

**AVOCA RESOURCES LIMITED**

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13 July 2009

The Shareholders  
Dioro Exploration NL

Dear fellow Dioro Shareholder,

## **SECOND SUPPLEMENTARY BIDDER'S STATEMENT**

### **AVOCA'S OFFER FOR DIORO DECLARED UNCONDITIONAL AND PAYMENT TERMS ACCELERATED.**

This is the second supplementary bidder's statement (**Second Supplementary Bidder's Statement**) to the bidder's statement (**Bidder's Statement**) of Avoca Resources Limited ABN 30 097 083 282 (ASX:AVO) (**Avoca**) dated 5 May 2009 given in connection with its takeover offer for all of the shares in Dioro Exploration NL ABN 31 009 271 532 (ASX:DIO) (**Dioro**). This Second Supplementary Bidder's Statement supplements, and must be read together with, the Bidder's Statement and Avoca's first supplementary bidder's statement dated 6 July 2009. This Second Supplementary Bidder's Statement is dated 13 July 2009 and has been approved by a unanimous resolution of the Avoca board. A copy of this Second Supplementary Bidder's Statement has been lodged with ASIC. Neither ASIC nor any of its officers takes any responsibility for the contents of this Second Supplementary Bidder's Statement.

#### **Summary**

- Avoca has **freed its Offer from all conditions**, making it now **unconditional** and providing Dioro shareholders with the opportunity to **realise a significant premium** by **accepting its Offer**.
- Avoca has **accelerated its payment terms** for Dioro shareholders who accept the Offer.
- Avoca's Offer is currently **scheduled to close at 5pm (Perth time) on Tuesday, 21 July 2009**.
- Dioro's share price is **likely to fall substantially** after the closing date for Avoca's Offer (**Closing Date**), in the absence of another offer.
- Avoca's Offer is **the only offer that currently exists**. There are no other offers on the table and the **prospects of another offer are low** given Avoca's predominant 14.95% shareholding in Dioro, which will now increase.
- By making its Offer unconditional, **Avoca will take all acceptances it receives** under its Offer and has signalled its intention to remain a shareholder

of Dioro even if the compulsory acquisition acceptance threshold of 90% is not achieved by the Closing Date.

- **The KPMG valuation of Dioro is out of touch with reality.** ASIC has for a third time raised concerns with the KPMG Independent Expert's Report in Dioro's Target's Statement. Avoca reiterates its view that not only is the KPMG valuation unrealistic, but that the Dioro board needs a reality check.

## 1. Offer declared unconditional and payment terms accelerated

As you would be aware, Avoca, an ASX200 gold producer, improved its initial Offer for your shares in Dioro on 6 July 2009 and is now offering you **1 Avoca share for every 2.4 Dioro shares held by you**. At the time of the increase, the increased Offer represented a premium of over **89%** to the 39.5 cent closing price of Dioro Shares on 9 April 2009 (the trading day immediately prior to the announcement of the Offer) based on the \$1.795 closing price of Avoca Shares on 3 July 2009.

Avoca has today given notice that it has **freed its Offer from all conditions** so that its Offer is now **unconditional**. This means that all Dioro shareholders who accept the Offer will be issued Avoca shares, on the basis of 1 Avoca share for every 2.4 Dioro shares held by them, regardless of the total level of acceptances received by Avoca under the Offer. Dioro shareholders have the opportunity now, until the Closing Date, **to exchange their poorly performing Dioro shares for shares in Avoca which has been performing strongly and achieving record production levels**.

Once Avoca's Offer closes, there is a strong likelihood that, in the absence of another offer, **Dioro's share price will fall substantially, towards its pre-announcement levels**. Avoca believes there is powerful logic in combining Avoca's and Dioro's gold assets under a combined group to optimise the potential growth opportunities and synergies, as shareholders of a mid-tier Australian ASX200 gold company.

Avoca's Offer is currently **scheduled to close at 5.00pm (Perth time) on Tuesday 21 July 2009**. To be effective, your completed acceptance form (or, where your shares are held in CHESS, your valid instructions to enable the Offer to be accepted on your behalf) needs to be received before the Closing Date.

