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STRATEGY MERGERS ACQUISITIONS

Leveraging M & A initiatives to fuel growth for JUMEX Market Participants

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Nicholas Assef is an Executive Director of Lincoln Crowne & Company ('LCC'), a specialist boutique corporate advisor focusing on delivering both domestic and cross border Merger & Acquisition advice.

LCC has a track record in counselling Asian parties (including Chinese SOE's), North American Multi Nationals and Australian Public Companies on Merger & Acquisition Strategies, Takeover Responses, Divestments and other Corporate Initiatives.

Nicholas has also worked on both structuring and unwinding highly complex Industrial and Resources Joint Ventures.

Complimenting his professional achievements, a section of Nicholas' current PhD research focuses on investigating optimal economic and corporate structures that lead to rapid value creation for shareholders, and correspondingly examining sub-optimal corporate structures and incentives that lead to value destruction.



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Section 1



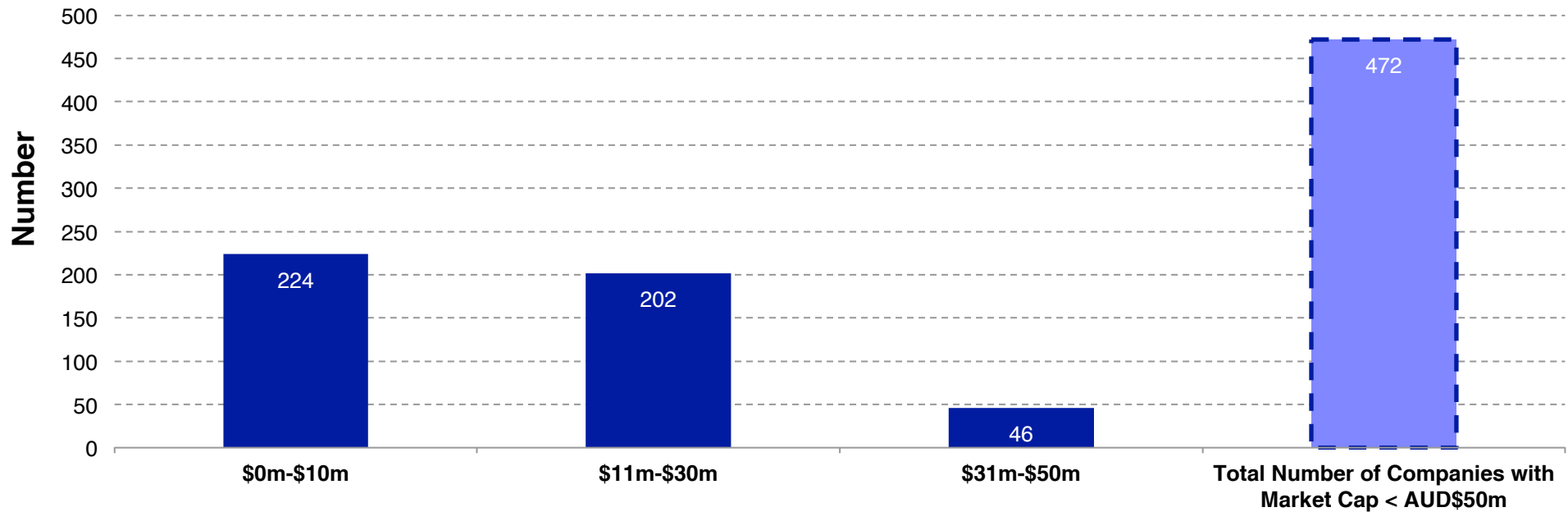
Introductory Observations



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Competition for Shareholder Interest & Capital



Source : LCC research

- ☑ Currently 472 companies on the ASX with a Market Cap of less than AUD \$50m
- ☑ At the small end it is difficult to raise large sums... 'always raising capital'
- ☑ It is also difficult to maintain interest with Stockbrokers & Investors
- ☑ Liquidity in JUMEX companies a critical issue – 'lobster pot effect' which traders raise continuously



Lifestyle -v- Progressive

- ☑ Many sub \$100m market cap companies are viewed as 'lifestyle' situations by institutions and strategic investors
- ☑ Easy to raise \$1M to \$5M, but not so easy to raise substantial capital to progress a resource project towards production
- ☑ Competitors in space / region can also tarnish your efforts – need to analyse what is going on around you, and who the good, and the not so good neighbours/ prospects are
- ☑ Lifestyle company with exceptional asset will find it difficult to extract sensible deal terms – as larger players will typically (and nicely) propose 'take it or leave it'

