



STRICTLY CONFIDENTIAL

Gascoyne Resources Limited
(Administrators appointed)
Level 1, 41-47 Colin Street
West Perth, Western Australia 6005

Attention: Kate Warwick, Michael Ryan and Ian Francis

Dear Kate, Michael and Ian

Hanking Australia Investment Pty Ltd (Hanking Australia) DOCA, Recapitalisation and Relisting Plan for Gascoyne (Hanking DOCA Proposal)

I refer to your letter dated 23 June 2020 received at 11.59am regarding the Hanking DOCA Proposal submitted yesterday. Unless otherwise defined, capitalised terms have the meaning given in that letter.

In relation to your preliminary questions, we respond to each question below:

- 1 Please provide documentary evidence of the AUD\$16m prepayment amount, including confirmation of its existence in this jurisdiction, that it is available for provision in accordance with the Hanking proposal and that it is otherwise unallocated and unencumbered**

As disclosed to the HKSE in its last annual report for the year ending 31 December 2019, China Hanking Holdings Limited (**CHH**) has the equivalent of approximately AUD\$40 million in cash reserves and generated EBITDA in excess of AUD\$170 million. Further, CHH has funding in Hong Kong specifically ear-marked for Hanking Australia, evidenced by the announcement to increase its share capital in Hanking Australia by \$28 million. Further evidence can be provided if required.

In addition, subject to your acceptance of the Hanking DOCA Proposal, or alternatively your agreement to adjourn the 2nd meeting of creditors, CHH will transfer AUD\$16 million into Minter Ellison's legal trust account within three (3) business days to demonstrate Hanking Australia's ability to fund the Proponent Advanced Contribution.

- 2 We assume the references to the convertible note deed is to an arrangement to be put in place surrounding the AUD\$16m prepayment. What are the proposed terms of conversion and intended timing (ie before the capital raising)?**

Subject to any necessary conditions precedent or approvals, Hanking Australia accepts that the conversion of any advanced payment (AUD\$16 million) will be at the same price as the planned equity recapitalisation.

We look forward to discussing the valuation of the equity in Gascoyne Resources Limited (Gascoyne) with yourself and the lead manager(s).

From a timing perspective, as per clause 10.2(f)(2) of the Hanking DOCA Proposal, the conversion to equity would occur at completion of the equity recapitalisation, concurrent with completion of the DOCA. That is, the debt owing under the \$16 million advanced payment would be off-set at completion of the capital raising, not before the capital raising.



Please advise if this point is in any way unclear.

From a structural perspective, we anticipate that it will be necessary to structure the Convertible Note Deed into two separate tranches:

Tranche 1 – which would be an amount of debt the conversion of which would not require any shareholder or Foreign Investment Review Board (**FIRB**) approval, anticipated to be less than 10% of the issued capital; and

Tranche 2 – which would be for the balance of the AUD\$16 million. The amount of this tranche would be advanced as an unsecured loan, but the grant of the convertible notes and any conversion rights would be subject to the necessary shareholder and FIRB approvals.

3 What % shareholding is Hanking expecting to receive in exchange for the \$16m and does Hanking expect that the convertible note deed will offer Hanking any form of security?

This will depend on the value of Gascoyne equity that is determined for the purposes of the equity recapitalisation, the quantum of new equity raised and the quantum of any equity conversion.

Once again, we would welcome engagement on this point and note that to date you have not provided any indication as to the value of the existing equity or the equity raising price.

However, if FIRB approval is not obtained, the maximum percentage shareholding that Hanking Australia could acquire in Gascoyne would be 9.99%.

Further, the convertible notes would be unsecured.

4 What is the intended coupon of the note deed and what happens if shareholder and FIRB approval is not obtained?

Hanking Australia does not intend the convertible notes to include an interest rate unless the Hanking DOCA is terminated, any implementation agreement to give effect to the transactions is terminated, or any FIRB or shareholder approvals necessary for conversion are not obtained (**End Date**). From that point in time, Hanking Australia has assumed an arm's length market rate of interest would apply.