In addition, Avoca has also resolved to **accelerate the payment terms** under its Offer, with effect from the date of this Second Supplementary Bidder's Statement. Accordingly, accepting Dioro shareholders will now be issued with the Avoca shares due to them under the Offer within 10 Business Days of receipt of a valid acceptance or their acceptance instructions being implemented (or within 10 Business Days of the date of this Second Supplementary Bidder's Statement in the case of acceptances already received). This is a substantially shorter period than required under the Corporations Act and contemplated under Avoca's Offer terms.

For your convenience, you will find enclosed a further copy of a personalised acceptance form in respect of your shareholding in Dioro. You do not need to re-lodge this form if you have already accepted into the Offer.

## 2. ASIC's continued intervention in respect of the Dioro Target's Statement

On 8 July 2009, Dioro provided Avoca with a copy of its third supplementary target's statement (**Third Supplementary Target's Statement**). This statement was released to the ASX on 9 July 2009. Dioro's Third Supplementary Target's Statement attaches a letter from KPMG (the independent expert appointed by Dioro) which was in response to a further request from the Australian Securities and Investments

Commission (**ASIC**). This is now the ***third time*** that ASIC has requested further information or clarification in relation to the expert's report annexed to Dioro's Target's Statement previously sent to you.

Avoca has previously stated publicly and directly to Dioro's shareholders that **KPMG's theoretical valuation of a Dioro share is unrealistic and bears no correlation to the market price of Dioro's shares, which Avoca believes is the only truly independent mechanism for determining fair market value.** Avoca believes that the information which ASIC has required to be given more prominence, plus other statements included by KPMG in its latest report, supports and is consistent with Avoca's view that both Dioro and KPMG are in need of a **reality check** regarding their stated value for Dioro shares.

As Dioro may not have sent you a copy of any of its three supplementary target's statements (all prepared in response to requests by ASIC), we wish to clearly point out that those documents are available from the ASX website ([www.asx.com.au](http://www.asx.com.au)) and we recommend that you read them in full.

While we maintain our view that KPMG's valuation is **out of touch with reality**, we believe it is important that several of the matters stated by KPMG in the letter attached to the Third Supplementary Target's Statement in response to ASIC's request are brought to your attention. The following statements, shown in italics, are direct quotations from KPMG. Those statements shown below in bold italics are those that **ASIC has specifically instructed KPMG to disclose more prominently** (in the Third Supplementary Target's Statement). In addition, Avoca has provided its own commentary to the KPMG quotations:

- **KPMG statements:** *"Our [KPMG's] range of assessed fair values of \$1.40 to \$2.28 for a Dioro share, inclusive of premium for control, represents a premium of 254 percent to 477 percent to portfolio trading prices for a pre-bid Dioro share immediately prior to the [Avoca] Offer. Excluding outliers, this represents approximately 10 times the range of control premia over pre-bid trading prices typically observed in Australia."* (Annexure A, page 1).
- *"The offer price of \$0.748 implied by the [Avoca] Improved Offer and Avoca's share price immediately prior to the announcement of the Improved Offer represents a premium of 89 percent to pre-bid Dioro trading prices immediately prior to the original [Avoca] Offer. This level of premium exceeds the range of premia over pre-bid prices typically observed within the Australian market."* (Annexure A, page 3).
- *"As noted in our [KPMG] Report, transactions in Australia are typically completed with an implied acquisition premium in the order of 25 percent to 40 percent to the pre-trading activity equity price of the target, based on our [KPMG] analysis of publicly available data."* (Annexure A, page 3).
- *"The value of Dioro was assessed on the basis of fair market value. That is, the value that would be negotiated between a knowledgeable and willing, but not anxious buyer, and a knowledgeable and willing, but not anxious seller, acting in an arm's length transaction, where both buyer and seller are fully informed"* (Annexure A, page 2)

