

# Notice of Annual General Meeting and Explanatory Statement

Annual General Meeting to be held at  
The Celtic Club, 48 Ord Street, West Perth on 30 May 2006 commencing at 2.00pm

**LEGEND MINING LIMITED**  
**ABN 22 060 966 145**

This Notice of Annual General Meeting and Explanatory Statement should be read in its entirety.  
If shareholders are in doubt as to how they should vote, they should seek advice from their  
accountant, solicitor or other professional adviser without delay.

## Corporate Directory

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**Directors** Michael William Atkins (Non Executive Chairman)  
Mark William Wilson (Managing Director)  
Robert John Perring (Executive Director, Technical)  
Dermot Michael Ryan (Non-Executive Director)

**Secretary** Andrew David Chapman

**Registered Office** Level 2  
640 Murray Street  
WEST PERTH WA 6005  
Telephone: (08) 9212 0600  
Facsimile: (08) 9212 0611  
Website: [www.legendmining.com.au](http://www.legendmining.com.au)

**Auditor** Ernst & Young  
Chartered Accountants & Business Advisors  
The Ernst & Young Building  
11 Mounts Bay Road  
PERTH WA 6000  
Telephone: (08) 9429 2222  
Facsimile: (08) 9429 2436  
Website: [www.ey.com](http://www.ey.com)

**Lawyers** Pullinger Readhead Lucas  
Commercial Lawyers  
Level 2 Fortescue House  
50 Kings Park Road  
WEST PERTH WA 6005  
Telephone: (08) 9320 4999  
Facsimile: (08) 9320 4900  
Website: [www.prllawyers.com.au](http://www.prllawyers.com.au)

**Share Registry** Advanced Share Registry Services  
110 Stirling Highway  
NEDLANDS WA 6009  
Telephone: (08) 9389 8033  
Facsimile: (08) 9389 7871

**ASX Code** LEG

## **Notice of Annual General Meeting**

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Notice is hereby given that an Annual General Meeting of Shareholders of Legend Mining Limited will be held at The Celtic Club, 48 Ord Street, West Perth, Western Australia on 30 May 2006 at 2.00pm (WST). The Explanatory Statement which accompanies and forms part of this Notice of Annual General Meeting describes the various matters to be considered.

### **Ordinary Business**

#### **1 Financial Statements and Reports**

**Period 1 January 2005 to 31 December 2005**

To receive and consider the Annual Financial Report, together with the Directors' and Auditor's Reports for the year ending 31 December 2005

#### **2 Adoption of Compensation Report**

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That, for all purposes, Shareholders adopt the Compensation Report set out in the Directors' Report for the year ending 31 December 2005.

Please note that the vote on this resolution is advisory only, and does not bind the Directors or the Company.

#### **3 Election of Directors**

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

- (a) That, for all purposes, Michael William Atkins ("**Mr Atkins**"), who retires and offers himself for re-election, is re-elected as a Director.
- (b) That, for all purposes, Mark William Wilson ("**Mr Wilson**"), who was appointed to the Board since the last annual general meeting of the Company, is re-elected as a Director.
- (c) That, for all purposes, Dermot Michael Ryan ("**Mr Ryan**"), who was appointed to the Board since the last annual general meeting of the Company, is re-elected as a Director.
- (d) That, for all purposes, Robert John Perring ("**Mr Perring**"), who was appointed to the Board since the last annual general meeting of the Company, is re-elected as a Director.

## Special Business

### 4 Remuneration of Non-Executive Directors

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That, for all purposes, the maximum aggregate remuneration payable to non-executive Directors in any financial year be confirmed as \$200,000.

### 5 Approval of Issue of Securities to Yandal

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That the issue of 125,000,000 Early Conversion Fee Options to Yandal, and the issue of Shares following exercise of such Early Conversion Fee Options, be approved for the purposes and on the terms set out in the Explanatory Statement.

### 6 Approval for the Issue of Early Conversion Fee Options to Mr Wilson

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

Conditional on Resolutions 3 and 5 being passed, that the issue of 5,000,000 Early Conversion Fee Options to Mr Wilson (or nominee) be approved for the purposes and on the terms set out in the Explanatory Statement.

### 7 Approval for the Issue of Securities to Mr Ryan

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

Conditional on Resolution 5 being passed, that the issue of 15,000,000 Early Conversion Fee Options to Mr Ryan (or nominee), and the issue of Shares following exercise of such Early Conversion Fee Options, be approved for the purposes and on the terms set out in the Explanatory Statement.

### 8 Approval for the Issue of Early Conversion Fee Options to Mr Perring

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

Conditional on Resolutions 3 and 5 being passed, that the issue of 5,000,000 Early Conversion Fee Options to Mr Perring (or nominee) be approved for the purposes and on the terms set out in the Explanatory Statement.

## 9 Ratification of Previous Issue of Shares

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That the Shareholders ratify and approve the issue of 30,000,000 Shares for the purpose and on the terms set out in the Explanatory Statement.

## 10. Approval of Underwriting Fee Options Issue

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

That, for all purposes, Shareholders approve the issue of the 7,500,000 Underwriting Fee Options to the Underwriter (or nominee), for the purposes and on the terms set out in the Explanatory Statement, subject to the Rights Issue proceeding.

## Voting Exclusions

For the purposes of:

- (a) (**resolution 3**): Listing Rule 10.17.1, the Company will disregard any votes cast on this resolution by a Director or an associate of a Director;
- (b) (**resolutions 5, 6, 7 and 8**): Listing Rule 10.13 and section 224 of the Corporations Act, the Company will disregard any votes cast on resolutions 5, 6, 7 and 8 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 security holder, if the resolution is passed, and any of their associates, and Yandal and its associates;
- (c) (**resolution 9**): Listing Rule 7.5, the Company will disregard any votes cast on resolution 9 by any person who participated in the issue and any of their associates; and
- (d) (**resolution 10**) Listing Rule 7.3, the Company will disregard any votes cast on resolution 10 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 security holder, if the resolution is passed, and any of their associates,

unless 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 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).

## Explanatory Statement

The Explanatory Statement accompanying this Notice of Annual General Meeting is incorporated in and comprises part of this Notice of Annual General Meeting.

Shareholders are specifically referred to the Glossary in the Explanatory Statement which contains definitions of capitalised terms used both in this Notice of Annual General Meeting and Explanatory Statement.

## Proxies

Please note that:

- (a) a member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy;
- (b) a proxy need not be a member of the Company; and
- (c) a member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes.

The enclosed proxy form provides further details on appointing proxies and lodging proxy forms.

## “Snap-shot” Time

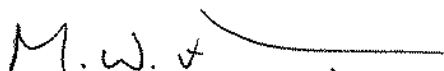
The Company may specify a time, not more than 48 hours before the meeting, at which a “snap-shot” of shareholders will be taken for the purposes of determining shareholder entitlements to vote at the meeting.

The Company’s directors have determined that all shares of the Company that are quoted on ASX at 5.00pm WST on 29 May 2006 shall, for the purposes of determining voting entitlements at the Annual General Meeting, be taken to be held by the persons registered as holding the shares at that time.

## Corporate Representative

Any corporate Shareholder who has appointed a person to act as its corporate representative at the meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company’s representative. The authority may be sent to the Company and/or registry in advance of the meeting or handed in at the meeting when registering as a corporate representative. An appointment of Corporate Representative form is enclosed if required.

## By Order of the Board of Directors



**Mark William Wilson**  
Managing Director  
Legend Mining Limited

11 April 2006

## **Explanatory Statement**

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The purpose of this Explanatory Statement is to provide Shareholders with all information known to the Company which is material to a decision on how to vote on the resolutions in the accompanying Notice of Annual General Meeting. This Explanatory Statement should be read in conjunction with the Notice of Annual General Meeting. Capitalised terms in this Explanatory Statement are defined in the Glossary.

### **General Background to Special Business**

Shareholders are being asked to approve resolutions 5, 6, 7, 8 and 10 in connection with the Company's fund raising proposals which have been the subject of recent ASX announcements.

The Company will be undertaking a non-renounceable Rights Issue of 152,859,440 Shares at \$0.04 each on a 1 for 3 basis, with 152,859,440 Attaching Options to be listed by ASX and exercisable at \$0.04 by 31 July 2008. The Rights Issue will raise approximately \$6,120,000 (before the costs of the Issue) and will be underwritten by the Underwriter, conditional on a major shareholder of the Company, Yandal, converting its Convertible Note early and immediately exercising the Conversion Options in order to raise \$5,000,000. Total funds to be raised will be \$11,120,000 before costs.

The Company intends to lodge a prospectus for the Rights Issue in June 2006, with a Record Date of 8 June 2006.

Yandal has agreed to convert its Convertible Note early in return for 125,000,000 Early Conversion Fee Options exercisable at \$0.04 by 31 July 2008, subject to shareholder approval and subject to performance by the Underwriter of its underwriting obligations. Yandal has requested that 25,000,000 of the Early Conversion Fee Options be issued to Mr Wilson, Mr Ryan and Mr Perring in lieu of issue to Yandal, subject to shareholder approval.

If shareholders do not approve resolution 5 Yandal has no obligation to convert its Convertible Note early, the Underwriter has no obligation to underwrite the Rights Issue and as a result, the proposed Rights Issue will not proceed. The Company would remain the subject of a fixed and floating charge in favour of Yandal (as security for the Company's performance of the Convertible Note) and the Company's tenements would remain encumbered by a mining mortgage in favour of Yandal. The Company would then need to pursue other fund raising opportunities in order to fund the Company's exploration programme and general working capital requirements.

### **1 Financial Statements and Reports**

The Annual Financial Report, Directors' Report and Auditor's Report for the Company for the year ending 31 December 2005 will be laid before the meeting.

There is no requirement for Shareholders to approve these reports. However, the Chairman will allow a reasonable opportunity for Shareholders to ask questions or make comments about those reports and the management of the Company. Shareholders will

also be given a reasonable opportunity to ask the auditor questions about the conduct of the audit and the preparation and content of the auditor's report.

