercise Conditions have not been met;
  - (ii) the Exercise Conditions are unable to be met;
  - (iii) the Lapsing Date has passed, or
  - (iv) the relevant person ceases to be an employee or director of, or to render services to, the Company for any reason whatsoever, and the Exercise Conditions have been met,
- (e) **Exercise of Options:** Options granted under the Scheme are exercised by delivering to the Company's secretary (at a time when the Options may be exercised):
  - (i) the certificate for the Options or, if the certificate for the Options is destroyed or lost, a declaration to that effect, accompanied by an indemnity in favour of the Company against any loss, costs or expenses which might be incurred by the Company as a consequence of its relying on the declaration;
  - (ii) a notice in the form set out in the Scheme addressed to the Company and signed by the participant stating that the participant exercises the Options and specifying the number of Options being exercised and specifying the subregister of the Company in which the Shares are to be recorded in; and
  - (iii) payment to the Company of the an amount equal to the Option Exercise Price multiplied by the number of Options which are being exercised unless there is no exercise price payable in respect of the Options being exercised.
- (f) **Quotation:** the Company will make an application for the Shares issued as a result of the Options being exercised to be quoted in accordance with the Listing Rules.
- (g) **New Issues:** There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 7 Business Days after the issue is announced. This will give Option holders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.

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## APPENDIX B – TERMS AND CONDITIONS OF PERFORMANCE RIGHTS PLAN

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The following is a summary of the key terms and conditions of the Performance Rights Plan pursuant to which the Performance Rights the subject of Resolution 4 will be granted:

- (a) **Entitlement to Participate:** the Board will determine in its discretion whom is entitled to participate in the Plan and issue an invitation to that person. The Board will consider factors such as seniority and position of the potential participant, length of service, record of employment and potential contribution to growth and profitability of the Company.
- (b) **Rights:** each Performance Right issued under the Plan is a right to be issued with or transferred a single Share, free of encumbrances.
- (c) **Expiry Date:** means the date on which a Performance Right lapses (if it has not already lapsed in accordance with the Plan) as specified in the offer made to the participant.
- (d) **Vesting Conditions:** the Board will determine the Vesting Conditions that must be satisfied by a participant before the Performance Right vests in the holder.
- (e) **Vesting:** a Performance Right will vest in a participant where the Vesting Conditions are satisfied or waived by the Board or where the Performance Right vests as a result of Accelerated Vesting.
- (f) **Accelerated Vesting:** The Board may in its discretion determine that all or a specified number of a participant's unvested Performance Rights vest where:
  - (i) the participant dies;
  - (ii) the participant ceases to be employed by the Company;
  - (iii) a takeover bid for the Company's issued Shares is declared unconditional and the bidder has acquired a relevant interest in at least 50.1% of the Company's issued Shares;
  - (iv) a court approves under Section 411(4)(b) of the Corporations Act a proposed compromise or arrangement for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies; or
  - (v) the Company passes a resolution for voluntary winding up or an order is made for the compulsory winding up of the Company.
- (g) **Lapse of an unvested Performance Right:** A Performance Right that has not vested will lapse upon the earlier to occur of:
  - (i) a failure to meet the Performance Right's Vesting Conditions;
  - (ii) the Expiry Date;
  - (iii) the Participant ceasing to be an employee;
  - (iv) the Performance Right lapsing due to the Participant ceasing to be an employee or due to the occurrence of a Takeover Bid, compromise or arrangement or winding up;
  - (v) the Performance Right lapsing due to an unauthorised transfer, or purported transfer, of the Performance Right;
  - (vi) a determination of the Board that the Performance Right is to lapse due to fraud or dishonesty; or
  - (vii) the day before the end of the 7 year anniversary of the date of grant of the Performance Rights.

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**APPENDIX B – TERMS AND CONDITIONS OF PERFORMANCE RIGHTS PLAN  
(CONTINUED)**

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- (h) **Lapse of a vested Performance Right:** A Performance Right that has vested but not been validly exercised will lapse upon the earlier to occur of:
- (i) the Expiry Date (if any);
  - (ii) the Performance Right lapsing due to an unauthorised transfer, or purported transfer, of the Performance Right;
  - (iii) a determination of the Board that the Performance Right is to lapse due to fraud or dishonesty; or
  - (iv) the day before the end of the 7 year anniversary of the date of grant of the Performance Right
- (i) **Issue Price:** the issue price of the Shares to be offered under the Scheme will be the weighted average trading price of the Shares on ASX during the 5 trading days immediately preceding the date of invitation. In the event no trading has occurred during that period the issue price will be the last price at which an offer to purchase a Share was made on ASX.
- (j) **Exercise of Performance Right:** A participant may exercise a Performance Right that is entitled to exercised by lodging with the Company a notice of exercise of the Performance Right in the form (if any) prescribed by the Company, and the certificate for the Performance Right.
- (k) **Quotation:** If Shares of the same class as those allotted under the Plan are listed on the ASX the Company will apply to the ASX within a reasonable time after they are allotted for those Shares to be listed.
- (l) **New Issues:** Other than adjustments for bonus issues and reorganisation of the issued capital of the Company, participants are not entitled to participate in any new issue of securities of the Company as a result of their holding Performance Rights during the currency of any Performance Rights and prior to vesting. In addition, participants are not entitled to vote nor receive dividends as a result of their holding Performance Rights.