**Avoca's comments:** KPMG has acknowledged that its valuation of Dioro would require a premium of 254% to 477% over the pre-announcement share price of Dioro. Further, KPMG states that this level of premium represents 10 times the control premia typically observed in Australia. **How realistic is this?** KPMG and the Dioro Board are suggesting that Dioro shareholders should hold out for a price that is unlikely to be achieved – is this good advice to Dioro shareholders? **Avoca is offering Dioro shareholders a premium of 89%**, based on the closing price for Avoca

shares as at the date of the improved Offer (6 July 2009), or a **premium of 62%**, based on the closing price for Avoca shares on 10 July 2009 (the last trading day before release of this Second Supplementary Bidder's Statement). **The premium being offered to Dioro shareholders significantly exceeds the typical premium range within the Australian market of 25-40%, as stated by KPMG.**

- KPMG statement:** *"We note that, notwithstanding the information contained in the Target's Statement, which included our [KPMG] Report, trading in portfolio shareholdings in Dioro has not occurred at or above our range of assessed fair values inclusive of premium for control in the period subsequent to the release of Dioro's Target's Statement. Accordingly, we note that this may arguably imply that the market is, at this stage, more bearish than Coffey [the technical specialist retained by KPMG] in relation to the ability of Dioro's existing management to realise the full fair market value of the Company's mineral assets, inclusive of premium for control, in the current environment."* (Annexure A, pages 2 and 3).

**Avoca's comments:** KPMG acknowledges that the Dioro share price has not traded at or above its valuation range in the period since the release of Dioro's Target's Statement. In fact, **Dioro's share price has not traded anywhere near to the KPMG assessed value range** in the 12 months prior to announcement of Avoca's Offer, as demonstrated in the graph below:

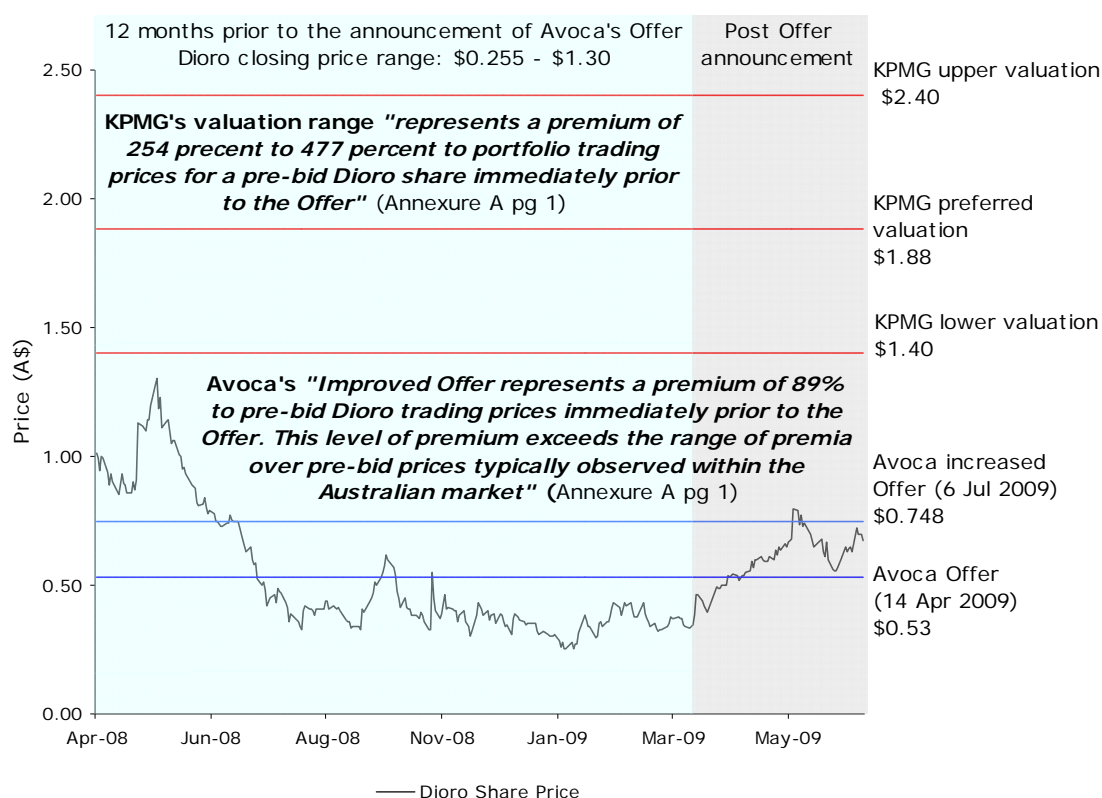


Figure 1: Dioro share price trading history, 12 months prior to and post announcement of Avoca's Offer. Avoca Offer and increased Offer implied values are as at 14 April 2009 and 6 July 2009 (respectively), as set out in ASX announcements on those dates.