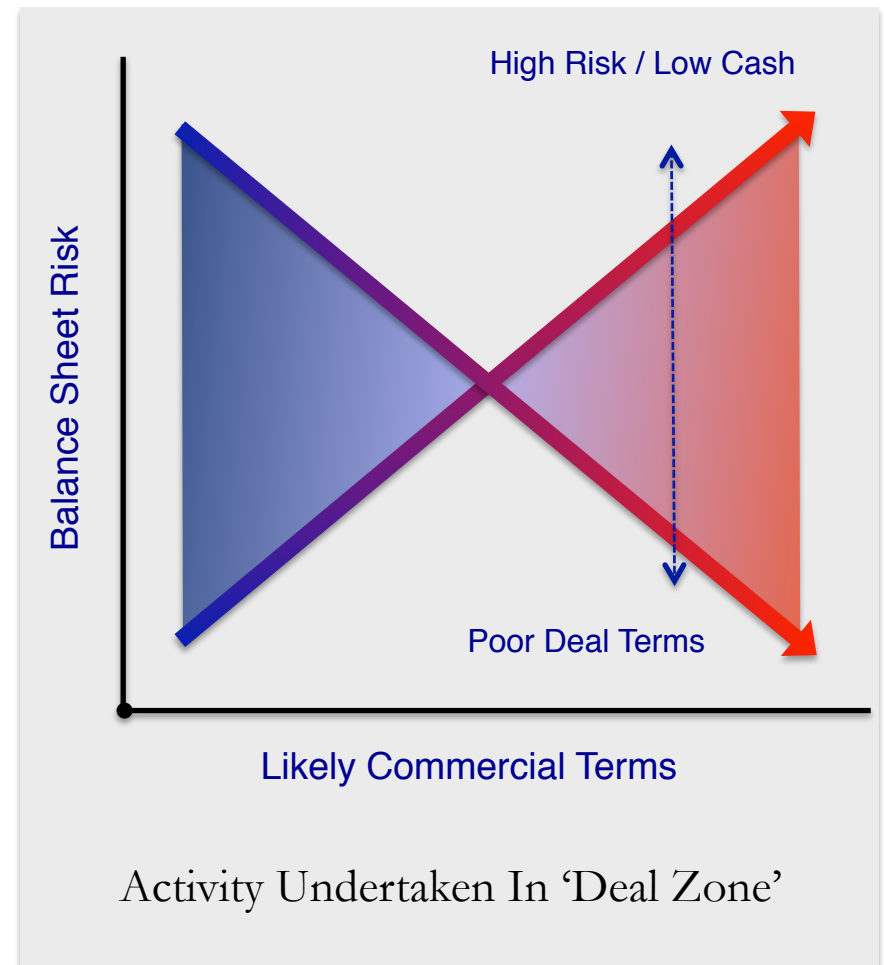
Questions often asked

- How many times have they raised capital ?
- What is typical size of a capital raising ?
- How has capital been used ?
- What have been the shareholder payoffs ?
- Is active portfolio management evident ?
- Is a growth strategy evident ?
- Is there any independent research ?



Balance Sheet Should Be Primary Concern

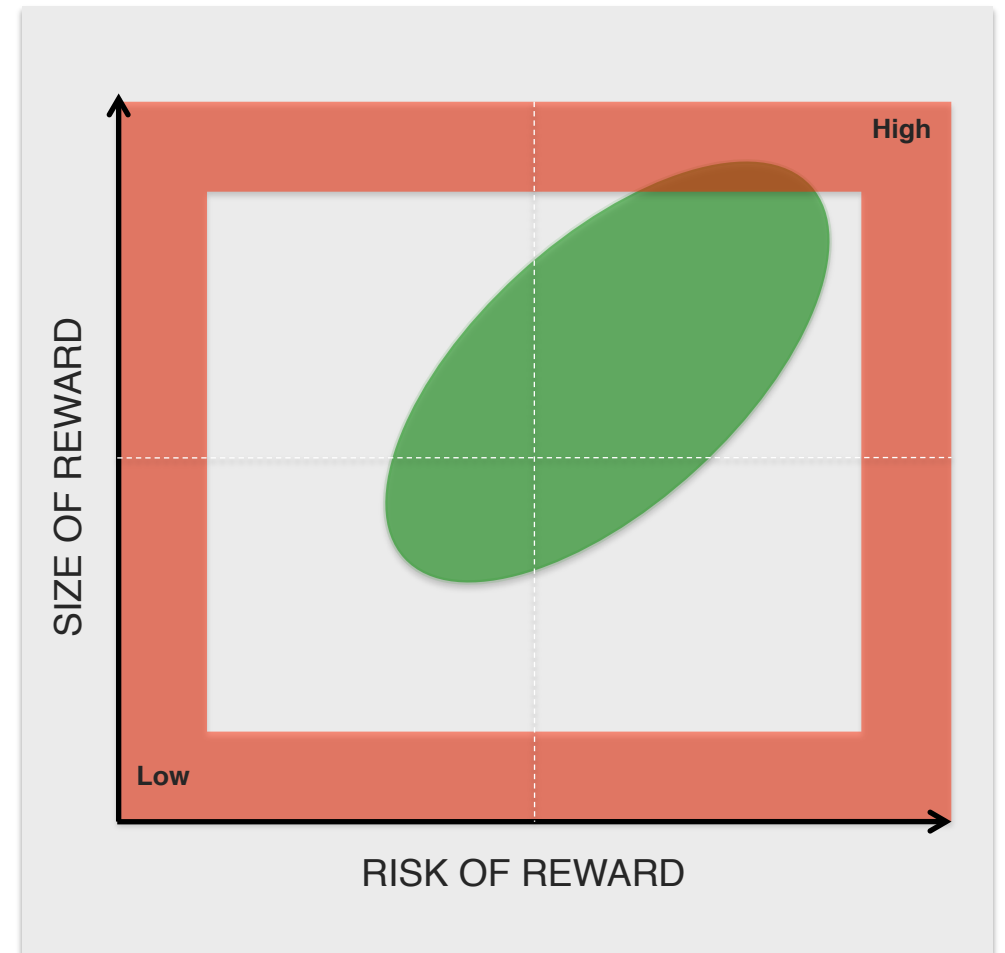
- ☑ Links between Balance Sheet, Project Valuation and Capital Raising
- ☑ Negotiation credibility linkage to the Balance Sheet
- ☑ 'How many times to the well' and credibility of independent funding plans
- ☑ Arguments of 'dilution' –v- low cash balances by JUMEX Companies
- ☑ 2012 capital markets overlay – how easy to raise? Discounts?
- ☑ Plays into the 'correct owner' strategy and 'focused –v- unfocussed' business models