If the necessary shareholder and FATA approvals are not obtained:

- Tranche 1 of the convertible notes would still be able to be converted at Hanking Australia's discretion into Gascoyne shares at the relevant conversion price and during the relevant conversion period;
- Tranche 2 of the convertible notes would not be granted or able to be converted into Gascoyne shares; and
- No Hanking Australia nominee would be appointed to the Gascoyne board.

Any convertible notes that are not converted, or able to be converted, would be repaid in cash over the ordinary course as an unsecured loan, unless Hanking Australia were otherwise to transfer those notes (or the right to be granted a note) to a third party. Hanking Australia has assumed that the date for repayment of such a loan would be after a reasonable period to be agreed between the parties after the relevant End Date.



5 Has Hanking already lodged a FIRB application(s)? If so:

- a. please provide a copy(s);
- b. what aspects of the proposed transaction does Hanking view as being notifiable to FIRB under the foreign investment legislation (eg acquisition of shares under convertible note deed, acquisition of shares via underwriting / sub-underwriting arrangements, appointment of a director etc)?
- c. has Hanking received an indication from FIRB regarding its proposed timing for approval? If not, when does Hanking expect to receive FIRB approval?

No, the intention is to lodge a FIRB application shortly after the structure of the transaction has been finalised with you. However, Hanking Australia has engaged specialist legal advice from Minter Ellison and government relations advisers to assist in this process. Hanking Australia will be making submissions to FIRB on the basis that it consider the application on an urgent basis, and on a shorter timeframe than the current statutory review period. As stated in our covering letter emailed to you yesterday, Hanking Australia received FIRB approval for its Primary Gold acquisition as recent as 2018.

Considering that Hanking Australia may acquire 10% or more of the shares in Gascoyne (an Australian land corporation) it is a 'notifiable transaction' for the purposes of the *Foreign Acquisitions and Takeovers Act 1975* (Cth). This would apply both to the acquisition of convertible notes, as well as the acquisition of any shares pursuant to the capital raising or sub-underwriting agreement. For completeness, as Hanking Australia already holds shares in Gascoyne, any right to appoint a nominee to the Gascoyne board would require FIRB approval as well.

In relation to the proposed 'upper limit' that Hanking Australia will require for approval, this will depend on the level of underwriting available, but Hanking Australia's expectation is that it would not exceed 30% of the total issued share capital of Gascoyne.

6 What is Hanking's position if FIRB approval(s) is (are) not received? For instance:

- a. does the \$16m effectively become an unsecured loan and, if so, on what terms would it be repayable by Gascoyne and what is the repayment schedule and timeframe?

See the response to question 4

- b. would Hanking still expect a right to appoint a director to the Gascoyne board?

See the response to question 5, but obviously this is moot.

7 Please confirm that Hanking is not a Foreign Government Investor for FIRB purposes.

Confirmed.

8 Has Hanking commenced discussions with NRW. If so what is the status of those discussions and anticipated timing to obtaining agreement.

Yes, Argonaut and KPMG met with NRW yesterday afternoon to discuss the Hanking DOCA Proposal. Consistent with the feedback received from Investec, NRW advised that entering into a revised mining contract on standard commercial terms that are acceptable to Hanking Australia should be readily achievable.



9 How many directors is Hanking intending to appoint to the Gascoyne board and when? Does Hanking already know the identity of its proposed appointee/s and if so, please advise?

Subject to obtaining the necessary approvals, Hanking Australia would expect to have board positions commensurate with its shareholding. Based on a board comprising 5 directors, Hanking Australia's preference is to appoint two (2) directors to the Board of Gascoyne, but would be satisfied with one (1) director.

Hanking Australia is supportive of Mr Richard Hayes remaining as managing director of Gascoyne.