KPMG notes that the market may be more bearish (i.e. negative) than Coffey (the technical expert) on the ability of Dioro's management to realise the assessed value. In Avoca's opinion this is for good reason – **under the existing Dioro management the operational performance of Dioro has been poor, resulting in significant value destruction for Dioro shareholders.** This is evidenced by the operational problems encountered at Dioro's wholly-owned and managed South Kalgoorlie

operations, which have suffered from a series of “operational events” starting in early 2008 which have contributed to the significant fall in the Dioro share price:

- March 2008 - The movement on an existing wall failure at Mt. Marion pit;
- September 2008 – Additional pit wall failure at Mt. Marion pit;
- December 2008 – Extensive wall cracking and movement at the HBJ pit;
- January 2009 – Pit wall failure and suspension of mining at the HBJ pit; and
- February 2009 – Tailings spill between the Jubilee mill and tailings dam.

The photos below demonstrate the magnitude of damage caused by the pit wall failures at the HBJ and Mt Marion pits:



Figure 2: HBJ pit (as at May 2009)



Figure 3: Mt Marion pit (as at May 2009)

As these events all occurred at Dioro's 100% owned and managed operation, Dioro must take sole responsibility for the poor operational performance.

- **KPMG statement:** *"Consistent with the advice in our [KPMG] Report it is important for Dioro shareholders to note that no alternative offer or firm commitment to acquire Dioro or any part thereof other than the Improved Offer made by Avoca has emerged to the date of this letter."* (Annexure A, page 4).

**Avoca's comments:** As mentioned previously by Avoca, **its Offer is the only offer that has been presented to Dioro shareholders.** Dioro has referred on several occasions to "potential third party offers" and discussions "with a number of third parties" that have been conducted over the last 12 months. However, since the announcement of Avoca's Offer on 14 April 2009, nearly 3 months ago, no other offer has emerged. In addition, the Dioro Board has not meaningfully updated the market or advised its shareholders of the true status of any of these discussions. Avoca believes that Dioro must now update the market and its shareholders in relation to its discussions with third parties, and the prospects of another bid realistically emerging, in line with its legal obligations.

- **KPMG statement:** *"Further, whilst Avoca has advised that it has, to date, only marginally increased its interest in Dioro's issued capital from the 14.95 percent noted in our Report, to 15.79 percent as at 3 July 2009, any offer by a third party for Dioro as a whole would still require the acceptance of the offer by Avoca."* (Annexure A, page 4).

**Avoca's comments:** By declaring its Offer unconditional today, Avoca will acquire all Dioro shares it receives under valid acceptances for its Offer. This will immediately give Avoca a shareholding of 15.85% in Dioro. Avoca considers it very unlikely that a rival offer will emerge, given the attractive premium that Avoca is offering to Dioro shareholders and also its own strong shareholding position, which at the present level is sufficient to block a rival offer from achieving the 90% compulsory acquisition threshold.

- **KPMG statements:** *"In the event that the [Avoca] Offer is unsuccessful, there is a prospect that the share price of Dioro may fall below the price implied by the [Avoca] Improved Offer but should trade above pre-Offer levels."* (Annexure A, page 4).
- *"We consider it reasonable to expect (given the quantum of the immediate uplift upon announcement of the Offer) that at least a portion of the immediate increase may have been attributable to the market's perception of the Offer, particularly, with respect to the level of premium being offered in terms of pre-announcement trading prices. This assessment is, prima facie, given further weight by the immediate increase in Dioro's share price upon the announcement of the Improved Offer."* (Annexure A, page 4).