Correct Owner of Asset

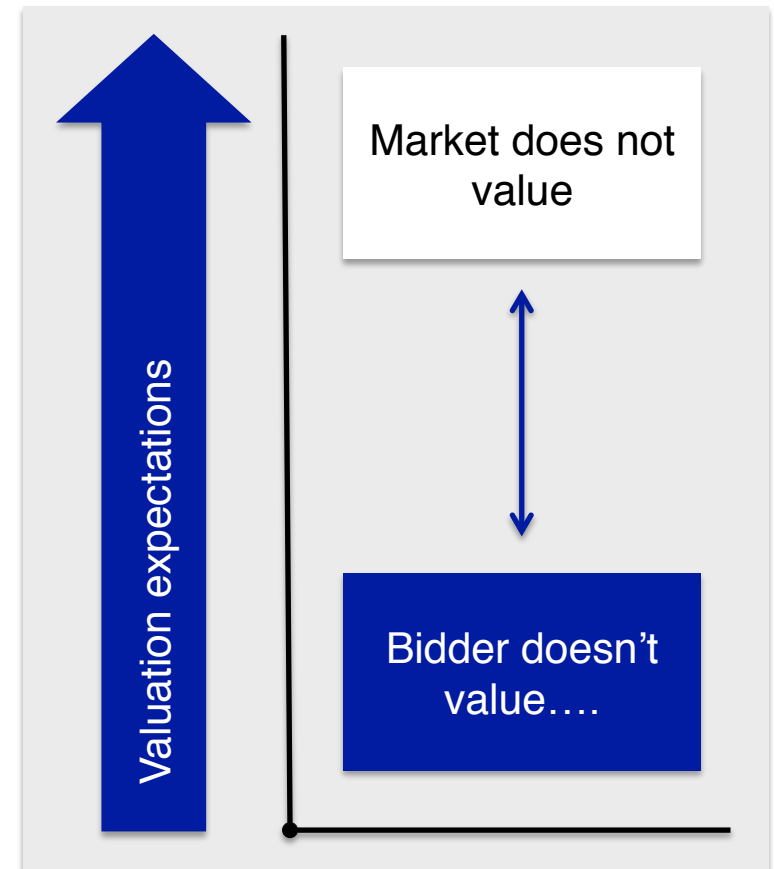
- ✓ Important to understand who the “correct owner” is. “Collections” of tenements packages might not be attractive
- ✓ Maximise shareholder value by pursuing pure strategy, where there is a **strategic advantage**
- ✓ Circle away from assets that do not present **near term advantage** – the market does not value them, and can’t raise capital
- ✓ LCC typically works up with its clients both short term and long term ‘**Risk & Reward**’ scenarios – looking for opportunities with a ‘**Positive Reward Bias**’





Valuation 'gaps' typical in JUMEX deals

- ✓ Pure to mixed valuations in emerging to smaller assets. Pure assets that in a progressive growth path will have more options and be valued at a higher level
- ✓ "The Excel sheet never lies;" often such an approach has little credibility, but foundation of JUMEX position
- ✓ **Assume that the stock is fairly priced.** We often see comments a stock is 'set for re-rating', but simply having reserves or resources is not enough
- ✓ In the current market, for example, there are numerous historic gold plays that are being promoted as being economically viable. With the lead times for investment recoupment, any downward pressure on gold would result in these assets being uneconomic



Smart deal structures applied to 'bridge' the gap



Acknowledge 'Confused' Business Models

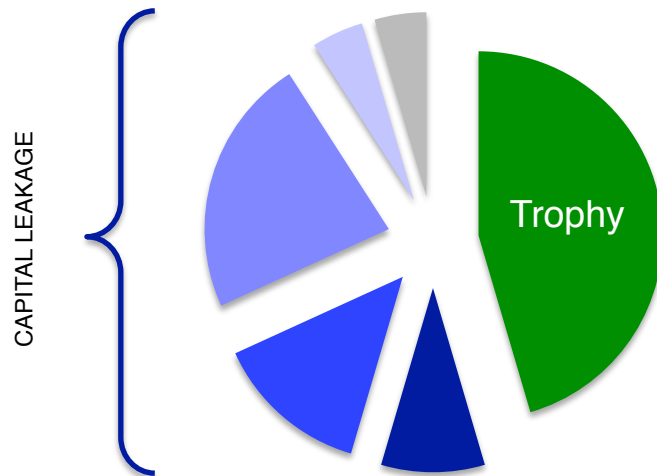
- ☑ 'We own assets in Australia, Bolivia, Somalia & Thailand.....'
- ☑ "We own assets in coal, gold, rare earths & iron ore"
- ☑ Consider Portfolio Reshaping to make the investors decision easier
- ☑ Feedback from a large strategic player on such situations is typically as follows :
 - We are only interested in "X"
 - If this is too confused we have no interest in the head stock
 - We are worried they will not use money wisely, we need to control the cheque book
 - They will not focus, we need to be the dominant partner
- ☑ The Resources Sector is similar to the Venture Capital Sector. Larger players are looking for smaller players to 'validate' assets before they will consider moving in. Prefer to pay more for a few than invest in many 'start ups'