In addition to taking questions at the meeting, written questions to the Chairman about the management of the Company, or to the Company's auditor about:

- the preparation and content of the Auditor's Report;
- the conduct of the audit;
- accounting policies adopted by the Company in relation to the preparation of the financial statements; and
- the independence of the auditor in relation to the conduct of the audit

may be submitted no later than 5 business days before the meeting date to Greg Meyerowitz of Ernst & Young (refer to the Corporate Directory).

## **2 Adoption of Compensation Report**

The Compensation Report of the Company for the financial year ending 31 December 2005 is set out in the Director's Report on pages 23 to 26 of the Company's Annual Report.

The Compensation Report sets out the Company's remuneration arrangements for the executive and non-executive Directors and executive employees of the Company.

A reasonable opportunity will be given for the discussion of the Compensation Report at the meeting. Shareholders should note that the vote on this resolution is advisory only and does not bind the Company or the Directors.

## **3 Election of Directors**

In accordance with Listing Rule 14.4 and clause 12.2 of the Constitution, at every Annual General Meeting, one third of the Directors for the time being must retire from office and are eligible for re-election. The Directors to retire are to be those who have been in office for 3 years since their appointment or last re-appointment or who have been longest in office since their appointment or last re-appointment or, if the Directors have been in office for an equal length of time, by agreement. Mr Atkins is required to retire, as a result.

In addition, clause 12.4 of the Constitution and Listing Rule 14.4 require that any Director appointed by the Board, either to fill a casual vacancy or as an addition to the Board, must retire at the next Annual General Meeting following his or her appointment, but remains eligible for re-election at that Annual General Meeting. Mr Wilson, Mr Ryan and Mr Perring are required to retire as a result.



#### **4 Remuneration of Non-Executive Directors**

Listing Rule 10.17 and clause 12.7 of the Constitution provide that the maximum aggregate amount of the remuneration payable to non-executive Directors is to be determined by Shareholders in an annual general meeting. The current maximum aggregate amount is \$200,000 per annum.

This resolution seeks Shareholder approval to confirm this amount which is to be apportioned between the non-executive Directors as determined by Board resolution.

The Directors excluded from voting on the resolution, being non-executive Directors, are:

- (a) Mr Atkins, and
- (b) Mr Ryan.

#### **5 Approval of the Issue of Securities (Resolutions 5, 6, 7 and 8)**

Resolutions 5, 6, 7 and 8 seek shareholder approval in order to comply with the requirements of ASX Listing Rule 10.11, and sections 195 and 208 of the Corporations Act. Resolutions 5 and 7 also seek shareholder approval in order to comply with the requirements of section 611 of the Corporations Act.

Each of these requirements is addressed below.

##### **ASX LISTING RULE 10.11**

ASX Listing Rule 10.11 provides that a company must not issue equity securities to a related party of the company, such as a director or a substantial shareholder holding 10% or more of the issued Shares in the company, without the company obtaining shareholder approval by ordinary resolution.

Under Resolutions 5, 6, 7 and 8, the Company seeks approval from Shareholders for the issue of Early Conversion Fee Options to Yandal, a related party by virtue of its substantial shareholding in the Company of 10% or more, and to three of the Company's Directors, Mr Wilson, Mr Ryan and Mr Perring, or their nominees, as detailed in Resolutions 6, 7 and 8.

The Company intends to issue the Early Conversion Fee Options as soon as practicable following the Annual General Meeting and the closing date of the Rights Issue proposed to be undertaken by the Company in June 2006. This is expected to be no later than three months after the meeting. ASX have waived the usual requirement to issue the Early Conversion Fee Options within one month following the meeting.

Approval under ASX Listing Rule 7.1 is not required if the same issue is approved by Shareholders pursuant to Listing Rule 10.11 (as provided for by Listing Rule 7.2, exception 14).

Under Chapter 7 of the ASX Listing Rules, there are limitations on the capacity of the Company to enlarge its capital by the issue of equity securities. ASX Listing Rule 7.1 provides generally that a company may not issue shares or options to subscribe for shares equal to more than 15% of the company's issued share capital in any 12 months without obtaining shareholder approval. Shareholder approval will also preserve the Company's 15% capacity to issue further securities.

The Early Conversion Fee Options will be granted for nil consideration, exercisable at \$0.04 each. A total of 125,000,000 Early Conversion Fee Options will be issued if Resolutions 5, 6, 7 and 8 are approved, comprising 100,000,000 Early Conversion Fee Options to Yandal and the balance to the relevant Directors as set out in Resolutions 6, 7 and 8. If all or any of Resolutions 6, 7 or 8 are not passed, the number of Early Conversion Fee Options set out in the resolution or resolutions which are not passed will be granted to Yandal in lieu of the named Director. Yandal has directed the allocations and requested that Resolutions 6, 7 and 8 be put to the Shareholders in order to reward Mr Ryan and Mr Wilson for their past performance, and to provide an incentive to Mr Wilson and Mr Perring to enhance the future value of the Shares, for the benefit of all the Shareholders.

Resolutions 6 and 8 are conditional on Mr Wilson and Mr Perring respectively being re-elected as Directors pursuant to Resolution 3, because the proposed issue of Early Conversion Fee Options to Mr Wilson and Mr Perring includes an incentive element for future performance of these Directors. Resolution 7 for the issue of Early Conversion Fee Options to Mr Ryan is not expressed to be conditional on his re-election as a Director because the proposed issue is intended to reflect his past performance.

The Company will raise \$5,000,000 if all of the 125,000,000 Early Conversion Fee Options are exercised and Shares are subscribed for during the exercise period to 31 July 2008. These funds will be used to further the Company's exploration program and fund general working capital requirements. There is no guarantee that the Early Conversion Fee Options will be exercised at any time.

The issue of these Early Conversion Fee Options will be equal, upon conversion, to approximately 10.9% of the Company's fully-diluted issued capital following the Rights Issue (and based on the Assumptions below).

The 125,000,000 Early Conversion Fee Options will be issued on the terms and conditions set out in Annexure A to this Explanatory Statement. The Company will not apply to ASX for Official Quotation of the Early Conversion Fee Options.

## **SECTION 195 CORPORATIONS ACT**

Resolutions 5, 6, 7 and 8 are also put pursuant to section 195 of the Corporations Act. This section permits the Directors to seek Shareholder approval to a given matter where a majority of Directors have a material personal interest in a matter being considered by the Board and there are not sufficient remaining independent Directors to consider the resolution. Since all the Directors other than Mr Atkins, Chairman, are materially interested in these resolutions, Shareholder approval is also sought for the purposes of section 195 of the Corporations Act and the Directors have not, as a Board, considered these resolutions except for the purposes of convening the meeting of Shareholders.

## **SECTION 208 CORPORATIONS ACT**

Chapter 2E of the Corporations Act regulates the provision of financial benefits to related parties by a public company. The granting of Early Conversion Fee Options contemplated by Resolutions 5, 6, 7 and 8 may constitute the provision of a financial benefit to a related party. Section 229 of the Corporations Act includes as an example of a financial benefit, the granting of an option to a related party.

A “related party” is widely defined and 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 or a person who may be seen as acting in concert with the Company on the understanding that a financial benefit will be received.

A “financial benefit” is construed widely and in determining whether a financial benefit is being given, section 229 of the Corporations Act requires that any consideration that is given is disregarded, even if the consideration is adequate. It is necessary to look at the economic and commercial substance and the effect of the transaction in determining the financial benefit.

Chapter 2E of the Corporations Act prohibits the Company from giving a financial benefit to a related party of the Company unless either:

1. The giving of the financial benefit falls within one of the exceptions to the provision; or
2. Prior shareholder approval is obtained to the giving of the financial benefit.

### **Information Requirements**

For the purposes of Chapter 2E, Yandal and each of the Directors the subject of Resolutions 6, 7 and 8 are considered to be related parties of the Company.

For the purposes of section 219 of the Corporations Act the following information is provided to shareholders to enable them to assess the merits of the resolution.

### **The Related Party to Whom the Proposed Resolution Would Permit the Benefit to be Given**

Yandal, Mr Wilson, Mr Ryan and Mr Perring (“Related Parties”).

### **The Nature of the Financial Benefit**

The proposed financial benefit to be given is the issue of a total of 125,000,000 Early Conversion Fee Options to the Related Parties, comprising 100,000,000 Early Conversion Fee Options to Yandal if Resolutions 5, 6, 7 and 8 are all passed, or up to 125,000,000 Early Conversion Fee Options if one or all of Resolutions 6, 7 and 8 are not passed. If Resolutions 6, 7 and 8 are all passed then the financial benefit will be the grant of 5,000,000 Early Conversion Fee Options to Mr Wilson, 15,000,000 Early Conversion Fee Options to Mr Ryan, and 5,000,000 Early Conversion Fee Options to Mr Perring. The Early Conversion Fee Options will be issued on the terms set out in Annexure A to this Explanatory Statement.

The Company currently has on issue 458,578,322 Shares and 20,900,000 unlisted options. On the assumption that all of the existing options are not exercised, the Relevant Interests of the Related Parties in Shares is set out in the table below. Using the same assumption, and further assuming that:

- (a) 152,859,440 Shares are issued pursuant to the Prospectus and an additional 160,359,440 Shares are issued following exercise of the Attaching Options and Underwriting Fee Options;
- (b) Yandal converts its Convertible Note and exercises the Conversion Options attaching to the Conversion Shares;
- (c) Mr Wilson acquires 10,000,000 Shares from Yandal for \$400,000, and Mr Perring acquires 2,000,000 Shares from Yandal for \$80,000, pursuant to Terms Sheet Two;
- (d) the Related Parties exercise the Early Conversion Fee Options to be issued under Resolutions 5, 6, 7 and 8; and
- (e) no more Shares or options are issued or exercised by the Company,

**("Assumptions"),**

the Relevant Interests of the Related Parties in Shares before and after the transactions described in this Notice of Meeting is set out in the Relevant Interests Table below:

<b>Related Party with Relevant Interest</b>	<b>Number of Shares on Issue (Date of Notice of Meeting)</b>	<b>% of Shares on Issue (Date of Notice of Meeting)</b>	<b>Number of Shares on Issue (Based on Assumptions)</b>	<b>% of Shares on Issue (Based on Assumptions)</b>
Mark William Wilson	Nil	Nil	15,000,000	1.3
Dermot Michael Ryan	15,000	0.003	15,025,000	1.3
Robert John Perring	Nil	Nil	7,000,000	0.6
Yandal	7,500,000	1.64	345,500,000	30.13

*Note that the voting power of Yandal and Mr Ryan (which is the sum of their Relevant Interests, and that of any other associates) is addressed below in relation to Section 611 of the Corporations Act.*

## **Directors' Recommendations**

Each of Mr Wilson, Mr Ryan and Mr Perring decline to make a recommendation to Shareholders in relation to Resolution 5 because they have a material personal interest in the outcome of Resolution 5.

