

4 August 2017

The Directors  
Lincoln Minerals Limited  
Suite 4, Level 7  
350 Collins Street  
MELBOURNE VICTORIA 3000

## Summary of Opinion

In relation to the approval to issue 150,000,000 shares to Yubo Jin or his nominee company, Bonzer Group Holdings Co Ltd and 150,000,000 shares to James Zhang or his nominee company, Poly Mineral Investment Pty Ltd, in our opinion, taking into account the factors noted elsewhere in this report including the factors (positive, negative and other factors) noted in section 9 of this report, the proposals as outlined in paragraph 1.1 and Resolutions 1 and 2 respectively may be considered to be not fair but reasonable to the non-associated shareholders at the date of this report.

Dear Sirs

**RE: LINCOLN MINERALS LIMITED (ABN 50 050 117 023) ("LML" OR "THE COMPANY") MEETING OF SHAREHOLDERS PURSUANT TO AUSTRALIAN SECURITIES EXCHANGE LIMITED ("ASX") LISTING RULE 10.11 AND CHAPTER 2E OF THE CORPORATIONS ACT 2001 (CTH) ("TCA") RELATING TO THE PROPOSALS TO ISSUE 150,000,000 SHARES TO MR YUBO JIN ("JIN") OR HIS NOMINEE COMPANY, BONZER GROUP HOLDINGS CO PTY LTD ("BONZER") AND 150,000,000 SHARES TO MR JAMES ZHANG ("ZHANG") OR HIS NOMINEE COMPANY, POLY MINERAL INVESTMENT PTY LTD ("POLY") AT 3.2 CENTS PER SHARE**

### 1. Introduction

- 1.1 We have been requested by LML to prepare an Independent Expert's Report to determine the fairness and reasonableness relating to the proposals to issue 150,000,000 shares to Jin or his nominee company Bonzer and 150,000,000 shares to Zhang or his nominee company Poly. Jin and Zhang are both directors of LML and the resolutions are as set out in Resolutions 1 and 2 respectively of the Notice of Meeting ("the Notice") to be disseminated to shareholders of LML in August 2017.

The issue of a total of a total of 300,000,000 shares is known as the Subscriptions and the 300,000,000 shares known as the Subscription Shares. The Subscription Shares are to be issued at 3.2 cents each, to raise a gross \$9,600,000 ("Subscription Amount"). \$4,800,000 will be raised from Jin or his nominee company Bonzer ("Jin Group") and \$4,800,000 from Zhang or his nominee company, Poly ("Zhang Group"). Collectively, the Jin Group and the Zhang Group are described in this report as the Subscribers. The Explanatory Notes to the Notice refers to the Jin and Zhang as the Participating Directors.

Under the proposals, the Jin Group and the Zhang Group would increase their shareholdings from a starting point that is nil to a shareholding in a recapitalised LML of approximately 19.724% each (may collectively approximate 39.45%).

- 1.2 Further details the planned Subscriptions are noted in the Explanatory Notes ("EN") attached to the Notice that outlines the Resolutions 1 and 2 being put to the shareholders of LML.
- 1.3 Chapter 2E of the TCA and ASIC Regulatory Guide ("RG") 76 requires shareholders to approve transactions involving related parties where the transaction(s) involves the giving of

a financial benefit to a related party. Jin and Zhang are both directors of LML and are thus deemed related parties (to LML).

The proposals with the Jin Group and the Zhang Group as noted in Resolutions 1 and 2 respectively constitutes the giving of a financial benefit to a related party.

- 1.4 The Jin Group and the Zhang Group currently holds no shares in LML. Following completion of the Subscriptions, the Jin Group's and the Zhang Group's shareholding interests would be 150,000,000 shares each in LML representing approximately 19.724% each (collectively approximately 39.45%) of the then shares on issue. There would be 760,483,686 LML shares on issue.

- 1.5 A notice prepared in relation to a meeting of shareholders convened for the purposes of Chapter 2E of TCA and RG 76 should be accompanied by an independent expert's report stating whether it is fair and reasonable to approve the issues of the Subscribers Shares to the Jin Group (150,000,000 Subscriber Shares) and the Zhang Group (150,000,000 Subscriber Shares).