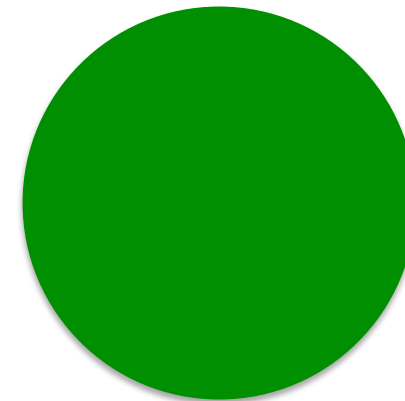
Pure Strategy Brings Benefits

Multiple Resource Categories



- ✓ Valuation of 'trophy' shadowed by other projects
- ✓ Smaller investor pool where 'mixed' assets
- ✓ Valuation a 'blend' of many factors including risk
- ✓ Less certainty on Use of Funds
- ✓ Typically higher 'Agency Costs' – Broader Skills

Single Resource Category



- ✓ Valuation 'defence' straightforward
- ✓ Easier to identify comparables
- ✓ Typically larger investor pool
- ✓ Typically large 'strategic player' pool
- ✓ Focused Use of Funds

Section 2



Capital Enhancement via JV's



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Joint Ventures – Introductory Remarks

- ✓ Significant research on the positive '**signaling**' that a JV between a small player and a large player can deliver. Effectively the larger player is seen to have blessed the project
- ✓ The value enhancement can be **short lived**, however, if the JV takes many months or years to materialise, or the benefits are unclear. This is a danger smaller players need to consider carefully. Structure both Communications Plans and Deals appropriately
- ✓ How to build momentum that delivers milestones that can enhance value, and frees up capital access for both PublicCo and the JV project
- ✓ Also many JV agreements do not cover all lifecycles of a project. It is important to ensure that consistency is in place, and that a smaller party is not marginalized over time



Typical JV Announcement Performance





Linking JVs to Capital Raising for JUMEX

- ☑ Can a JUMEX company **plan** for a capital raising window to open around a JV announcement ?
- ☑ What is the **cost benefit of the typical ‘free carry’ JV** desire of JUMEX players to a near term requirement of a funding contribution (even small) that can position Public Co to leverage the short term open capital raising window? Good time to communicate with investors
- ☑ What **information** should be included in the JV announcement to validate not only the project, but the Public Co / Management’s expertise in sourcing appealing projects and designing winning venture arrangements ?
- ☑ How can an **operational scenario analysis** be included in any announcement to provide indicative guidance on how the JV project will develop, and therefore what potential payoffs for Public Co’s shareholders might result (not guidance)?
- ☑ What **comparable transactions** can be used as case studies of success, and therefore as tools to reinforce appeal of Public Co for future investment ?

Clear JV follow-through needed post announcement



Joint Ventures – Design Considerations

	TYPICAL POSITION	CONSIDERED ALTERNATIVE
Corporate Governance	JV Board representatives of both partners. Predictable behaviour in acting in self interest. Public Governance principles often not applied. Contracting out fiduciary duties (Citibank –v- ASIC)	Appoint an absolute independent director who has incentives linked to JV milestones and balanced performance. Retain Fiduciary Duty requirements
Capital Contributions	Calls after a defined milestone	Pre-Condition of ‘milestone’ independent valuations which protect smaller partner - dilution
Documentation & testing	Robust ‘precedent’ JV Agreements prepared by Lawyers. Typical ‘pre emptive rights’ mechanisms that are UNWORKABLE commercially	Stress testing of predictable milestone points, including detailed ‘what if’ scenario analysis, and unwinding mechanisms
Short Term Milestones	Seldom structured or contemplated. Smaller partner assumes role of back seat passenger	Requirement of ‘rolling 100 day plans’ which can be used for accountability and investor communications

Section 3







Success or Failure in Divestments



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Alternative Divestment Styled Strategies

		Target Attraction	Bidder Attraction	Observations
 HIGH	All Cash Deal	✓✓✓✓✓	✓	Absolute risk transfer
	Structured Deal	✓✓✓✓	✓✓	Still certainty, although allows Bidder flexibility in payment timing
	Milestone Lead	✓✓✓	✓✓✓	Risk shared, with 'key money payment' limited
 HIGH-MID	Cornerstone Deals	✓✓✓✓	✓✓✓✓	Cash payment + offtake (partial / total). Validates project
 MID-LOW	Traditional Farm Ins	✓✓	✓✓✓✓✓	Can be combined with a small 'key money' payment
	All Risk	✓	✓✓✓✓✓	Asset tied up in JV, money on milestones or royalty
 LOW				

Objective assessment of path(s) to follow



Will a Divestment be Successful ?