Mr Wilson declines to make a recommendation to Shareholders in relation to Resolution 6 because he has a material personal interest in the outcome of Resolution 6.

Mr Ryan declines to make a recommendation to Shareholders in relation to Resolution 7 because he has a material personal interest in the outcome of Resolution 7.

Mr Perring declines to make a recommendation to Shareholders in relation to Resolution 8 because he has a material personal interest in the outcome of Resolution 8.

In accordance with section 195 of the Corporations Act, the Directors have not considered the subject matter of Resolution 5 other than for the purposes of convening this Meeting.

Mr Atkins, the only Director without a material personal interest in Resolutions 5, 6, 7 and 8, recommends that the non-associated Shareholders vote in favour of Resolutions 5, 6, 7 and 8 because he believes that the issues of Early Conversion Fee Options to the Related Parties is in the best interests of the Company.

## **Other Information that is Reasonably Required by Members to Make a Decision and that is Known to the Company or any of its Directors.**

It is a requirement of ASIC that a dollar value be placed on the Early Conversion Fee Options to be issued to the Related Parties. The Black-Scholes option price calculation method is regarded as acceptable by ASIC as a valuation model where the Early Conversion Fee Options cannot be readily valued by some other means.

In determining the dollar value, the Company is required to disclose the following assumptions made:

- (a) the Share price at issue date will be 5.5 cents per Share;
- (b) the Early Conversion Fee Options are to be exercisable at \$0.04 each;
- (c) the Early Conversion Fee Options are to be exercised on or before 31 July 2008;
- (d) price volatility of the Shares is approximately 73%;
- (e) the average current risk free interest rate is 5.5%; and
- (f) an average discount of 62.5% has been allowed, reflecting their unlisted status.

On this basis, the implied "value" being received by each Related Party in relation to the Early Conversion Fee Options is as follows (assuming Yandal receives 100,000,000 Early Conversion Fee Options):

<b>Related Party</b>	<b>Value (\$)</b>
Mark William Wilson	54,360
Dermot Michael Ryan	163,080
Robert John Perring	54,360
Yandal	1,087,200

The Related Parties who are Directors make the following additional disclosure.

The relevant Directors' base salaries per annum (including superannuation), or consulting fees, and the total financial benefit to be received by them to 28 February 2006, when added to the implied "value" to be received by each of the following Directors as a result of the issue of Early Conversion Fee Options the subject of Resolutions 6, 7 and 8, is as follows:

<b>Director</b>	<b>Description</b>	<b>(\$ p.a.)</b>	<b>Value of Early Conversion Fee Options to be Issued (\$)</b>	<b>Total Financial Benefit (\$)</b>
Mark William Wilson (Hostyle Pty Ltd)	Consulting Fees	142,805	54,360	197,165
Dermot Michael Ryan	Salary	161,752	163,080	324,832
Robert John Perring (Quadramin)	Consulting Fees	29,150	54,360	83,510

### **Trading History**

Over the last 12 months the Shares have traded between 4.5 cents per share (lowest) and 14.5 cents per Share (highest). The latest trading price available at the time of preparing this Notice of Meeting was 5.6 cents per Share.

There is a potential benefit that accrues to each of Yandal, Mr Wilson, Mr Ryan and Mr Perring if the market trading price of the Shares issued following exercise of the Early Conversion Fee Options exceeds the exercise price. This benefit would accrue on the sale of the Shares for an amount in excess of the exercise price.

### **SECTION 611 CORPORATIONS ACT**

The Corporations Act prohibits a person acquiring a relevant interest in the issued voting shares of a company if, because of the acquisition, that person's or another person's voting power in the company increases to more than 20%.

Under the Corporations Act a person's voting power in a company is the total of the votes attaching to the shares in that company in which that person has a relevant interest, and that person's associates (within the meaning of the Corporations Act) have a relevant interest.

The voting power of a person in a company is determined by reference to section 610 Corporations Act. By section 608 Corporations Act, in addition to being the registered holder of shares, a relevant interest in shares is also achieved by having power to exercise or control the exercise of votes or disposal of the shares. In addition, a person will have a relevant interest in securities held by a company, if the person has over 20% voting power in that company.

Associates are determined as a matter of fact, for example where a person controls or influences the board or the conduct of a company's business affairs, or acts in concert with a person in relation to the entity's business affairs.

The Company regards Mr Ryan as an associate of Yandal because Mr Ryan may be considered to be acting in concert with Yandal in relation to the Company's affairs. In addition, a shareholder of the Company which is not the subject of any of the resolutions being put to the Meeting, Australian Gold Resources Pty Limited, is associated with Yandal and Mr Ryan, and as a result will experience the same increase in its voting power as a result of resolutions 5 and 7 being approved and the issue of securities taking place. Yandal, Mr Ryan and Australian Gold Resources Pty Limited are termed "**Associated Parties**" for the purposes of this Explanatory Statement.

Based on the Assumptions, the voting power of Yandal at the date of this Notice of Meeting is 34.35% of the current issued Shares in Legend, which includes Mr Ryan's relevant interest in 15,000 Shares. As a result of Resolutions being put to the Meeting and passed, the Associated Parties' respective voting power increases by 10.17% to 44.52%.

This assumes that Mr Ryan will take up his entitlement to 5,000 Shares under the Prospectus, and exercise the Attaching Options.

Section 611 of the Corporations Act sets out certain exceptions to this general prohibition. Item 7 of section 611 of the Corporations Act provides a mechanism by which shareholders may approve an issue of shares in a company to a person which would otherwise result in that person's, or another person's, voting power in the company increasing to more than 20%.

In order for the Company to comply with the requirements of the Corporations Act (as viewed by the ASIC under ASIC Policy Statement 74), the Company provides the following information to Shareholders in relation to Resolutions 5 and 7.

### **Analysis of Whether the Proposed Transaction is Fair and Reasonable**

The Board has commissioned an Independent Expert's Report to address the fairness and reasonableness of the Early Conversion Fee Options issues under Resolutions 5 and 7.

The conclusion of the analysis undertaken is that the issue of Early Conversion Fee Options and the issue of Shares consequent on any exercise of the Early Conversion Fee Options is not fair but reasonable to non-associated Shareholders.

The Company strongly recommends that you read the report in full, a copy of which is set out in Annexure C to this Explanatory Statement.

### **Other Information**

The Company is also required to provide the following information to Shareholders in relation to the proposed issues of the Early Conversion Fee Options to Yandal and Mr Ryan which will result

in an increase in voting power otherwise in contravention of section 613 of the Corporations Act, for the Associated Parties.

**(a) Identity of the Persons Proposing to Make the Acquisition and Their Associates**

Approval is sought in relation to the issue of up to 125,000,000 Early Conversion Fee Options to Yandal and 15,000,000 Early Conversion Fee Options to Mr Ryan .The Associated Parties may act in concert with one another in relation to their registered shares in Legend, and are regarded by themselves and the Company as related parties for the purposes of the Corporations Act.

**(b) The Maximum Extent of the Increase in the Associated Parties' Voting Power in the Company that Would Result from the Exercise of the Early Conversion Fee Options**

As at the date of the Notice of Annual General Meeting, Yandal has a voting power in the Company of 34.35% on the basis of having a relevant interest in 7,500,000 Shares, and its' associates having a relevant interest in 150,000,000 Shares. On the basis of the Assumptions, Yandal will have a maximum voting power of 44.52% in the Company.

As at the date of the Notice of Annual General Meeting, Mr Ryan has a voting power in the Company of 34.35% on the basis of having a relevant interest in 15,000 Shares, and its' associates have a relevant interest in 157,485,000 Shares. On the basis of the Assumptions (and assuming he takes up his entitlement to 5,000 Shares under the Prospectus and exercises the Attaching Options), Mr Ryan will have a maximum voting power of 44.52% in the Company.

As at the date of the Notice of Annual General Meeting, Australian Gold Resources Pty Limited has a voting power in the Company of 34.35% on the basis of having a relevant interest in 149,985,000 Shares and its' associates having a relevant interest in 7,515,000 Shares. On the basis of the Assumptions, Australian Gold Resources Pty Limited will have a maximum voting power of 44.52% in the Company.

**(c) Identity, Associations with the Associates and Qualifications of any Person who is Intended to or will Become a Director if the Shareholders Agree to the Allotment**

The Company does not intend to appoint a new director in connection with the proposed issue of Early Conversion Fee Options.

**(d) Statement of Associated Parties' Respective Intentions Regarding the Future of the Company if Shareholders Pass Resolutions 5 and 7**

It is the intention of the Associated Parties to continue to grow the value of the Company for the benefit of all Shareholders, by Yandal providing strong support as a Shareholder and through its nominated director, Mr Ryan.

**(e) Terms of the Proposed Allotment Between the Allottees and the Company Which is Conditional Upon, or Directly or Indirectly Dependent on, Shareholders' Agreement to the Allotment**

The terms of the Early Conversion Fee Options are set out in Annexure A.



**(f) When the Allotment is to be Completed**

The total 125,000,000 Early Conversion Fee Options will be issued no later than 3 months following the Annual General Meeting.

**(g) An Explanation of the Reasons for any Proposed Allotment**

The proposed grant of up to 125,000,000 Early Conversion Fee Options to Yandal is in consideration of early exercise by Yandal of the Convertible Note and exercise of the Conversion Options, in order to raise \$5,000,000 capital to fund exploration and working capital requirements, now, rather than at a later date as permitted by the terms of the Convertible Note. This will result in removal of a first ranking security currently registered against the Company in favour of Yandal, and will allow the discharge of mortgages registered in favour of Yandal against the Company's tenements. This is a significant benefit to the Company in being able to move forward with assets free of any encumbrances in favour of Yandal.