One of the Hanking Australia nominees would be Dr Mark Qiu, who has been a director on a number of substantial Australian ASX listed mining companies. The appointment would coincide with approval from FIRB and completion of the Capital Raising. Should Hanking Australia's shareholding warrants its second director nomination, Hanking Australia intends to nominate an experienced Australian candidate from the Australia mining industry.

We expect FTI to otherwise propose high quality candidates for the balance of the board positions of Gascoyne.

10 What additional % shareholding is Hanking expecting to receive via the underwriting or sub underwriting arrangements (ie in addition to its interest via the convertible note deed)?

Hanking Australia is seeking no more than a 30% shareholding in Gascoyne upon completion of the Hanking DOCA. Hanking Australia's shareholding will be facilitated by its participation in a proposed placement to precede the proposed entitlement offer and as a sub-underwriter to the proposed entitlement offer.

11 Does Hanking expect to have any control over the underwriting or sub-underwriting arrangements (including terms and the identity of sub-underwriters)? If so, to what extent?

The Capital Raising will be underwritten by either Canaccord Genuity and Argonaut as joint underwriters, lead managers and book runners or Argonaut as sole underwriter, lead manager and book runner. Canaccord Genuity and Argonaut are professional underwriters.

It is anticipated that Hanking Australia will participate as a priority sub-underwriter and that if required could result in Hanking Australia obtaining up to a 30% shareholding in Gascoyne.

Additional sub-underwriters will not be related parties or otherwise associated with Hanking Australia.

12 Does Hanking or Argonaut have a view on any other sub-underwriters and whether they will require FIRB approval? How is priority amongst potential sub-underwriters to be determined? Hanking to advise how sub-underwriting arrangements can be mandated and maintain consistency with ASIC/Takeovers Panel policy on control party underwriting. To confirm how other sub-underwriters who do not pose control outcomes can be identified and fit within structure.

Argonaut has advised Hanking Australia that it does not consider that any other sub-underwriters will require FIRB approval.

Hanking Australia has no control over other sub-underwriters that the Canaccord Genuity and Argonaut as joint underwriters, lead managers and book runners or Argonaut as sole underwriter, lead manager and book runner may wish to appoint.



The proposed underwriting structure is consistent with the policy considerations associated with Takeovers Panel Guidance Note 17. In circumstances where the transaction does have an effect on control, the impact has been mitigated by:

- the appointment of a professional underwriter that has no interest in obtaining control of the relevant issuer;
- appropriately structured capital raising, including dispersion strategies;
- full disclosure of the control impacts of the transaction, including that Hanking Australia will not obtain an interest of greater than 30% of Gascoyne shares post-transaction; and
- ensuring that general sub-underwriters, who will enter into sub-underwriting agreements directly with the underwriter, are not related parties and are not otherwise associated with Hanking Australia.

13 What are the terms of the standstill Hanking requires from the existing banks?

Subject to engagement with the Banks and understanding the arrangements currently proposed as part of FTI's DOCA proposal, any standstill arrangements would be limited to its rights not to appoint Receivers and Managers pursuant to existing securities and while the Hanking DOCA remained on foot and capable of completion.

We trust these responses more than satisfy your queries and that they will be provided to Gascoyne creditors well ahead of the Creditors meeting.

We also wish to re-iterate our desire and preparedness to engage with you, the Banks, NRW and any other key creditors. As you will be aware, even at this critical stage you've stalled and refused all invitation to do so.

Overall we appreciate the opportunity to respond to your queries and are confident that you will be better informed and in a position to provide a recommendation to creditors. Given the limited time available before the creditors' meeting and the constructive engagement evidenced by this correspondence' then we would support an adjournment of the creditors' meeting for up to two (2) weeks to facilitate a comprehensive understanding of the DOCA.

Yours sincerely,

Mark Qiu
Director
Hanking Australia Investment Pty Limited