To assist shareholders in making a decision on the proposal outlined in the Notice and in particular Resolutions 1 and 2 relating to the issue of shares to the Jin Group and the Zhang Group, the Directors of LML have requested that Stantons International Securities Pty Ltd prepare an Independent Expert's Report, which must state whether, in the opinion of the Independent Expert, the proposals under Resolutions 1 and 2 are fair and reasonable to the non-associated shareholders of LML.

- 1.6 Apart from this introduction, this report considers the following:

- Summary of opinion
- Implications of the proposals with the Subscribers
- Corporate history and nature of business
- Future direction of LML
- Basis of valuation of LML shares
- Fairness of the Proposals
- Conclusion as to fairness
- Reasonableness of the Proposals
- Conclusion as to reasonableness
- Sources of information
- Appendices A and B and our Financial Services Guide

- 1.7 In determining the fairness and reasonableness of the transactions pursuant to Resolutions 1 and 2, we have had regard to the definitions set out by the Australian Securities and Investments Commission ("ASIC") in its Regulatory Guide 111, "Content of Expert Reports". The Regulatory Guide 111 states that an opinion as to whether an offer is fair and/or reasonable shall entail a comparison between the offer price and the value that may be attributed to the securities under offer (fairness) and an examination to determine whether there is justification for the offer price on objective grounds after reference to that value (reasonableness). The concept of "fairness" is taken to be the value of the offer price, or the consideration, being equal to or greater than the value of the securities in the above-mentioned offer. Furthermore, this comparison should be made assuming 100% ownership of the "target" and irrespective of whether the consideration is scrip or cash.

An offer is "reasonable" if it is fair. An offer may also be reasonable, if despite not being "fair", there are sufficient grounds for security holders to accept the offer in the absence of any higher bid before the close of the offer. Regulatory Guide 111 also provides that such an allotment should involve a comparison of the advantages and disadvantages likely to accrue to non - associated shareholders if the transactions proceed compared with if they do not.

- 1.8 Accordingly, our report in relation to the proposals under Resolutions 1 and 2 comprising the approval to issue a total of 150,000,000 Subscriber Shares to the Jin Group and 150,000,000 Subscriber Shares to the Zhang Group is concerned with the fairness and

reasonableness of the proposals with respect to the existing non-associated shareholders of LML.

### Summary of Opinion

- 1.9 For the purposes of Chapter 2E of TCA, the proposals in relation to the approval to issue a total of 300,000,000 shares as set out in Resolutions 1 and 2 is in our opinion taking into account the factors noted elsewhere in this report including the factors (positive, negative and other factors) noted in section 9 of this report, be considered to be not fair but reasonable to the non-associated shareholders at the date of this report.
- 1.10 Each shareholder needs to examine the share price of LML, market conditions and announcements made by LML up to the date of the shareholders meeting at the time of exercise of vote to ascertain the impact, if any, on Resolutions 1 and 2. The opinions expressed above must be read in conjunction with the more detailed analysis and comments made in this report, including the August 2017 valuation report on the mineral assets of LML (by Al Maynard & Associates as noted elsewhere in this report and Appendix B to this report).

### 2. Implications of the Proposal with the Subscribers

- 2.1 As at 4 August 2017, there are 460,483,686 ordinary fully paid shares on issue in LML.

The top 20 shareholders list as at 2 May 2017 discloses the following significant shareholders:

Shareholder	No. of fully paid shares	% of issued fully paid shares
Poan Group Holdings Pty Ltd	75,418,955	16.38
Good Make Inc	58,695,560	12.75
Regal Fortress Inc	51,977,235	11.29
Able Creativity Investment Limited	26,000,000	5.65
	<u>212,091,750</u>	<u>46.07</u>

- 2.2 The top 20 shareholders as per the top 20 shareholders list at 2 May 2017 owned approximately 74.38% of the issued capital of the Company.
- 2.3 The movement in the issued capital of the Company on the basis of the issuance of the Subscription Shares will be:

On issue- as at 4 August 2017	460,483,686
Subscription Shares to the Subscribers (Resolutions 1 and 2)	<u>300,000,000</u>
Shares on hand post Subscriptions	<u>760,483,686</u>

Pursuant to Resolutions 1 and 2 the Company will raise a gross \$9,600,000 on the issue of 300,000,000 Subscription Shares (ordinary shares) at an issue price of 3.2 cents per share. Following this issue of shares, the Jin Group's shareholdings will increase from nil% to approximately 19.724% and the Zhang Group's shareholdings will increase from nil% to approximately 19.724%. Collectively the shareholdings of the Jin Group and the Zhang Group will approximate 39.45% but they are not deemed associated with each other and each party can vote independently of each other after receiving Subscriber Shares in LML.