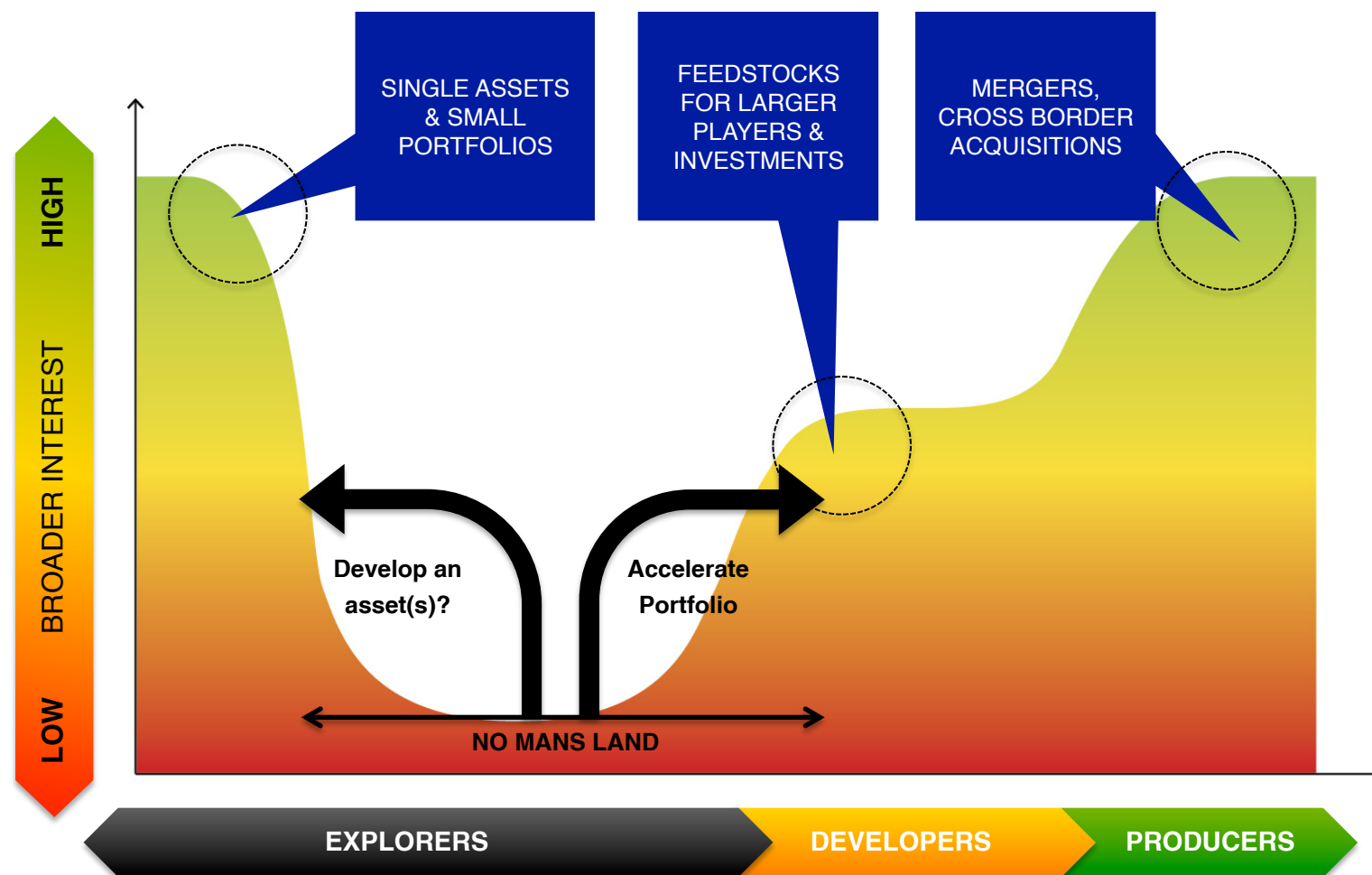
- ✓ Just because an asset is in a 'hot sector' it does not mean that it will automatically be attractive, and there will be an immediate transaction
- ✓ Transactions need to be designed to succeed, in particular looking for windows where fresh technical information is provided to the market that can 'defend' a step change in valuation
- ✓ Increasing trend amongst bigger Resource companies to execute their own drilling and testing to verify prospectivity - timetable impact
- ✓ Flexibility in both deal terms and structure must be maintained. What is in the interests of all shareholders ?



'Goodwill' comes with heavy technical information



Valuation, Capital & “No Man’s Land”



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Deal Drivers
Framework



Role of Asian Corporates in JUMEX

- ☑ LCC has advised, and continues to advise, a number of large offshore players investigating the Junior to Emerging Sectors of the Australian Resources Scene
- ☑ Many players chasing the same profile of asset. 'Open Cut' 'Close to Infrastructure' 'Large Resource' 'Private Company' 'Cheap Valuation' 'No Process' 'In Production'
- ☑ Commodity Trading Houses becoming active
- ☑ High A\$ is having an impact on speed of decision making and asset selection
- ☑ Increasing interest from both Vietnamese and Middle East based organisations

- Path to Control a Pre Requisite
- 'Clean Deals' will not engage if any disputes
- Commercial link – when can be in production
- Comfortable to cornerstone
- Strict guidelines on use of capital
- Happy to milestone cash release points
- Want to partner – operational expertise locally