15,000,000 Early Conversion Fee Options are proposed to be issued to Mr Ryan in recognition of his performance to date as Yandal's nominated director on the Board of the Company.

If Resolution 7 is passed by Shareholders, Yandal will be issued with 100,000,000 Early Conversion Fee Options, and Mr Ryan will be issued with 15,000,000 Early Conversion Fee Options. If Resolution 7 is not passed by Shareholders, Yandal will be issued with 115,000,000 Early Conversion Fee Options pursuant to Resolution 5, and may also be issued with a further 10,000,000 Early Conversion Fee Options if Resolutions 6 and 8 are not passed by Shareholders. Shareholder approval for Resolutions 6 and 8 is not being sought for the purposes of section 611 of the Corporations Act.

**(h) The Interests of the Directors in Resolutions 5 and 7**

Messrs Wilson, Perring and Ryan are interested in Resolution 5 because Yandal has been instrumental in putting Resolutions 6, 7 and 8 to Shareholders, and those Resolutions are each conditional on Resolution 5 being passed by the Shareholders. Resolutions 6, 7 and 8 if passed will deliver a financial benefit to those Directors, referred to above in relation to section 208 of the Corporations Act.

Mr Ryan is interested in Resolution 5 because he will be issued Early Conversion Fee Options if it is passed by Shareholders.

Details of the Relevant Interests in securities of the Company for each Director as at the date of this Notice of Meeting are set out below.

<b>Director</b>	<b>Shares</b>	<b>options</b>
Michael William Atkins	155,000	500,000
Mark William Wilson	Nil	Nil
Robert John Perring	Nil	Nil
Dermot Michael Ryan	15,000	Nil

**(i) The Identity of Directors who Approved or Voted Against the Proposal**

Since all the Directors other than Mr Atkins, Chairman, are materially interested in the resolution, Shareholder approval is also sought for the purposes of section 195 of the Corporations Act, referred to above, and the Directors have not, as a Board, considered this resolution except for the purposes of convening the meeting of Shareholders.

**(j) The Recommendation of Each Director as to Whether Non-Associated Shareholders Should Agree to the Allotment and the Reasons**

Mr Atkins, the only Director with no personal interest in Resolution 5, recommends that the non-associated Shareholders vote in favour of Resolution 5 because he believes that the issue of Options to Yandal is in the best interests of the Company. If Resolution 5 is not approved, the capital raising proposed to be undertaken by the Company will not proceed because the issue of the Early Conversion Fee Options is a pre-requisite to Yandal's early conversion of the Convertible Note and immediate exercise of the Conversion Options, and the Underwriter's participation in the Rights Issue. The Company would then need to explore other fund raising opportunities in order to fund exploration and working capital.

Mr Atkins, Mr Wilson and Mr Perring, who have no personal interest in Resolution 7, recommend that the non-associated Shareholders vote in favour of Resolution 7 because they each believe that the issue of Early Conversion Fee Options to Mr Ryan is a fair reward to Mr Ryan for his past performance as a director of the Company and is in the best interests of the Company.

**(k) Associates' intention to Change Significantly the Financial or Dividend Policies of the Company**

There is no present intention to change the financial or dividend policies of the Company.

**(l) Whether Proposal is Fair and Reasonable**

The Directors have appointed Bentleys MRI Perth Financial Services Pty Ltd as Independent Experts and commissioned them to prepare an Independent Experts Report to provide an opinion as to whether or not the proposals in Resolutions 5 and 7 are fair and reasonable to the Shareholders. The report is set out in Annexure C and it is recommended that Shareholders read that report in its entirety.

Bentleys MRI Perth Financial Services Pty Ltd have concluded that the proposed transaction is not fair but reasonable to the Shareholders. The Company strongly recommends that you read the report in full, a copy of which is set out in Annexure C to this Explanatory Statement.

The Early Conversion Fee Options will be issued on terms and conditions set out in Annexure A. The Company will not apply to ASX for official quotation of the Early Conversion Fee Options. Following exercise, the Shares will be issued on terms and conditions set out in Annexure B.

## **6 Ratification of Previous Issue of Shares (Resolution 9)**

On 15 November 2005, the Company issued 30,000,000 Shares at \$0.10 per Share to Oroya Mining Limited.

Resolution 9 therefore seeks approval under Listing Rule 7.4 to ratify the issue of 30,000,000 Shares for the purposes of Listing Rule 7.1, which provides generally that a company may not issue shares equal to more than 15% of the Company's issued share capital in any 12 months without obtaining shareholder approval. Although the issue of 30,000,000 Shares did not exceed this amount, seeking approval under the Listing Rules allows for the Company in future to issue a further 15% of its issued capital without further reference to the Shares issued under this resolution.

Listing Rule 7.5 requires the Company to provide the following information to Shareholders in order to obtain Shareholder approval pursuant to Listing Rule 7.4:

- the number of Shares issued was 30,000,000;
- the Shares were issued to Oroya Mining Ltd (ACN 009 146 794);
- the Shares were issued at a deemed issue price of \$0.10 per Share as part consideration for the acquisition by the Company of Mt Gibson Gold Project tenements, mining information, plant and equipment; and
- the Shares rank equally in all respects with all of the existing ordinary Shares on issue.

## **7 Approval of Underwriting Fee Options Issue (Resolution 10)**

The Company proposes to issue 7,500,000 Underwriting Fee Options on terms set out in Annexure A, to the Underwriter (or nominee) as part of the fee payable for underwriting the Rights Issue, conditional on the Rights Issue proceeding. The issue of the Underwriting Fee Options will be equal to approximately 0.6% of the Company's fully-diluted share capital if all the Underwriting Fee Options are exercised by their exercise date and applying the Assumptions.

The purpose of the issue is to partly pay for underwriting fees in relation to the Rights Issue. The intended use of the funds raised if the Underwriting Fee Options are exercised is for exploration expenditure and general working capital.

Listing Rule 7.1 provides generally that a company may not issue shares or options to subscribe for shares equal to more than 15% of the company's issued share capital in any 12 months without obtaining shareholder approval. Resolution 10 seeks this approval.

The Underwriting Fee Options will be allotted and issued following the Rights Issue and not later than 3 months after the date of Shareholder approval.

The Board believes that the proposed issue of the Underwriting Fee Options is beneficial for the Company as an alternative to paying cash consideration for this part of the underwriting fee, and recommends Shareholders vote in favour of the resolution. It will allow the Company to retain the flexibility to issue further securities representing up to 15% of the Company's share capital during the next 12 months.

## Glossary

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In this Explanatory Statement, the following terms have the following unless the context otherwise requires:

<b>Annexure</b>	mean as annexure to this Explanatory Statement.
<b>ASIC</b>	means Australian Securities and Investments Commission.
<b>ASX</b>	means Australian Stock Exchange.
<b>Associated Parties</b>	means Yandal, Dermot Michael Ryan and Australian Gold Resources Pty Limited.
<b>Assumptions</b>	means the assumptions adopted on page 10 of the Explanatory Statement in relation to the Relevant Interests Table.
<b>Attaching Options</b>	means the options to subscribe for Shares attaching to the Shares offered by the Prospectus.
<b>Board</b>	means board of Directors.
<b>Company</b>	means Legend Mining Limited ABN 22 060 966 145.
<b>Constitution</b>	constitution of the Company.
<b>Conversion Options</b>	means the options to subscribe for Shares attaching to the Conversion Shares.
<b>Conversion Shares</b>	means the Shares issued upon conversion of the Convertible Note.
<b>Convertible Note</b>	means the convertible note dated 10 November 2004 issued by the Company to Yandal to secure debt of \$5,000,000.
<b>Corporations Act</b>	Corporations Act 2001 (Cth).
<b>Director</b>	Director of the Company.
<b>Early Conversion Fee Options</b>	means the options to subscribe for Shares the subject of Resolutions 5, 6, 7, 8 and 10, the terms of which are set out in Annexure A.
<b>Prospectus</b>	means the prospectus to be issued by the Company in relation to the Rights Issue.

<b>Related Parties</b>	means Yandal, Mark William Wilson, Dermot Michael Ryan and Robert John Perring.
<b>Relevant Interest</b>	has the meaning used in the Corporations Act and referred to on page 10 of the Explanatory Statement.
<b>Relevant Interests Table</b>	means the table showing Relevant Interests of the Related Parties on page 10 of the Explanatory Statement.
<b>Rights Issue</b>	means the non-renounceable rights issue by the Company to take place in June 2006.
<b>Share</b>	fully paid ordinary share in the capital of the Company.
<b>Shareholder</b>	shareholder of the Company.
<b>Terms Sheet Two</b>	means a Terms Sheet dated 10 March 2006 executed by Yandal, Mark William Wilson and Robert John Perring for the acquisition of 10,000,000 and 2,000,000 Shares respectively from Yandal at \$0.04 each on arms length terms.
<b>Underwriter</b>	means Findlay & Co Stockbrokers Limited.
<b>Underwriting Fee Options</b>	means the 7,500,000 options to subscribe for Shares, the terms of which are set out in Annexure A, paid to the Underwriter of the Prospectus in addition to a fee of 6% of funds raised by the Rights Issue.
<b>Yandal</b>	Yandal Investments Pty Ltd ABN 89 070 684 810.

## Annexure A

### Terms of Early Conversion Fee Options and Underwriting Fee Options

**(a) Exercise Date**

The options are exercisable wholly or in part at any time before 5.00 pm (WST) on 31 July 2008. Options not exercised by that date shall lapse.

**(b) Exercise Price**

Each option shall entitle the optionholder to acquire one fully paid ordinary share upon payment of the sum of \$0.04 per option to the Company.

**(c) Notice of Exercise**

Each option may be exercised by notice in writing to the Company at any time before their date of expiry. Any notice of exercise of an option received by the Company with payment in full of the exercise price will be deemed to be a notice of the exercise of that option as at the date of receipt.