- 2.4 The estimated costs of the Notice for the Meeting of Shareholders and other recapitalisation costs will be approximately \$75,000.
- 2.5 The Board is currently comprised of Mr Yu Bo Jin (Yubo Jin) (Chairman), Mr James Tenghui Zhang (Non-Executive Director and Vice Chairman), Dr A John Parker (Executive

Director) and Mr Eddie Lung Yiu Pang (Non-Executive Director). It is not planned to change the Board in the near future but may alter as the needs arise.

2.6 Set out below is the unaudited statement of financial position of the Company as at 31 December 2016 adjusted for estimated exploration, staff and administration costs from 1 January 2017 to 30 June 2017 of \$2,715,000 (\$1,845,000 capitalised as exploration and evaluation costs) and further depreciation to 30 June 2017 estimated at \$15,000 together with the pro-forma balance sheet (statement of financial position) adjusted after allowing for:

- Issue of 300,000,000 Subscription (ordinary) Shares to the Subscribers to raise a gross \$9,600,000; and
- Incurring of costs associated with the Subscription estimated at \$75,000 and expensing against share equity

	31 December 2016 Adjusted Statement of Financial Position \$	31 December 2016 Pro-Forma Statement of Financial Position \$
<b>Current Assets</b>		
Cash Assets	1,623,025	11,148,025
Receivables	118,518	118,518
Total current assets	1,741,543	11,266,543
<b>Non-Current Assets</b>		
Plant and equipment	133,429	133,429
Exploration and evaluation costs	6,144,449	6,144,449
Intangibles	1,478	1,478
Total non-current assets	6,279,356	6,279,356
Total Assets	8,020,899	17,545,899
<b>Liabilities</b>		
Trade Creditors and Accruals	336,221	336,221
Annual leave provision	237,868	237,868
Total Current Liabilities	574,089	574,089
<b>Net Assets</b>	7,446,810	16,971,810
<b>Equity</b>		
Issued Capital	33,640,559	43,165,559
Reserves	-	-
Accumulated Losses	(26,193,749)	(26,193,749)
<b>Total Equity</b>	7,446,810	16,971,810
Shares on issue	460,483,686	760,483,686
Net book assets per share (cents)	1.617	2.231

Note 1

The movement in the cash assets is reconciled as follows:

Cash Assets:	\$
Opening Balance as adjusted	1,623,025

Placement of Subscription Shares (Resolutions 1 and 2)	9,600,000
Subscription costs (estimated)	(75,000)
Net cash on hand	<u>11,148,025</u>

Note 2

The movement in the issued capital is reconciled as follows:	\$
Issued capital as at 31 December 2016	
Placement of shares to Subscribers	33,640,559
(Resolutions 1 and 2)	9,600,000
Costs of Subscription	(75,000)
Closing balance (estimated)	<u>43,165,559</u>

### 3. Corporate History and Nature of Business

3.1 The Company's shares commenced trading on the official list of the ASX on 9 March 2007 as a mineral explorer. The LML Group's major areas of interest are as follows:

- Kookaburra Gully Graphite Project in the South Eyre Peninsula of South Australia (this is the Company's most significant mineral asset and is owned by its wholly owned subsidiary Australian Graphite Pty Limited). Based on announcements to the ASX, including one on 17 May 2017, there are JORC 2012 Mineral Resources of 2.20 Mt Indicated and Inferred at 15.1% Total Graphite Carbon ("TGC") at 5% TGC cut off or 3.2 Mt Indicated and Inferred at 11.2% Total Graphite Carbon ("TGC") at 2% TGC cut off. A Mineral Lease ML6460 was granted to Australian Graphite Pty Limited on 2 June 2016. Plans are being made to enter mine development and processing plant detailed design and construction in the second half of 2017 subject to Government approval of the Program for Environment Protection and Rehabilitation;
- Gum Flat Iron Ore Project in the southern Eyre Peninsula of South Australia that is purported to contain both direct shipping ore and magnetite ore (109 Mt Indicated and Inferred Mineral Resources at 24.8% Fe (iron). This project is on hold until iron ore prices rise to make the project economic;
- Eurilla Multi-Commodity Project in the northern Eyre Peninsula of South Australia that is prospective for iron ore, base metals, uranium and manganese; and
- Minbrie Copper Project in central Eyre Peninsula of South Australia prospective for copper, lead, zinc and silver.