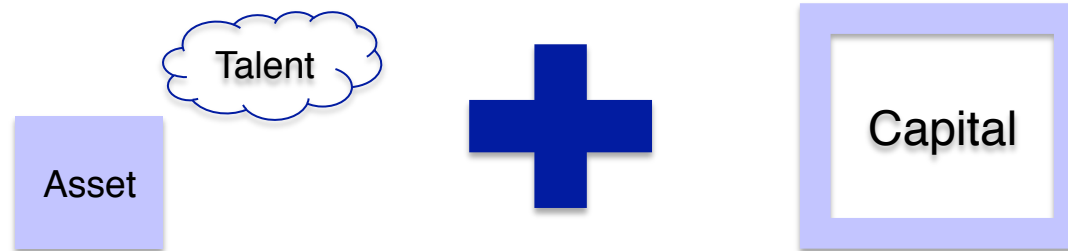
- You need to reach the "Principal Company"
- You need to produce documents in Mandarin
- Trips into China advisable – cultural comfort
- Identify who is the key decision maker – not simple
- If SOE then can be highly complicated decision making
- Understand different levels approvals and timetables

Need to tick all boxes to secure Asian interest



Asset Specific Valuations – Talent Link

- ☑ Resource companies are valued on the ability of an asset to eventually produce
- ☑ This can be held back by many things, in particular CAPEX bubble to deliver a production facility, and the experience of management to 'shift gears' and move from an explorer to a producer
- ☑ Many smaller companies have exceptional talent within their ranks in relation to exploring, but run thin when it comes to executives that have developed an operation through to production. Not unusual as different skill sets
- ☑ Talent evolution required to attract capital as a project steps through various development phases
- ☑ Few JUMEX players develop profile of **exceptional talent + exceptional asset**



JUMEX valuations typically reflect both management expertise and opportunity

Section 4



Mergers, Mini Mergers & Cross Border Alternatives



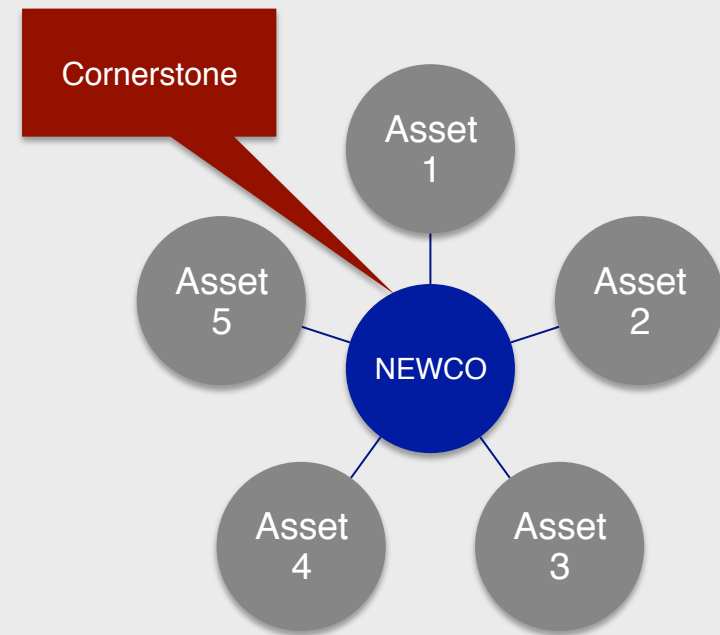
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Pursuing Corporate Led Mini Mergers

- ✓ Owners of smaller tenement parcels complain 'undervalued'. Typically as there is a limited universe of potential acquirers
- ✓ Potential to consider "mini mergers" of selected complimentary assets. Form a pod of assets with critical mass for investors
- ✓ These roll ups may at time need to be managed by independent talent – refer JV
- ✓ Can remove cash leakage as well as release value (fees, expenditure)