**(d) Quotation of Shares on Exercise**

Application will not be made to ASX for official quotation of the options. Application will be made for official quotation of the shares issued upon exercise of options. The options are non-transferable.

**(e) Participation Rights or Entitlements**

There are no participating rights or entitlements inherent in the options and optionholders will not be entitled to participate in new issues of securities 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 10 business days after the issue is announced so as to give optionholders the opportunity to exercise their options before the date for determining entitlements to participate in any issue.

**(f) Shares Allotted on Exercise**

Shares allotted pursuant to the exercise of options will be allotted following receipt of all the relevant documents and payments and will rank equally with the issued shares.

**(g) Reconstruction of Share Capital**

In the event of a reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company, all rights of the optionholder shall be reconstructed in accordance with the Listing Rules.

**(h) Bonus Issues**

If, from time to time, before the expiry of the options the Company makes a pro rata issue of shares to shareholders for no consideration, the number of shares over which an option is exercisable will be increased by the number of shares which the optionholder would have received if the option had been exercised before the date for calculating entitlements to the pro rata issue.



## **Annexure B**

### **Terms of Shares**

The following is a broad summary (though not necessarily an exhaustive or definitive statement) of the rights attaching to the shares of the Company. Full details are contained in the Constitution, available for inspection at the Company's registered office.

**(a) Share Capital**

All issued ordinary shares rank equally in all respects.

**(b) Voting Rights**

At a general meeting of the Company, every holder of shares present in person, by an attorney, representative or proxy has one vote on a show of hands and on a poll, one vote for every fully paid share held, and for every contributing share held, a fraction of a vote equal to the proportion which the amount paid up bears to the total issue price of the contributing share.

**(c) Dividend Rights**

Subject to the rights of holders of shares issued with any special or preferential rights (at present there are none), the profits of the Company which the Directors may from time to time determine to distribute by way of dividend are divisible among the shareholders in proportion to the shares held by them respectively, according to the amount paid up or credited as paid up on the shares.

**(d) Rights on Winding-Up**

Subject to the rights of holders with shares with special rights in a winding-up (at present there are none), on a winding-up of the Company all assets which may be legally distributed amongst the members will be distributed in proportion to the shares held by them respectively, according to the amount paid up or credited as paid up on the share.

**(e) Transfer of Shares**

Shares in the Company may be transferred by instrument in any form which complies with the Constitution, the Corporations Act, Listing Rules and SCH Business Rules.

Shares may be transferred by such means in accordance with Listing Rules and the SCH Business Rules. The Directors may refuse to register a transfer of shares only in those circumstances permitted by Listing Rules and SCH Business Rules.

**(f) Calls on Shares**

Shares issued as fully paid are not subject to any calls for payment by the Company and will not therefore become liable for forfeiture.

**(g) Further Increases in Capital**

The allotment and issue of any new shares is under the control of the Directors and, subject to any restrictions on the allotment of shares imposed by the Constitution, Listing Rules or the Corporations Act, the Directors may allot, issue or grant options over or otherwise dispose of those shares to such persons, with such rights or restrictions as they may from time to time determine.

**(h) Variation of Rights Attaching to Shares**

Where shares of different classes are issued, the rights attaching to the shares of a class can thereafter only be varied by a special resolution passed at a separate general meeting of the holders of those shares of that class, or with the written consent of the holders of at least three quarters of the issued shares of that class.

**(i) General Meeting**

Each shareholder will be entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive notices, accounts and other documents required to be furnished to shareholders under the Constitution, the Corporations Act and Listing Rules.

## Annexure C

### Independent Expert's Report

CHARTERED  
ACCOUNTANTS  
& BUSINESS  
ADVISORS

A MEMBER OF  
MOORES ROWLAND  
INTERNATIONAL

11 April 2006

The Directors  
Legend Mining Ltd  
Level 2  
640 Murray Street  
WEST PERTH WA 6872

Attention: Mr Mark Wilson



Bentleys MRI Perth  
Financial Services Pty Ltd  
ABN 92 064 200 260  
AFS Licence 226 864

Level 1, 10 Kings Park Road  
West Perth WA 6005  
Australia

PO Box 570 West Perth WA 6872

T 61 8 9480 2000  
F 61 8 9322 7787

admin@bentleys.com.au  
www.bentleys.com.au

Dear Sirs,

**LEGEND MINING LIMITED ("LEGEND" OR "COMPANY") (ABN 22 060 966 145)  
MEETING OF SHAREHOLDERS PURSUANT TO SECTION 611 OF THE  
CORPORATIONS ACT ("TCA") RELATING TO THE PROPOSAL TO ISSUE OPTIONS**

#### 1. INTRODUCTION

- 1.1 We have been requested by the Directors of Legend to prepare an Independent Expert's Report to determine the fairness and reasonableness relating to the proposals pursuant to Resolutions 5 and 7 detailed in the Notice of Annual General Meeting to Legend Shareholders (the "Notice").
- 1.2 Resolution 5 proposes that shareholders approve the issue by Legend of 125,000,000 early conversion fee options ("Early Conversion Fee Options") to Yandal Investments Pty Ltd ("Yandal") and the issue of shares following exercise of such Early Conversion Fee Options, for the purposes and on the terms set out in the Notice and Explanatory Statement.
- 1.3 Resolution 7 proposes that shareholders approve the issue by Legend of 15,000,000 Early Conversion Fee Options to Mr Ryan (or nominee) conditional on Resolution 5 being passed, for the purposes and on the terms set out in the Notice and Explanatory Statement.
- 1.4 The Company borrowed \$5 million from Yandal on 10 November 2004 and the shareholders of the Company approved at the General Meeting on 10 January 2005 conversion of the loan of \$5 million to, and the issue of, a Convertible Note of \$5 million ("Convertible Note"). The terms of conversion of the Convertible Note provide that the Company will issue 125,000,000 ordinary shares ("Conversion Shares") and 125,000,000 free unlisted attaching options exercisable at 4 cents each on or before 31 May 2009 ("Conversion Options").

The conversion period and repayment date of the Convertible Note is twenty-four months from the date of issue and is convertible at the option of Yandal.

If Yandal does not elect to convert the Convertible Note within twenty-four months of its issue, then the Company may choose to redeem the Convertible Note by payment to Yandal of \$5,000,000 and any unpaid interest.

1.5 On 10 March 2006 the Company and Yandal entered into an agreement that, subject to the approval of Resolution 5 by shareholders, the Company will grant 125,000,000 Early Conversion Fee Options to Yandal in consideration of the early conversion of the Convertible Note, due for repayment in December 2006 under the terms of the Convertible Note and Yandal's immediate exercise of 125,000,000 Conversion Options at 4 cents each to raise \$5 million. The material terms of the Early Conversion Fee Options include:

- granted for nil consideration
- exercise price is 4 cents each
- exercisable on or before 31 July 2008
- Early Conversion Fee Options will not be listed on any stock exchange

1.6 Resolutions 6 and 8 propose, conditional on Resolutions 3 and 5 being passed, that Messrs Wilson and Perring be issued 5,000,000 Early Conversion Fee Options each in lieu of Yandal, to provide an incentive for future performance of these directors of the Company. Resolution 7 proposes, conditional on Resolution 5 being passed, that Mr Ryan be issued 15,000,000 Early Conversion Fee Options in lieu of Yandal, as a reward for his past performance.

If the Resolutions 3 and 5 to 8 are passed Yandal will receive 100,000,000 Early Conversion Fee Options, Mr Ryan will receive 15,000,000 Early Conversion Fee Options, and Mr Wilson and Mr Perring will receive 5,000,000 Early Conversion Fee Options each.

Resolution 3 requires shareholders to approve the re-election of Messrs Wilson, Ryan and Perring as directors of the Company.

1.7 Under Section 606 of the TCA, a person must not acquire a relevant interest in issued voting shares in a company if because of the transaction, that persons or someone else's voting power in the company increases:

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

Under Section 611 (Item 7) of TCA, section 606 does not apply in relation to any acquisition of shares in a company approved by resolution passed at a general meeting at which no votes were cast in favour of the resolution by the acquirer or the disposer or their respective associates. In addition to the information which section 611 requires the Company to give to the shareholders, ASIC Policy Statement 74 requires inclusion in the notice of meeting of an independent expert's report on the fairness and reasonableness of the transaction.

1.8 Under the TCA a person's voting power in a company is the total of the votes attaching to the shares in that company in which that person has a relevant interest, and that person's associates (within the meaning of the TCA) have a relevant interest.

- 1.9 The voting power of a person in a company is determined by reference to section 610 TCA. By section 608 TCA, in addition to being the registered holder of shares, a relevant interest in shares is also achieved by having power to exercise or control the exercise of votes or disposal of the shares. In addition, a person will have a relevant interest in securities held by a company, if the person has over 20% voting power in that company.
- 1.10 Associates are determined as a matter of fact, for example where a person controls or influences the board or the conduct of a company's business affairs, or acts in concert with a person in relation to the entity's business affairs.
- 1.11 The Company regards Mr Ryan as an associate of Yandal because Mr Ryan may be considered to be acting in concert with Yandal in relation to the Company's affairs. In addition, a shareholder of the Company which is not the subject of any of the resolutions being put to the Meeting, Australian Gold Resources Pty Limited, is associated with Yandal and Mr Ryan, and as a result will experience the same increase in its voting power as a result of resolutions 5 and 7 being approved and the issue of securities taking place. Yandal, Mr Ryan and Australian Gold Resources Pty Limited are termed "**Associated Parties**" for the purposes of this Explanatory Statement.
- 1.12 At the date of this report the Associated Parties have 34.35% of the voting power of the current issued capital in Legend based on none of the options currently on issue being exercised. As a result of the Resolutions being put to the shareholders and passed, and on the following Assumptions:
- a) 152,859,440 Shares and 152,859,440 Attaching Options are issued pursuant to the prospectus (referred to in clause 1.14 below) and an additional 160,359,440 Shares are issued following exercise of the Attaching Options and Underwriting Fee Options (referred to in clause 3.6 below);
  - b) Yandal converts its Convertible Note and exercises the Conversion Options attaching to the Conversion Shares;
  - c) Mr Wilson acquires 10,000,000 Shares from Yandal for \$400,000, and Mr Ferring acquires 2,000,000 Shares from Yandal for \$80,000, pursuant to Terms Sheet Two (referred to in clause 3.2);
  - d) the Relevant Parties exercise the Early Conversion Fee Options to be issued under Resolutions 5, 6, 7 and 8; and
  - e) no more Shares or options are issued or exercised by the Company,
- the voting power of the Associated Parties will increase by 10.17% to 44.52%.
- 1.13 There are eight other resolutions being put to the shareholders of Legend. We are not reporting on the fairness and reasonableness of any Resolutions other than 5 and 7. We note that there are a number of condition precedents in relation to the various Resolutions included in the Notice and these are described and considered in this report.
- 1.14 By way of explanation in relation to the Assumptions, the Company will be undertaking a non-renounceable Rights Issue of 152,859,440 shares at 4 cents each on a one for three basis, with 152,859,440 Attaching Options to be listed by the Australian Stock Exchange Ltd ("ASX"), exercisable at 4 cents by 31 July 2008. The Rights Issue will raise approximately \$6,120,000 (before the costs of the Issue) and will be underwritten by Findlay & Co Stockbrokers Ltd ("Underwriter"), subject to Yandal converting its Convertible Note early and immediately exercising the Conversion Options in order to raise \$5,000,000. The Company intends to lodge a prospectus for the Rights Issue in June 2006.