3.2 A summarised unaudited consolidated balance sheet (statement of financial position) of the LML post ratification of Resolutions 1 and 2 is outlined in paragraph 2.6 of this report.

3.3 Further information on the mineral assets of the LML Group are outlined in the August 2017 valuation report ("Maynard Valuation Report") of Al Maynard & Associated ("Maynard") attached as Appendix B to this report.

### 4. Future Directions of LML

4.1 We have been advised by the directors that the initial proposals are to:

- Complete all the proposals as noted in the resolutions in the Notice and raise a gross \$9,600,000 from the Subscribers. These funds will be used for working capital and in particular to advance further the Kookaburra Gully Graphite Project towards detailed design, construction and mine development (refer the EN for further details);

- Composition of the Board of directors of LML will not change in the near future as outlined in paragraph 2.5; and
- No dividend policy has been set and it is not proposed to be set until such time as the Company is profitable and has a positive cash flow.

## **5. Basis of Valuation of LML**

### **5.1 Shares**

5.1.1 In considering the proposals as outlined in Resolutions 1 and 2, we have sought to determine whether the issue price of the Subscription Shares to the Subscribers is in excess of the current fair value of the shares in LML on issue and whether the proposed Subscription is at a price that LML could make to unrelated third parties and then conclude whether the proposals are fair and reasonable to the existing non - associated shareholders of LML.

5.1.2 The valuation methodologies we have considered in determining a theoretical value of a LML share are:

- capitalised maintainable earnings/discounted cash flow;
- takeover bid - the price at which an alternative acquirer might be willing to offer;
- adjusted net asset backing and windup value; and
- the recent market prices of LML shares.

### **5.2 Capitalised maintainable earnings and discounted cash flows**

5.2.1 LML in its own right does not have a reliable cash flow or profit history from a business undertaking and therefore this methodology is not considered to be appropriate. The Company plans, subject to financing and economic conditions, to develop the Kookaburra Gully Graphite Project but at this point of time it is premature to value all of the Company based on discounted cash flows. LML made a loss from continuing operations attributable to the members of the consolidated entity of \$0.654 million for the year ended 30 June 2016 and as at that date has accumulated losses of \$24,833 million (as at 31 December 2016, approximately \$25.530 million before adjustments).

### **5.2 Takeover Bid**

5.2.1 It is possible that a potential bidder for LML could purchase all or part of the existing shares, however no certainty can be attached to this occurrence. To our knowledge, there are no current bids in the market place and the directors of LML have formed the view that there is unlikely to be any takeover bids made for LML in the immediate future. However, following the completion of the Subscriptions, each Subscriber will control approximately 19.724% of the issued capital of LML.

### **5.4 Adjusted Net Asset Backing**

Net asset backing and windup value

A summary of the unaudited adjusted consolidated statement of financial position of the LML Group as at 31 December 2016 (as adjusted for estimated costs to 30 June 2017), along with a pro-forma consolidated unaudited statement of financial position, is summarised in paragraph 2.6 above.

In determining the net tangible asset value on a going concern basis, it is necessary to adjust the book values of the Mineral Assets to reflect the technical (market) fair value of those Mineral Assets. We, in conjunction with LML instructed Maynard to undertake a valuation of the Mineral Assets of the LML Group (the Maynard Valuation Report). In August 2017, Maynard signed the final Maynard Valuation Report in relation to the Mineral

Assets. We requested Maynard to supply a low, high and preferred range of technical values of the Mineral Assets and to ensure Maynard took into account RG 111 and 112 and the Valmin Code. As we are not qualified mineral asset valuers, the methodologies and final methodology used, was left to Maynard, so long as he considers all acceptable and recognised valuation methodologies and took into account the RG's noted and the provisions of the Valmin Code. Maynard has valued the LML Groups Mineral Assets on preferred, low and high values.