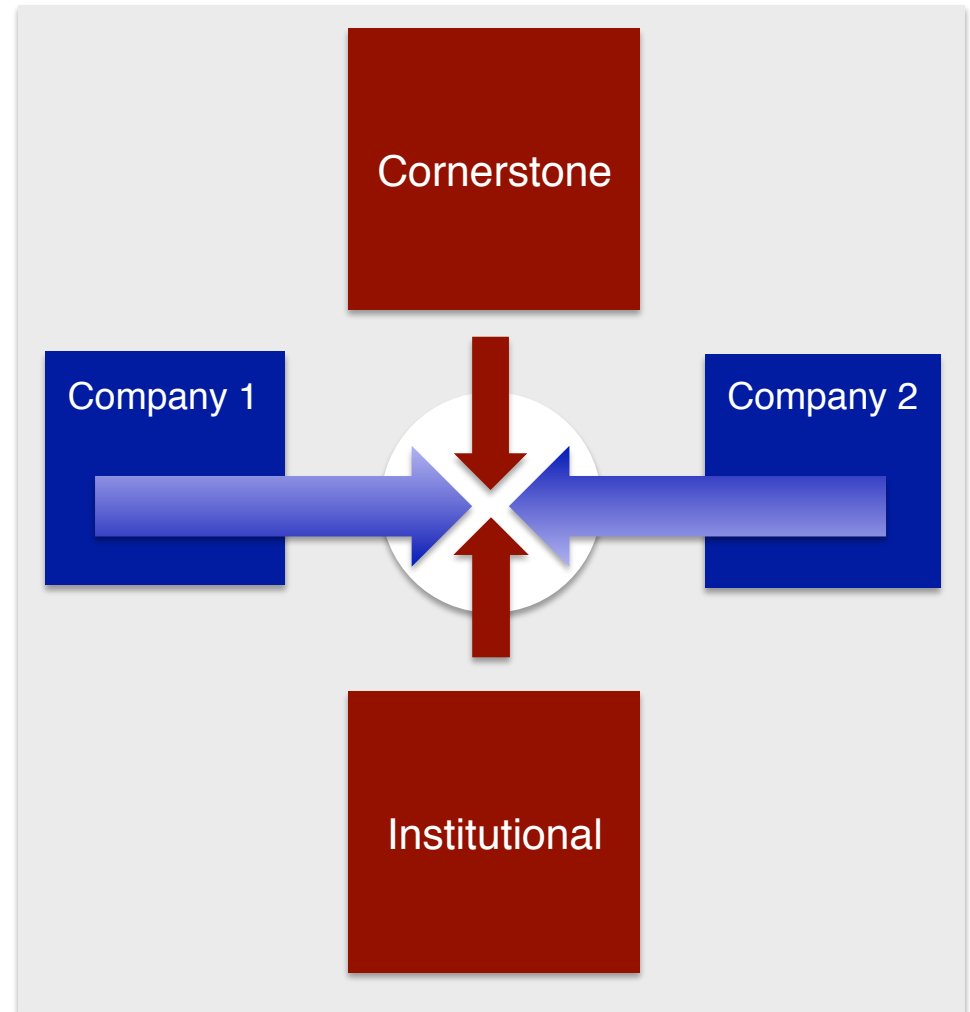
Critical Issues To Consider

- ✓ Valuation Ratio Approach
- ✓ Independent Management & Board
- ✓ Critical Mass Threshold for Capital
- ✓ Liquidity of Shareholding (Listing ?)



Pursuing Larger Corporate Mergers

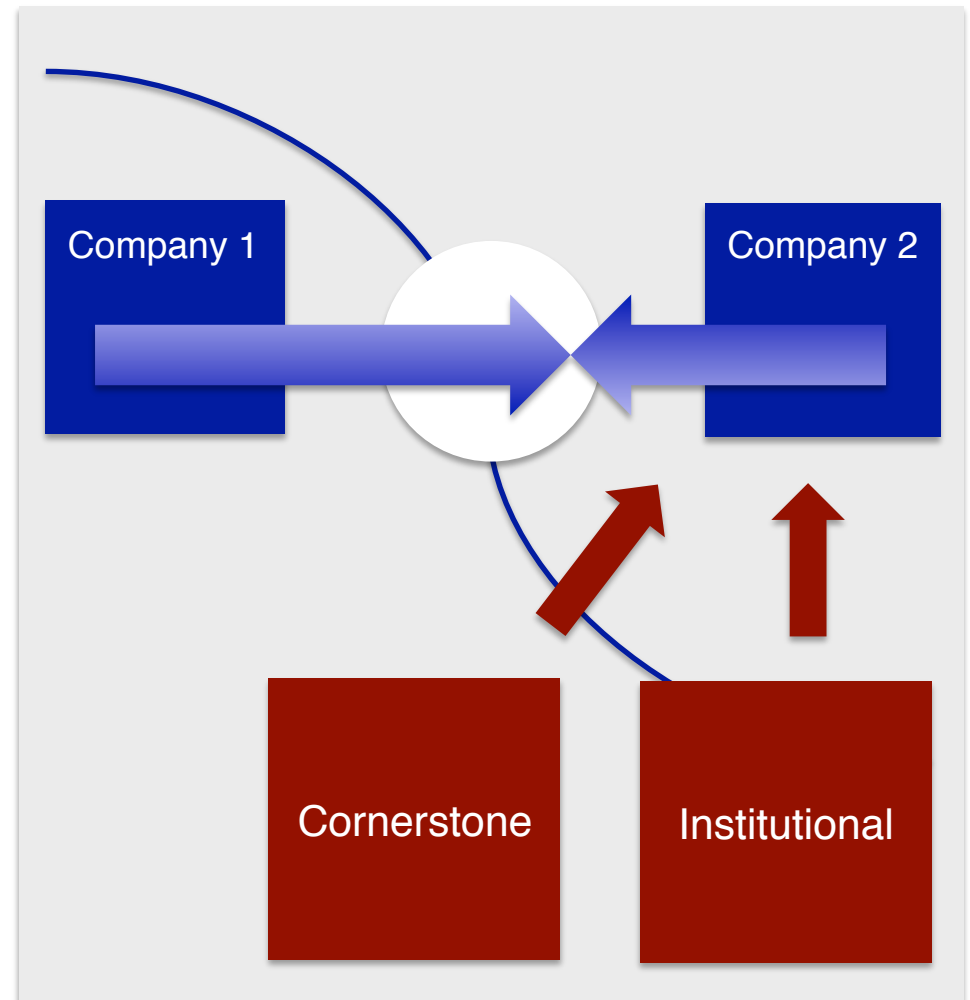
- ✓ Mergers need to jump Market Cap to position for specific benefits
- ✓ Market relevance for investors key – position to enable capital to be raised across broader (but specific) basket of projects and assets
- ✓ Allow more capital to be raised to accelerate development. Placement ratios change, for example
- ✓ Target Strategic Cornerstone or Institutional Investors as part of process (after announcement)
- ✓ Important to financially model scenarios carefully
- ✓ Shareholder value sensitivity analysis – pay off focus