1.15 Yandal has agreed to convert its Convertible Note and exercise the Conversion Options in return for 125,000,000 Early Conversion Fee Options, subject to performance by the Underwriter of its underwriting obligations.

1.16 Apart from this introduction, this report considers the following:

- Summary of opinion
- Implications of the proposals
- Corporate history and nature of business of Legend
- Future direction of Legend
- Basis of valuation of Options
- Pro-forma financials
- Fairness and reasonableness of the offer
- Conclusion as to fairness and reasonableness
- Sources of information
- Appendix A

## 2. SUMMARY OF OPINION

2.1 In determining the fairness and reasonableness of the transactions pursuant to Resolutions 5 and 7, we have had regard for the definitions set out by the Australian Securities and Investments Commission ("ASIC") in its Policy Statements 75 and 74. Policy Statement 75 states that an opinion as to whether an offer is fair and/or reasonable shall entail a comparison between the allotment price and the value that may be attributed to the securities being allotted (fairness) and an examination to determine whether there is justification for the allotment price on objective grounds after reference to that value (reasonableness).

Policy Statement 74 states that in all cases, where an acquisition of shares by way of an allotment is to be approved by shareholders pursuant to section 611 (Item 7) of TCA, a report by an Independent Expert should be presented stating whether or not the proposal is fair and reasonable, having regard to the interest, of shareholders other than the proposed allottees (namely Yandal and Mr Ryan).

Accordingly, our report relating to Resolutions 5 and 7 is concerned with the fairness and reasonableness of the proposals with respect to the existing shareholders of Legend who are not associated with the Associated Parties ("Non-Associated Shareholders").

2.2 In our opinion:

The proposals as outlined in Resolutions 5 and 7 which provide for the issue of 125,000,000 Early Conversion Fee Options to Yandal, or 115,000,000 Early Conversion Fee Options to Yandal and Mr Ryan together (if Resolutions 3, 5 and 8 are passed), are considered on balance **not fair but reasonable** to the Non-Associated Shareholders.

The opinion expressed above is to be read in conjunction with the more detailed analysis and comments made in this report.

Further, despite our opinion that the proposals as outlined are not fair to the Non-Associated Shareholders, which is determined by a comparison between the allotment price and the value that may be attributed to the securities being allotted, we are of the opinion that the proposal is reasonable for the following reasons:

- Yandal is injecting a significant sum of cash into the Company, being \$5 million from the early conversion of the Convertible Note and the immediate exercise of the Conversion Options attached to the Conversion Shares. The early conversion of the Convertible Note to shares in the Company removes a significant liability payable by the Company in cash and also removes various restrictive terms associated with the Convertible Note including the removal of the security granted to Yandal over the Company's assets to secure performance by the Company of the Convertible Note. As the Company has limited cash resources the passing of these Resolutions will not only inject cash but enhance the Company's ability to attract new investors and raise capital by removing the debt and restrictive conditions described above;
- The Company is effectively raising \$10 million of equity at minimal capital raising costs;
- The Rights Issue will raise approximately \$6,120,000 (before the costs of the Issue) and will be underwritten by Findlay & Co Stockbrokers Ltd ("Underwriter"), subject to usual and appropriate conditions and termination events, and conditional on Yandal converting its Convertible Note early and immediately exercising the Conversion Options in order to raise \$5,000,000. Accordingly, by passing Resolutions 5 and 7 (to approve the issue of Early Conversion Fee Options to Yandal and Mr Ryan), the Company will be able to proceed with the underwritten Rights Issue.

This will allow the Company to increase its cash resources available to fund its mining and exploration activities, which may significantly increase its ability to generate future profits and increase the share price of a Legend share; and

- Should the transaction not proceed pursuant to Resolution 5, there may be a level of uncertainty in relation to the future financial strength of the Company.

### 3. IMPLICATIONS OF THE PROPOSALS

3.1 As at 17 March 2006, there were 458,578,322 ordinary fully paid shares on issue in Legend. The four significant shareholders at that date held 46.16% of the issued capital and are as follows:

	No. of fully paid shares	% of issued fully paid shares
<b>Associated Parties*</b>	<b>157,500,000</b>	<b>34.35</b>
Croya Mining Ltd	30,000,000	6.54
Downwillow Pty Ltd	16,666,666	3.63
National Nominees Ltd	7,516,433	1.64
Other investors	246,895,223	53.84
Total Shares on Issue	<u>458,578,322</u>	<u>100</u>

\*Comprises Yandal Investments Pty Ltd (7,500,000 shares) and Australian Gold Resources Pty Ltd (149,985,000 shares) and Mr D Ryan (15,000 shares).

3.2 Assuming:

- a) 152,859,440 Shares and 152,859,440 Attaching Options are issued pursuant to the prospectus (referred to in clause 1.14) and an additional 160,359,440 Shares are issued following exercise of the Attaching Options and Underwriting Fee Options;
- b) Yandal converts its Convertible Note and exercises the Conversion Options attaching to the Conversion Shares;
- c) Mr Wilson acquires 10,000,000 Shares from Yandal for \$400,000, and Mr Perring acquires 2,000,000 Shares from Yandal for \$80,000, pursuant to Terms Sheet Two (referred to in clause 3.2);
- d) all the optionholders exercise the Early Conversion Fee Options to be issued under Resolutions 5, 6, 7 and 8; and
- e) no more Shares or options are issued or exercised by the Company.

the increased voting power of the Associated Parties would be:

	No. of fully paid shares	% of issued fully paid shares
Voting power of Associated Parties	510,510,000	44.52

3.3 If the Early Conversion Fee Options, Attaching Options and Underwriting Fee Options are not exercised, the Associated Parties voting power would be 45.91% of the expanded issued capital.

3.4 As Yandal will immediately exercise the 125,000,000 Conversion Options at an exercise price of 4 cents each, the Company will receive \$5 million from Yandal. Further, the conversion of the Convertible Note by Yandal will fully satisfy the terms of repayment of the loan of \$5 million, which is paid by the issue of shares in the Company and not cash.



3.5 At the time of this report the following options were on issue ("Existing Options"):

Number	Expiry Date	Exercise Date	Exercise Price
2,350,000 (unlisted)	30/05/06	Any time prior to expiry	22 cents
15,000,000 (unlisted)	20/04/07	Any time prior to expiry	20 cents
50,000 (unlisted)	30/07/07	Any time prior to expiry	20 cents
2,000,000 (unlisted)	7/02/08	Any time prior to expiry	10 cents
1,500,000 (unlisted)	30/07/09	Any time prior to expiry	30 cents

We are advised by the directors of the Company that Yandal does not hold any of the Existing Options.

Given the share price of a Legend share has averaged 5.4 cents per share during March 2006 and has been for some time, trading at a significant discount to the respective exercise prices of the Existing Options, it may be unlikely that the Existing Options will be converted into shares in the near future. As such, for the purposes of this report we have assumed that none of the Existing Options will be converted and therefore the voting power of the Associated Parties in the Company will not be diluted. However, should any of the Existing Options be converted to shares then the voting power of the Associated Parties in the Company will be diluted.

3.6 Upon the passing and consummation of Resolution 5 the Underwriter to the Rights Issue will have an obligation to underwrite the Rights Issue, and a fee is payable by the Company to the Underwriter of \$367,200 cash and the issue of 7,500,000 unlisted Underwriting Fee Options that are exercisable at 4 cents each on or before 31 July 2008.

The Company intends to undertake the Rights Issue in June 2006 and will issue 152,859,440 shares at 4 cents each, with 152,859,440 Attaching Options to be listed by ASX and exercisable at 4 cents each on or by 31 July 2008

3.7 The Convertible Note Agreement between the Company and Yandal included the following terms:

- *The loan is secured by a registered fixed and floating charge over all assets of the Company and a registered mortgage over the Company's mining tenements or applications for mining tenements;*
- *During the term of the Convertible Note, Yandal has the right to appoint two directors to the Board of Legend and at any time if that appointee resigns to replace that appointee with another appointee; and*
- *During the term of the Convertible Note, Legend cannot surrender any tenement or withdraw any application for any tenement without the prior written consent of Yandal, which cannot be unreasonably withheld.*

If Resolution 5 is passed and consummated the above terms in relation to the Convertible Note will no longer exist.

- 3.8 We are advised by the directors of the Company that if Resolution 5 is passed and consummated and given the Rights Issue is conditional upon passing this Resolution and will become underwritten, the Company intends to repay a loan of \$3 million owed to Yandal, which is due for repayment on 31 May 2006.
- 3.9 The financial implications of the passing of Resolution 5 are included in paragraph 6 of this report.
- 3.10 If Resolution 5 is not passed and consummated and Yandal does not convert the Convertible Note then pursuant to terms of the Convertible Note Agreement the Company is obligated to continue to pay interest on the loan of \$5,000,000 at 10% per annum on a daily basis and is required to repay the loan in December 2006.