We have used and relied on the Maynard Valuation Report and have satisfied ourselves that:

- Maynard is a suitably qualified consulting firm and has relevant experience in assessing the merits of mineral projects and preparing mineral asset valuations (also the principal author of the reports is suitably qualified and experienced);
- Maynard is independent from LML and the Subscribers;
- Maynard has to the best of our knowledge employed sound and recognised methodologies in the preparation of the valuation reports on the LML Group's Mineral Assets and we have relied on Maynard's final range of technical values for the Mineral Assets of LML. We held discussions on a draft of the Maynard Valuation Report with management of Maynard and noted that the valuation methodologies considered and accepted were well recognised valuation methodologies. We consider Maynard met the scope of engagement as set out in the engagement letter sent to them- that is to provide a technical value of the Mineral Assets of LML for the purposes of us reporting on whether the proposals to make the related party placements were fair and/or reasonable.

- 5.4.4 Maynard has ascribed a range of market values for the Mineral Assets in millions of dollars (rounded to nearest million) as follows:

	Low \$Million	Preferred \$Million	High \$Million
Kookaburra Gully Graphite Project and all other projects	36	59	82
	<b>36</b>	<b>59</b>	<b>82</b>

- 5.4.5 Using the fair values of the Mineral Assets as ascribed in the Maynard Valuation Report and based on the assumptions/values provided to us of the other assets and liabilities of the LML Group as at 31 December 2016 as per the adjusted Balance Sheet A above, the net fair value of the LML Group is expected to lie in the range as follows:

	Paragraph	Low \$000's	Preferred \$000's	High \$000's
Mineral Assets	5.4.4	36,000	59,000	82,000
Remaining non-current assets		135	135	135
Current assets		1,741	1,741	1,741
Total liabilities		(574)	(574)	(574)
<b>Total Net Assets at fair values (range)</b>		<b>37,302</b>	<b>60,302</b>	<b>83,302</b>
Number of shares on issue 460,483,686		460,483,686	460,483,686	
<b>Value per share (in cents rounded down)</b>		<b>8.10</b>	<b>13.09</b>	<b>18.09</b>

- 5.5 **Market price of LML shares**

- 5.5.1 We set out below a summary of share prices of LML from 1 September 2016 to 25 May 2017:

	High Last Sale Cents	Low Last Sale Cents	Last Sale Cents	Volumes Trade (000's)
September 2016	5.7	5.1	5.2	1,156
October 2016	4.8	3.8	3.8	1,808
November 2016	4.6	3.8	4.0	2,344
December 2016	4.0	3.4	3.8	2,185
January 2017	4.6	3.6	4.4	1,632
February 2017	4.0	3.3	3.3	3,523
March 2017	4.0	3.5	3.9	1,589
April 2017	4.9	3.0	4.9	1,559
May 2017 (to 25 <sup>th</sup> )	4.6	4.0	4.5	3,381

The share price immediately prior to the announcement of the Subscription proposal with the Subscribers on 26 May 2017 was 4.5 cents. Since the announcement of the Subscription Proposal, the shares in LML have traded in the 3.6 cents to 4.6 cents range with a last sale on 3 August 2017 of 4.5 cents.

There have been no significant announcements made by LML over the past eight months. On 31 January 2017, the Company released its quarterly report to 31 December 2016, on 31 October 2016 the Company released its quarterly report to 30 September 2016 and on 28 April 2017, the Company released its quarterly report to 31 December 2016. On 27 April 2017, the Company released a summary of a presentation provided to the Australian Graphite Conference. On that day, the shares rose from around 3.2 cents to 4.9 cents and since then have traded in the low to mid 4's (cents). The Company announced an underwritten Rights Issue at 3.2 cents per share and following issues of shares under the Rights Issue (including shares to the Underwriter), 92,096,737 shares were issued in December 2016 and the Company raised a gross \$2,947,095.

- 5.5.2 We note that the market has been informed of all of the current projects, joint ventures and farm in/farm out arrangements entered into between LML and other parties. We also note it is not the present intention of the directors of LML to liquidate the Company and therefore any theoretical value based upon wind up value or even net book values (as adjusted), is just that, theoretical. The shareholders, existing and future, must acquire shares in LML based on the market perceptions of what the market considers a LML share to be worth. The market has either generally valued the vast majority of junior/mid-size mineral exploration and development companies at significant discounts or premiums to appraised technical values and this has been the case for a number of years although we also note that there is an orderly market for LML shares and the market is kept fully informed of the activities of the Company.

However, there is not a "deep market" for the shares in LML and thus the share price methodology is not our preferred valuation methodology.