Pursuing Cross Border Corporate Mergers

- ✓ Playing in a Bigger Pond – different approach to dual listing head stock
- ✓ Greater access to capital for MergerCo
- ✓ Valuation ‘arbitrage’ on foreign exchanges
- ✓ Higher probability of eventual takeout (regional play)
- ✓ More diversified asset portfolio
- ✓ Can be trickier to execute. All cash. DLCs.
- ✓ Ability to access different style talent pool
- ✓ Often, however, low scale cost benefits (purchasing, some back office)



Section 5



Sound Bite Take Away's



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High valuations linked to granular diligence

- ☑ In early stage projects significant consideration being dedicated to sensitivity analysis on eventual cost base, producing asset
- ☑ In ores, for example, Capesize –v- Panamax Ships can be the difference between economic and uneconomic production. Even at the most early stage certain large corporates are working through full blown business cases
- ☑ Assumptions being used are conservative in relation to exchange rates and commodity prices. Bidders and investors are looking at historic reference points (e.g. Gold at USD \$1,200)
- ☑ Not to chisel a good deal – but to ensure that any transaction is not so brittle that it can be effected and go uneconomic half way through its development period
- ☑ With off-shore players can mean long periods of time to do deals – some Board meetings quarterly for example



Unsecured Debt Capital

- ✓ LCC has seen a number of instances of loose engagement models where funds have been extended to progress a drilling programme, or BFS, without a shareholders agreement, or any equity arrangement formalised
- ✓ Typically a loose agreement combined with an IOU on the capital. That IOU may have restricted ability to be called, but it is debt none the less
- ✓ Despite that restriction these mechanisms set small companies up for very difficult scenarios if projects don't progress
- ✓ Potential of the company defaulting – the funder then moves from a typical shareholder scenario to a creditor scenario immediately – and can pick up the project for a song
- ✓ Where the Funder was given an option to take the project to the next stage, and does not for strategic reasons, the project owner can be in even more difficulty where the investor universe knows of the initial arrangement. Impression can be that the project does not have merit. Critical issue if funder well known

Section 6



Conclusion



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'Actionable' Take Aways

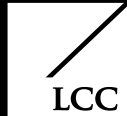
- ✓ **Strategy** 'Correct Owner Tests', Positioning For Success, Objective Assessment. Raise capital off strongest assets
- ✓ **Market Practice** Be careful of debt. Prepare for granular diligence. Understand comparable capital raising and JV deals
- ✓ **Joint Ventures** 'Hope For The Best – Plan For The Worst', Look To Leverage Capital Raising Windows, Commercially Stress Test JVs – every aspect
- ✓ **Divestments** Don't assume success. Critically examine all aspects before committing to a process. Also consider 'monetise' poor assets and free up cashflow
- ✓ **M & A** Consider Micro Mergers. Consider Traditional Mergers only where market capitalisation step change – and capital will be more accessible. Look to international exchanges for valuation arbitrage
- ✓ **Valuation & Structures** Flexibility critical with JUMEX companies. Liquidity / transaction today –v- hold for many years to be considered

Appendix



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About us...

What Lincoln Crowne & Company brings is leading Mergers & Acquisitions and strategic advice from a professional team that has a track record of servicing clients from Fortune 50 to the emerging market space.

LCC prides itself on helping clients with their most challenging corporate issues, working closely and collaboratively to deliver results from transactions or consulting engagements.

LCC style is based on technical and economic fundamentals – rigorously testing all facets of an engagement to ensure clients are provided with advice based on fact – not sentiment.

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Community focus...



LINCOLN CROWNE
FOUNDATION

PHILANTHROPY

Lincoln Crowne & Company has initiated the Lincoln Crowne Foundation.

This is a charitable organisation which supports grass roots charities whose mission is to enrich the lives of underprivileged and impoverished children across Asia, Australia and the Pacific Islands.

lincolncrownefoundation.org



ACADEMIA

LCC is a sponsor of the Law Faculty at Bond University, supporting Mining and Natural Resources Law and Legal Aspects of Business Acquisition subjects. LCC and Bond University has established a relationship surrounding the importance of success, academic integrity and outstanding performance.

LCC also sponsors the Best Undergraduate Student in the subject 'Game Theory & Strategic Decision Making' within the Faculty of Business and the Postgraduate subject "Mergers & Acquisitions". LCC is eager to encourage students to succeed in these subjects.



GOVERNANCE

Lincoln Crowne & Company is a signatory to the United Nations Global Compact.

The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies relating to ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

unglobalcompact.org



SPORT

Lincoln Crowne & Company has sponsored the 12 foot skiff "Lincoln Crowne" for over three seasons, skippered by Jonathan Temple and crewed by Richard Jones. This team has enjoyed multiple successes including winning the Australian National Championships 3 times and the NSW State Championships 5 times.

LCC also sponsors a 16 foot skiff skippered by Gerard Smith, with an award winning crew and based at the Manly 16ft Skiff Sailing Club.

lincolncrownesailing.com.au



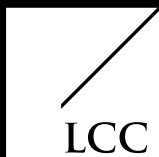
Important Information

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Whilst it is believed that the information is accurate at the date of publication, no responsibility will be accepted in any way from any party seeking to rely upon this information for any business or investment decision. The information has been provided by way of background research only, and given its content is subject to continual change in fluctuating markets.

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