Further, if Resolution 5 is not passed and consummated the Convertible Note will not be converted early by Yandal, and a consequence of this is that the Underwriter will have no obligation to underwrite the Rights Issue. We are advised by the directors of the Company that the Rights Issue will not proceed without this underwriting.

#### **4. RECENT HISTORY AND FUTURE DIRECTIONS OF LEGEND**

- 4.1 In January 2005 the Company acquired Gidgee Resources Ltd from Australian Gold Resources Pty Limited, which is associated with Yandal, and commenced exploration for gold resources in this region. In February 2005 all underground processing of the Swan Bitter underground mine ceased operation and the Company focused on exploration activities. In addition, during 2005 Legend acquired the Mt. Gibson project from Croya Mining Limited and commenced exploration for zinc-copper base metals.
- 4.2 In January 2006 the Company signed a legally binding Terms Sheet with Sunloop Pty Ltd for the sale of its 30.12% interest in the East Coast Minerals Joint Venture, Munni Munni, for \$400,000. This sale is subject to certain conditions and if satisfied the transaction is to be completed on or before 25 April 2006.
- 4.3 The Company announced on 10 March 2006 an underwritten one for three non-renounceable rights issue to raise \$6,120,000 with free attaching options exercisable at 4 cents by 31 July 2008, which will be listed on the ASX. We note that Yandal has agreed not to take up their entitlements under the proposed rights issue.

We have been advised by the Directors and management of Legend that:

- There are no proposals currently contemplated whereby Legend will acquire any property or assets from Yandal or Mr Ryan or any other party associated with them (however, Legend will issue 115,000,000 Early Conversion Fee Options to Yandal or Mr Ryan if Resolutions 5 and 7 are passed). Further, there are no proposals to transfer any of the Company's property or assets to Yandal or Mr Ryan or any other party associated with them;
- The composition of the Board will not change but is subject to the passing of Resolution 3;
- There is no intention to change the dividend or financial policy or employment arrangements or business direction of the Company; and

- The Associated Parties do not have any present intention to inject further funds into the Company other than the potential exercise of the 125,000,000 Early Conversion Fee Options to be issued pursuant to Resolutions 5 and 7.

The directors of the Company advise that it will focus on major exploration and resource extension drilling programmes at both Mt Gibson and Gidgee, with the objective of adding significantly to the projects mineral resource and ore reserve base. Further, a new general technical expert, Mr Bob Perring, has been appointed to the Company to oversee and manage that process.

## **5. BASIS OF VALUATION OF EARLY CONVERSION FEE OPTIONS**

### **5.1 Early Conversion Fee Options**

5.1.1 In considering the proposal outlined in Resolution 5, we have sought to determine if the issue of the 125,000,000 Early Conversion Fee Options to Yandal as consideration for the early conversion of the Convertible Note of \$5 million and the immediate exercise of 125,000,000 Conversion Options for \$5 million, is fair and reasonable to the Non-Associated Shareholders of Legend.

5.1.2 The Early Conversion Fee Options issue pursuant to Resolution 5 would be fair to the Non-Associated Shareholders if the value of the Early Conversion Fee Options issued by the Company was less than the value ascribed to the benefits of the early conversion of the Convertible Note of and the immediate exercise of the Conversion Options to raise \$5 million. Accordingly, we have sought to determine a theoretical value that could reasonably be placed on the Early Conversion Fee Options and a value for early conversion and immediate exercise of the Conversion Options for the purposes of this report.

5.1.3 The Early Conversion Fee Options proposed to be issued pursuant to Resolution 5 will not be listed on the ASX. Further, the Company does not have any options on issue that are listed on the ASX, which may be used to indicate a valuation of the Early Conversion Fee Options. As such, we have determined a theoretical valuation of the Early Conversion Fee Options utilising the Black Scholes model, which is the generally accepted model to value options for companies that do not have a history of declaring dividends. In determining the theoretical valuation we have assumed the following:

- The share price at date of issue is 5.5 cents per share;
- The Early Conversion Fee Options are exercisable at 4 cents each;
- The price volatility of share in the Company is 73.41% (as pre Bloomberg);
- The Early Conversion Fee Options are to be exercised by 31 July 2008;
- The risk free interest rate is 5.5%;
- No early exercise by Optionholders; and

- A discount range of 50% to 75% for non-negotiability of the Early Conversion Fee Options and recognition of the level of trade relevant to number of potential shares to be issued through the exercise of Early Conversion Fee Options.

5.1.4 Based on the above assumptions, the hypothetical value of the 125,000,000 Early Conversion Fee Options the subject of Resolution 5 is in the range of approximately \$906,000 and \$1,800,000.

## 6. PRO-FORMA STATEMENT OF FINANCIAL POSITION OF LEGEND

We set out below the audited Consolidated Balance Sheet of Legend as at 31 December 2005 and a Pro-Forma Consolidated Balance Sheet. The Pro-Forma Consolidated Balance Sheet includes the issue of 125,000,000 Early Conversion Fee Options to Yandal at a value of \$1.359 million, representing the average value of the range calculated in paragraph 5.1.4 of this report.

The Pro-Forma Consolidated Balance Sheet also includes the conversion of the Convertible Note by way of the issue of 125,000,000 Conversion Shares to repay the loan to Yandal of \$5 million, the immediate exercise of the 125,000,000 Conversion Options for \$5 million cash. Further, the estimated costs of the above proposals are \$75,000 and are included as a cost of capital raising.

Additional assumptions included in the preparation of the Pro-Forma Consolidated Balance Sheet include the following:

- The consummation of the Rights Issue to raise \$6.12 million cash and associated costs with the issue incorporating \$367,200 cash and 7,500,000 options valued at approximately \$82,000, utilising the Black Scholes model and assumptions outlined in paragraph 5.1.3 of this report; and
- The repayment of the loan of \$3 million due on 31 May 2006 and payable to Yandal.

### Legend Consolidated Balance Sheet

	<b>Audited 31 December 2005 \$'000</b>	<b>Pro-forma 31 December 2005 \$'000</b>
<b>Current Assets</b>		
Cash assets	407	8,085
Other Financial Assets	3,145	3,145
Receivables	52	52
Inventories	157	157
Other	30	30
	3,791	11,469
<b>Non - Current Assets</b>		
Other Financial Assets	141	141
Property, Plant & Equipment	1,831	1,831
Deferred Exploration Costs	19,545	19,545
	21,517	21,517
<b>Total Assets</b>	25,308	32,986

	<b>Audited</b>	<b>Pro-forma</b>
	<b>31 December</b>	<b>31 December</b>
	<b>2005</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current Liabilities</b>		
Payables	621	621
Interest Bearing Liabilities	8,000	-
Provisions	62	62
	<u>8,683</u>	<u>683</u>
<b>Non-Current Liabilities</b>		
Provisions	3,208	3,208
	<u>3,208</u>	<u>3,208</u>
<b>Total Liabilities</b>	<u>11,891</u>	<u>3,891</u>
<b>Net Assets</b>	<u>13,417</u>	<u>29,095</u>
<b>Equity</b>		
Contributed equity	37,036	51,348
Reserves	447	1,813
Accumulated losses	(24,066)	(24,066)
<b>Net Equity</b>	<u>13,417</u>	<u>29,095</u>

6.1 Based on the above book values of the Consolidated Balance Sheet of Legend at 31 December 2005, and the total number of shares on issue of 458,578,322, the value of a share may be considered 2.93 cents per share (ignoring the value, if any, of non-booked tax benefits).

6.2 Based on the above book values of the Pro-Forma Consolidated Balance Sheet of Legend that incorporates the assumptions above and the total number of shares on issue of 861,578,322, the value of a share may be considered 3.38 cents per share (ignoring the value, if any, of non-booked tax benefits).

## 7. FAIRNESS OF THE OFFER

7.1 For the purposes of this report we have ascribed a theoretical value to the 125,000,000 Early Conversion Fee Options in a range of approximately \$906,000 and \$1,800,000 at the date of granting the Early Conversion Fee Options, based on the widely accepted Black Scholes valuation model (refer paragraph 5.1.3 of this report).

7.2 The terms of conversion of the Convertible Note and the exercise of the Conversion Options is not part of the consideration of this report, only the issue of 125,000,000 Early Conversion Fee Options to the Associated Parties. Therefore, it may be considered reasonable to ascribe an intrinsic value to the Company for the issue of the Early Conversion Fee Options and for the purposes of this report we have considered the cost saving of raising the same amount of \$10 million through a share issue.

The Company proposes to issue 125,000,000 Early Conversion Fee Options valued between \$960,000 and \$1,800,000 as consideration for the early conversion of the Convertible Note and exercise of Conversion Options. In exchange, Yandal will receive Conversion Shares from the Company as full payment of its \$5 million loan and Yandal will pay \$5 million cash to exercise its Conversion Options under the Convertible Note Agreement. As such, the Company will effectively raise \$10 million through the issue of shares as described at minimal cost.

If the Company were to raise an equivalent amount of \$10 million through a public offer share placement it is likely it will pay various expenses including broking fees, underwriter fees, legal fees and other consultant fees.

In our opinion the costs of raising \$10 million by way of a public share placement may be up to 7% of the amount raised, totalling \$700,000. Further, we note that the estimated costs payable for the issue of shares in relation to the Rights issue to raise \$6.12 million is approximately \$367,200 cash plus 7.5 million unlisted options that have been valued utilising the Black Scholes model at a value of \$82,000.

Therefore, it may be argued that the intrinsic value to the Company in relation to the issue of the 125,000,000 Early Conversion Fee Options is the cost saving in relation to a share capital issue of \$10 million, which is estimated to be up to \$700,000.

- 7.3 Based on the above facts, we are of the opinion that the issue of up to 125,000,000 Early Conversion Fee Options to be issued to Yandal and Mr Ryan is, technically, considered not fair to the non-associated shareholders of Legend.

## **8. REASONABLENESS OF THE OFFER**

- 8.1 We set out below some of the advantages and disadvantages and other factors pertaining to the proposal pursuant to Resolutions 5 and 7.