#### **Summary conclusion on value of a share in LML**

- 5.6 After taking into account the matters referred to in the preceding paragraphs, we are of the view that the current theoretical value of a LML share (prior to the Subscription proposal) is 13.09 cents (preferred value) with a low of 8.10 cents and a high of 18.09 cents.

This is based on the assessed fair value of the mineral interests of LML as ascribed by Maynard. The market has taken into account risk and the cash position of LML and has ascribed values between 3.0 cents and 4.0 cents over the past few months (albeit on low volumes and from a minority point of view).



## 6. Preferred Valuation Methodology for Valuing a LML Share

6.1 In assessing the fair value of LML and an LML share pre-the proposals with the Subscribers, we have selected the net assets at fair values on a going concern methodology as the preferred methodology as:

- LML does not generate revenues or profits and has a negative cash flow and per the audited accounts has incurred significant losses in the financial years ended 30 June 2015 and 2016 and for the six months ended 31 December 2016 and to 30 June 2017 respectively. Therefore, the capitalisation of future maintainable earnings and discounted cash flow methodologies are not appropriate; and
- Although the shares of LML are listed, as there are relatively low trading volumes on ASX (no Deep Market exists) and the share prices and volumes are heavily dependent in recent times on exploration results and also may be affected by the lack of significant cash resources it is arguably inappropriate to use market share prices to value the Company and the shares in the Company for the purposes of this report. We note share prices as a secondary methodology and have considered share prices in assessing reasonableness of the proposals.

6.2 As stated at paragraph 5.4.5 we have assessed the value of LML prior to the proposals on a net asset basis on a going concern basis at fair values for the Mineral Assets as follows:

	Low	Preferred	High
<b>Net asset per share (cents)</b>	<b><u>8.10</u></b>	<b><u>13.09</u></b>	<b><u>18.09</u></b>

6.3 In accordance with Regulatory Guide 111, we have relied upon Maynard to assess the preferred value of the Mineral Assets and have incorporated them in the table above in determining the net asset value on a technical basis. We note that, the technical net asset value may not necessarily reflect fair values in the current economic circumstances of the Company and the general state of the junior mineral exploration company market.

If funds can be raised and the Kookaburra Gully Graphite Project is commercially successful (that is not assured at this point of time) then arguably the fair value of a LML share may be in excess of the current technical fair values (and in excess of the market values as noted on ASX).

6.4 The future ultimate value of a LML share will depend upon, inter alia:

- the future prospects of its Mineral Assets and in particular the Kookaburra Gully Graphite Project;
- the state of the graphite, iron ore and other base metal prices in Australia and overseas;
- the state of Australian and overseas stock markets and the ability to raise capital;
- the strength of the Board and management and/or who makes up the Board and management;
- foreign exchange movements;
- general economic conditions;
- the liquidity of shares in LML; and
- possible ventures, farm ins/outs and acquisitions entered into by LML.

## 7. Fairness of the Subscription Proposals with the Subscribers

7.1 The proposals with the Subscribers to issue a total of 300,000,000 Subscriber Shares at 3.2 cents each is believed fair to LML's non-associated shareholders if the value of the Consideration offered (in this case 3.2 cents per Subscriber Share) is equal to or greater than the value of a share in LML prior to the Subscription proposals. The valuation of mineral interests and valuing future profitability and cash flows is extremely subjective as it involves assumptions regarding future events that are not capable of independent substantiation.

- 7.2 The low, preferred and high values of a LML share prior to the Proposed Subscriptions as noted in paragraph 5.4.5 and 6.2 are:

	Para.	Low (cents)	Preferred (cents)	High (cents)
Estimated fair value of a LML Share	6.2	<u>8.10</u>	<u>13.09</u>	<u>18.09</u>
Consideration payable for each Subscription Share		<u>3.20</u>	<u>3.20</u>	<u>3.20</u>
Excess of Fair Value over Subscription Price		<u>4.90</u>	<u>9.89</u>	<u>14.89</u>

- 7.3 The preferred fair value of a LML share has been estimated at 13.09 cents on a prior to the proposed Subscriptions basis is greater than the Consideration payable by the Subscribers of 3.2 cents per Subscriber Share.