**Avoca's comments:** Since the announcement of Avoca's Offer, Dioro's share price has increased from a pre-announcement price of 39.5 cents to as high as 85 cents (intra day 29 May 2009), and closed at 67.5 cents on 10 July 2009. Based on the 10 July 2009 closing price, this represents an increase of 70.9% from the pre-announcement Dioro share price. Avoca argues that the majority of the increase in Dioro's share price is attributed to Avoca's Offer, and also due to Dioro's public commentary leading to speculation of a rival offer (refer to the share price graph above). By **accepting Avoca's Offer**, Dioro shareholders can be certain to **realise a significant premium** to Dioro's pre-announcement share price, as Avoca's offer is now unconditional. For those shareholders who do not accept, it is **very likely that Dioro's share price will fall substantially**, in the absence of another offer.

- **KPMG statement:** "Accordingly, in the event that the [Avoca] Improved Offer is not accepted, there is a prospect that Dioro shares may fall below the level the price [sic] implied by the [Avoca] Improved Offer, particularly if the Company [Dioro] does not:
  - continue to implement changes to its management structure to gain the confidence of the market as to its ability to realise the assessed fair values of its underlying assets
  - successfully complete remedial work to bring the South Kalgoorlie Project back on stream including the prevention of further geotechnical issues at its mining operations." (Annexure A, page 4).

**Avoca's comments:** Avoca has yet to see any changes or announcements regarding changes to Dioro's management structure, where the incumbent management team has destroyed significant shareholder value. In addition, there has been minimal disclosure that outlines the remedial work required at South Kalgoorlie and the plan that Dioro management has to restore value at its South Kalgoorlie operation for the benefit of its shareholders. As part of its valuation of Dioro, KPMG has attributed \$89 million in value to the South Kalgoorlie operations, which is equivalent to 91 cents per Dioro share (on a fully diluted basis) – this is more than the entire current market capitalisation of Dioro. This value is being attributed to an operation that has suffered from significant operational failures and whose future is uncertain (refer to the photographs above of the HBJ and Mt. Marion pits). **What is Dioro's plan to achieve the value ascribed by KPMG, or indeed to restore any value to these operations? In Avoca's view, the expert's value attributed to these operations is completely unrealistic.**

### 3. Our conclusion – ACCEPT Avoca's compelling and unconditional Offer

We therefore strongly encourage you to consider all of the information that has been sent to you, and Dioro's first, second and third supplementary target's statements, and to **ACCEPT** Avoca's **compelling and unconditional** Offer.

Avoca notes the statement of Dioro in its second supplementary target's statement (dated 29 June 2009) that:

*"While the Directors are pursuing alternative proposals, the Directors are unable to give any assurance that the ongoing discussions will result in an acceptable alternate offer"* (page 1 of Dioro second supplementary target's statement).

The Dioro directors have not mentioned alternate offers in their subsequent Third Supplementary Target's Statement, which means that **there have been no changes to the Dioro Statement above.**

Therefore **Avoca's improved Offer is the only offer currently available to you.** As KPMG have noted, **if Avoca's Offer is not successful there is a strong prospect that the Dioro share price will fall.** In our view, the prospects of a third party bidder emerging are low given Avoca's existing 14.95% holding in Dioro (which will now increase) and the fact that no alternate bidder has emerged despite Dioro's "ongoing discussions" over a lengthy period). In any event, Dioro is now required (in accordance with ASIC Regulatory Guide 25) to (by no later than 14 July 2009) update the market about the current status (if any) of its "ongoing discussions".

#### 4. Intentions in relation to Dioro

Avoca confirms that its intentions in relation to Dioro should it acquire 90% or more of the Dioro shares, or between 50.1% and 90% of the Dioro Shares, remain as set out in section 9 of the Bidder's Statement.

Avoca has now freed its Offer from all conditions (including its 90% acceptance condition). Accordingly, it is possible that at the close of its Offer period Avoca may have a relevant interest in less than 50.1% of the Dioro shares.

If Avoca has not gained effective control of Dioro at the close of its Offer period, Avoca intends (as Dioro's largest shareholder) to take an active interest in the development of Dioro and its assets. A number of possibilities are open to Avoca, including:

- (a) continuing to increase its stake in Dioro in accordance with the provisions of the Corporations Act, assuming Avoca is able to acquire further Dioro shares at a price that Avoca believes represents fair value at that time; and
- (b) seeking representation on the Dioro board.