### **Advantages**

- 8.2 As noted in this report, if shareholder approval is obtained pursuant to Resolution 5 the Convertible Note of \$5 million from Yandal will be converted into 125,000,000 Conversion Shares and 125,000,000 Conversion Options in full satisfaction of repayment of the loan.

To extinguish the Convertible Note of \$5 million at the end of the two year term would require the Company to pay a significant cash payment. The directors of Legend have advised that it is unlikely the Company will have \$5 million surplus cash resources to repay this loan as the Company intends to focus on an aggressive exploration program in the short term. As such, the Company may be required to raise further debt or equity funding should it be required to repay this loan. The early conversion of the Convertible Note as contemplated by Resolution 5 may be considered less expensive and a less time consuming option than traditional fund raising (brokers fees alone may be up to 6% of funds raised).

Further, should a large capital raising be required, it may have to be at a discount to the market rate and there is no guarantee that the Company can raise the required amount. Also, given the inherent speculative nature of exploration activities of the Company any large cash payments would likely impact the Company's working capital and may necessitate additional fund raising to ensure the Company can continue its normal business activities.

- 8.3 Resolution 5 also provides Yandal will immediately exercise 125,000,000 Conversion Options attached to the Convertible Note, and pay \$5 million cash to the Company to receive 125,000,000 shares at a price of 4 cents per share.

The Company will effectively have raised \$10 million through a share placement and it will no longer be required to repay the \$5 million loan to Yandal.

As such, the Company has the opportunity to raise \$5 million to fund its working capital commitments and retire debt of \$5 million. If the Company was required to raise \$10 million through a share placement it may incur significant capital raising costs and there is no certainty that this amount could be raised.

8.4 The agreement with the Underwriters is conditional upon the early conversion by Yandal of the Convertible Note and the immediate exercise of the Conversion Options. As such, the passing of Resolution 5 will enable the Company to inject further cash resources into the Company and enable it to fund its mining and exploration activities, which may significantly increase its ability to generate future profits and increase the share price of a Legend share.

8.5 The Convertible Note was issued on the following terms:

- *The loan is secured by a registered fixed and floating charge over all assets of the Company and a registered mortgage over the Company's mining tenements or applications for mining tenements;*
- *During the term of the Convertible Note, Yandal has the right to appoint two directors to the Board of Legend and at any time if that appointee resigns to replace that appointee with another appointee; and*
- *During the term of the Convertible Note, Legend cannot surrender any tenement or withdraw any application for any tenement without the prior written consent of Yandal, which cannot be unreasonably withheld.*

Upon the passing and consummation of Resolution 5 the Convertible Note will be converted into shares in the Company and the terms of the Convertible Note as described above will cease.

We are advised by the directors of the Company that the removal of the above terms as well the repayment of the Convertible Note loan may increase the Company's ability to attract new investors and may provide additional working capital.

As such, the Company may increase its cash resources available to fund its mining and exploration activities, which may significantly increase its ability to generate future profits and increase the share price of a Legend share.

8.6 The net asset backing of the Company is improved marginally from 2.93 cents per share to 3.38 cents per share if Resolution 5 is passed and consummated, and the Rights Issue is consummated.

8.7 Should Resolution 5 not be passed and consummated we believe there may be a level of uncertainty in relation to the future financial position of the Company. The conversion of the Convertible Note to the Conversion Shares removes a large liability from the Balance Sheet of the Company and the exercise of Conversion Options will inject \$5 million cash. Further, the passing of Resolution 5 will allow the Rights Issue to raise \$6.12 million to be underwritten. The combined effect of the above will enhance the financial position of the Company and arguably remove some uncertainty.

### Disadvantages

- 8.8 The Associated Parties would increase its voting power in the Company from 34.35% to 44.52% of the expanded issued capital if Resolution 5 is passed and consummated, assuming the exercise of the Early Conversion Fee Options, Attaching Options and Underwriting Fee Options. Or if these options are not exercised the immediate voting power of the Associated Parties is 45.91% of the expanded issued capital in the Company.

The above will arguably transfer effective control of the Company to the Associated Parties, whom would have the ability to influence future decisions that may be for its own purposes. However, we note that the Associated Parties will not obtain absolute control of the Company and presumably all shareholders will benefit from decisions that are intended to increase share prices or generate future profits.

Irrespective of the outcome of Resolution 5 and assuming no new shares are issued, we note the Associated Parties may be able to increase its voting power to 48.41% of the existing issued capital in the Company by the conversion of the Convertible Note. These conversion terms have been considered and approved by shareholders in 2005.

### Other

- 8.9 The terms of the 125,000,000 Early Conversion Fee Options to be issued to the Associated Parties includes the exercise price of 4 cents per share. The share price of a Company share reveals a 52 week high price of 14.5 cents per share (29 March 2005) and a 52 week low price of 4.5 cents per share (1 March 2006) and the average share price for March 2006 was 5.4 cents per share.

Therefore, the exercise price of 4 cents per share for the 125,000,000 Early Conversion Fee Options proposed to be issued to the Associated Parties is lower than the recent monthly average share price and is also below the 52 week low price. Further, it is noted that the exercise price of 4 cents is the same as the Attaching Options to the Rights Issue as well as the Underwriting Fee Options.

As such, it may be considered that the exercise price of the 125,000,000 Early Conversion Fee Options does not favour the Associated Parties as it is reasonable to expect a private share placement to be lower than the market rate and is the same exercise price for the Attaching Options as well as the Underwriting Fee Options.

Included in the 2005 audited annual financial statements are tax losses not brought to account of approximately \$7.6 million. Under existing taxation legislation the Company may be able to offset these tax losses against future taxable income if either the Same Business Test or Continuity of Ownership Test are satisfied.

As the Associated Parties have already significantly increased its holding of shares in the Company, resultant from the acquisition of Gidgee Resources Ltd, and assuming Resolution 5 is passed, then there is likely to be a weakening of the Company's ability to pass the Continuity of Ownership Test as described above.

## **9. CONCLUSION AS TO REASONABLENESS**

After taking into account the matters referred above and elsewhere in this report, we are of the opinion that the proposals as outlined in Resolutions 5 and 7 may, on balance, be considered reasonable to the non-associated shareholders of Legend.



## 10. SOURCES OF INFORMATION

10.1 In making our assessment as to whether the proposals are fair and reasonable, we have reviewed relevant published available information and other unpublished information of the Company that is relevant to the current circumstances. In addition, we have held discussions with the management of Legend about the present and future operations of Legend. Statements and opinions contained in this report are given in good faith but in the preparation of this report, we have relied in part on information provided by the directors and management of Legend.

10.2 Information we have received includes, but is not limited to:

- Draft Notice of General Meeting of Shareholders of Legend and draft Explanatory Statement prepared to 4 April 2006;
- Discussions with management and directors of Legend;
- Details of historical market trading of Legend ordinary fully paid shares recorded by the ASX to 4 April 2006;
- Annual Report and audited accounts for Legend as at 31 December 2005;
- Half-year financial report for Legend as at 30 June 2005;
- Announcements made by Legend to the ASX to 4 April 2006;
- Terms Sheet dated 10 March 2006;
- Terms Sheet Two dated 10 March 2006 between Yandal, Mr Wilson and Mr Perring;
- Legend internet website; and
- Convertible Note Agreement, Share Sale Agreement, Loan Agreement, Mining Act Mortgage and Fixed and Floating Charge documents.

10.3 Our report includes Appendix A attached to this report.

Yours faithfully

**BENTLEYS MRI PERTH FINANCIAL SERVICES PTY LTD**  
(Australian Financial Services Licence No. 259864)



**MAURICE L ANGHIE**  
DIRECTOR

## APPENDIX 1

### FINANCIAL SERVICES GUIDE

#### Bentley MRI Perth Financial Services Pty Ltd

1. Bentley's MRI Perth Financial Services Pty Ltd (ABN 92 064 260 260) (BMRIFS) is a specialist valuation firm which provides valuation advice, valuation reports and Independent Expert's Reports in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
2. BMRIFS holds Australian Financial Services Licence No 259864.

#### Financial Services Guide

3. The Corporations Act 2001 authorises BMRIFS to provide this Financial Services Guide (FSG) in connection with its provision of the Independent Expert Report (Report) to be sent to Legend Mining Ltd ("Legend") in relation to the issue of Options to Associated Parties.
4. This FSG is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about BMRIFS generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and if complaints against us ever arise how they will be dealt with.

#### Financial services we are licensed to provide

5. Our Australian financial services licence allows us to provide financial product advice for the following classes of financial products:
  - securities; and
  - superannuationto retail and wholesale clients.

#### General financial product advice

6. The Report contains only general product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
7. You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your own situation. You may wish to obtain personal financial product advice from the holder of an Australia Financial Services Licence to assist you in this assessment.

#### Fees, commissions and other benefits we may receive

8. BMRIFS charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages BMRIFS to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us.
9. Neither BMRIFS nor its directors and officers receive any commissions or other benefits, except for the fees for services referred to above.
10. All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our



## **QUALIFICATIONS, DECLARATIONS AND CONSENTS**

### **Qualifications**

1. BMRIFS is a licensed investment adviser under the Corporations Act. BMRIFS's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared numerous valuations and Independent Expert's Reports.
2. This report was prepared by Mr Maurice Anghie who is a director of BMRIFS. Mr Anghie has over 30 years experience in the provision of valuation advice.

### **Declarations**

3. This Report has been prepared at the request of Legend and is to be used in the Notice of the Annual General Meeting on 30 May 2006. It is not intended that this Report should serve any purpose other than as an expression of our opinion in relation the matters it refers.

### **Interests**

4. At the date of this report, neither BMRIFS or Mr Angie have any interest in the outcome of the Resolutions considered in the Report. BMRIFS is entitled to receive a fee for the preparation of this report based on time expended at our standard hourly professional rates. With the exception of the above fee, BMRIFS will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

### **Indemnification**

5. As a condition of BMRIFS's agreement to prepare this report, Legend agrees to indemnify BMRIFS in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Legend which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

### **Consents**

6. BMRIFS does not consent to the inclusion of this report in the form and context in which it is any publication without its express authority.