- 7.4 The issue price of the Subscription Shares of 3.2 cents is also less the last traded price of a LML share of around 4.5 cent as at 25 May 2017 (last sale price the day before the announcement of the Subscription proposals with the Subscribers).

However, it is our view that using the asset backing at fair values methodology is the most appropriate methodology to use in valuing an LML share and therefore as noted above, the potential issue of up to 300,000,000 Subscription Shares at 3.2 cents each is considered not fair to the non-associated LML shareholders.

## 8 Conclusion as to fairness of the Subscription Proposals with the Subscribers

- 8.1 The preferred fair value of a share in LML has been assessed at 13.09 cents compared with a value of a 3.2 cents payable on each Subscription Share.

- 8.2 After taking into account the matters referred to in 8 above and elsewhere in this report, we are of the opinion that, in the absence of a superior proposal, the proposals with the Subscribers as outlined in Resolutions 1 and 2 are not fair to the non-associated shareholders of LML as at the date of this report.

## 9. Reasonableness of the Subscription Proposals

### Advantages

- 9.1 The raising of a gross \$9,600,000 (net of \$9,525,000 after Subscription raising costs) will allow the Company to continue with evaluating the Kookaburra Gully Graphite Project and assist in the development costs, once a decision to mine is made. Obtaining access to a reasonable amount of cash funds in the current environment is difficult and thus the Company and its shareholders should benefit. This raising of a gross \$9,600,000 should alleviate cash flow concerns in the immediate future, and position the Company to fund its operations. In the current market, it is still difficult for exploration companies such as LML to raise equity on commercial terms. This comment is based on observation of numerous junior exploration companies for which we have undertaken independent expert's reports for over the past several years. Investors, in junior exploration companies with excellent potential on one or more areas of interest (such as LML) generally do not ascribe additional value to a company's share until the company nears decision to mine and financing is in place. Again, this is based on observations by us over many years of undertaking expert reports. We also note that the ASX allows issue of shares at any price and under certain circumstances shares may be issued at a discount to market of 20%. Many junior exploration companies, based on our observations issue shares at significant discounts to "market" as investors are generally reluctant to pay full market.

The Company has limited funds and net working capital is estimated at around \$1,050,000 and in today's market this is low cash resources. The Company to continue in existence and continue evaluation the Kookaburra Gully Graphite Project requires funds and to raise a gross \$9,600,000 from existing shareholders in today's environment where shareholders are reluctant to invest further funds makes it imperative that some form of placement(s) is required. The Directors of LML considered funding sources and the "offers" from the Related Parties were the most attractive offers to fund the Company and investor indication was that to raise \$9,600,000 would be extremely difficulty and a greater discount than that offered by the Related Parties would need to be made. It is noted that each Related Party would obtain an approximate 19.724% shareholding interest in LML but it is noted "control" does not pass to each individual Related Party and we have been advised that each Related Party participating in the Placements are unrelated to each other and will not act in concert in the future dealings with LML.

As noted above, the much-needed funds are in the main to be spent on further evaluation of the Kookaburra Gully Graphite Project, the most significant Mineral Asset of the LML Group. We have been provided with planned cash flow outlays in relation to the gross \$9,600,000 to be raised from the Placements. We have held discussions with LML management and consider that the use of funds as set out in the EN appear reasonable and appropriate. As the funds raised by the November 2016 rights issue have been substantially spent in achieving the progress described in the EN in relation to the Kookaburra Gully Graphite Project, the Company is now in need of further funding to allow it to take the next important steps along the path from an exploration company to a graphite producer, including the development of the Company's assets, to acquire necessary land and to work towards construction of a processing facility and associated infrastructure. The most significant planned expenditure item outlined in the Notice is \$6,500,000 for land acquisitions and this has been based on two years of research by a director of LML on costs of acquiring pastoral leases in the area that LML will, inter-alia, require to locate plant and construction activities.