We again urge you to consider all of the information you have been provided and to **ACCEPT** Avoca's **compelling and unconditional** Offer. **You are being offered a very substantial premium for your Dioro shares AND the opportunity to exchange your poorly performing Dioro shares for shares in the strongly performing Avoca, an ASX200 company of scale and excellent growth prospects.**

To be effective, your completed acceptance form (or, where your shares are held in CHESS, your valid instructions to enable the Offer to be accepted on your behalf) need to be received by Security Transfer Registrars Pty Ltd before the Closing Date.

If you have any questions about the Offer or require assistance with your acceptance, please call the Avoca Offer information line on 1300 751 719 (callers within Australia) or +613 9415 4346 (callers outside Australia).

Yours sincerely



**Robert G Reynolds**  
Chairman

# Avoca Resources Limited ABN 30 097 083 282

## Notice of status of conditions

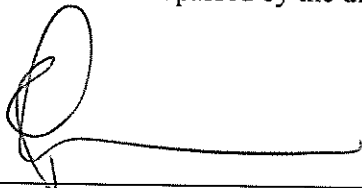
**To:** Dioro Exploration NL ABN 31 009 271 532 ("**Dioro**"); and  
ASX Limited (**ASX**).

Avoca Resources Limited ABN 30 097 083 282 ("**Avoca**") gives notice under section 630(3) of the Corporations Act 2001 (Cwlth) ("**Corporations Act**") that:

- (a) as stated in its notice under section 650F of the Corporations Act given today, 13 July 2009, Avoca's offers dated 14 May 2009 ("**Offers**") under its off-market takeover bid for all of the ordinary shares in Dioro are free from each of the conditions described in Appendix B – "Conditions of the Offer" to Avoca's bidder's statement dated 5 May 2009 ("**Bidder's Statement**");
- (b) as previously notified (on 18 May 2009), the condition set out in paragraph 2 ("Foreign Acquisitions and Takeovers Act") of Appendix B to the Bidder's Statement has been fulfilled;
- (c) so far as Avoca knows, none of the other conditions described in Appendix B to the Bidder's Statement have been fulfilled as at the date of this notice (although, as set out in paragraph (a) above, the Offers have been freed from those conditions); and
- (d) as at the date of this notice, Avoca's voting power in Dioro is 15.85%.

This notice is dated 13 July 2009.

Signed by Rohan Williams on behalf of Avoca. Mr Williams is authorised to sign this notice pursuant to a unanimous resolution passed by the directors of Avoca.



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Rohan Williams  
Director

**Avoca Resources Limited ABN 30 097 083 282**

**Notice under Section 650F of the Corporations Act 2001 (Cwlth)**

**To:** ASX Limited (“ASX”); and  
Dioro Exploration NL (“Dioro”).

**BY THIS NOTICE**, Avoca Resources Limited ABN 30 097 083 282 (“**Avoca**”) **DECLARES** the offers dated 14 May 2009 (“**Offers**”) made by it under an off-market takeover bid for ordinary shares in Dioro, and the contracts (if any) formed by the acceptance of those Offers, free from each of the conditions described in Appendix B – “Conditions of the Offer” to Avoca’s bidder’s statement dated 5 May 2009.

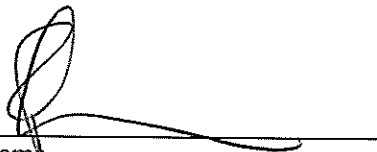
The Offers are now free of all of the above conditions.

Avoca’s voting power in Dioro as at the time of giving this notice is 15.85%.

A copy of this notice was lodged with the Australian Securities and Investments Commission (“**ASIC**”) on 13 July 2009. ASIC takes no responsibility for the contents of this notice.

This notice is dated 13 July 2009.

Signed by Rohan Williams on behalf of Avoca. Mr Williams is authorised to sign this notice pursuant to a unanimous resolution passed by the directors of Avoca.



Rohan Williams  
Director