- 9.2 The passing and consummation of Resolutions 1 and 2 would result in a net cash position of approximately \$10.574 million (assuming the Subscriptions of a total gross of \$9,600,000 referred to above) and a company with net book assets approximating \$16.972 million, compared with an adjusted book net asset position as at 31 December 2016 (as adjusted) of approximately \$7.447 million. The Subscription issues in total raise a net \$9,525,000 (assumes capital raising costs of \$75,000) which will strengthen the balance sheet of the Company and may facilitate future capital raisings.
- 9.3 If the proposal per Resolutions 1 and 2 are consummated, the net cash asset backing of a LML share rises from approximately 0.228 cents to approximately 1.390 cents.
- 9.4 The Subscribers, the Jin Group and the Zhang Group are placing faith in LML and its Mineral Assets and as noted above, the Subscription issues should assist the LML Group in continuing in business. Having each Subscriber as significant shareholders may be an incentive to them to financially support LML in future capital raisings although there is no assurance that this will occur. After the issue of all of the Subscription Shares, the Jin Group and the Zhang Group shareholding interests would be significant and they would be determined to ensure their investments in LML are successful.
- 9.5 The Jin Group and the Zhang Group will represent cornerstone shareholders (investors) in LML as the Jin Group and the Zhang Group would, after all shares issued under the Subscriptions, each have shareholding interests in LML of around 19.724%.

It is noted that the interests of Poan Group Holdings Pty Ltd ("Poan") immediately prior to the Subscriptions with the Subscribers had an approximate 16.38% shareholding interest in LML and after the issue of all Subscription Shares to the Subscribers, Poan's shareholding interest reduces to approximately 9.92%. These percentages are before the issue of any other shares.

Having cornerstone investors (shareholders) such as the Subscribers (and Poan) has advantages but it may also limit the opportunity for other parties to bid for all or part of the

shares in LML in the future. However, a takeover bid for the Company cannot be completely ruled out.

#### Disadvantages

- 9.6 A significant shareholding in the Company is being given to the individual Subscribers in that they could own up to approximately 19.724% each of the expanded issued capital of the Company after the passing of Resolutions 1 and 2. However, we note that LML will be partly recapitalised with approximately \$10.574 million in net cash, will have minimal liabilities and will have the opportunity to consider the development of the Kookaburra Gully Graphite Project. The existing shareholders are diluted to approximately 60.55% after the passing and consummation of the Subscription proposals noted in Resolutions 1 and 2.
- 9.7 The number of shares on issue rises as at 4 August 2017 from 460,483,686 shares to 760,483,686 after the issue of the Subscription Shares. This could represent up to approximately 65.15% increase in the shares of the Company as compared to the current shares on issue and represents a significant shareholding of an additional up to 30.45% in the Company being issued to the Subscribers. Potentially this may make the Company a less attractive investment for potential future investors. A material shareholding interest may be granted to the Subscribers individually over LML however it is noted that Poan would have an approximate 9.92% shareholding interest.
- 9.8 LML shareholders could effectively dilute their interest in a company that has the potential to develop its Mineral Assets (and in particular the Kookaburra Gully Graphite Project), which have been independently valued by Maynard at \$60,000,000 (preferred value) (low value \$48,000,000 and high value \$80,000,000). It is noted that the range of values ascribed by Maynard are far in excess of the market capitalisation of LML and the share prices as traded on ASX over the past months. The ASX traded prices on relatively low volumes are not abnormal for junior exploration companies such as LML and shareholders and new investors normally only re-rate companies (share priced) when a particular mineral project has final financing in place and commence construction. Although LML's Kookaburra Gully Graphite Project is most encouraging (and the Maynard Valuation Report reflects this in its range of technical values), a re-rating via share price may only occur later on arranging final financing.

In any event, the proposed issue price of the Placements to the Related Parties is below the ASX share prices and on such a basis, the Placements would not be fair (as distinct from reasonableness).

#### Other Factors

- 9.9 The cash Subscription raising costs for the raising of \$9,600,000 is estimated at \$75,000 (estimated cost of the Notice and shareholders meeting) that represents a capital raising fee of approximately 0.78%. The capital raising cost is at a reasonable rate when compared to similar capital raisings where the rates can be approximately 5% to 7% of the capital raising.

#### **10. Conclusion as to Reasonableness**

- 10.1 **After taking into account the matters referred to in 8 above and elsewhere in this report, we are of the opinion that, in the absence of a superior proposal, the proposals as outlined in Resolutions 1 and 2 are, on balance, reasonable to the non-associated shareholders of LML as at the date of this report.**

#### **11. Shareholders Decision**

- 11.1 Stantons International Securities Pty Ltd has been engaged to prepare an independent expert's report setting out whether in its opinion the issue of 150,000,000 Subscription Shares to each of the Jin Group and the Zhang Group is fair and reasonable and state

reasons for that opinion. Stantons International Securities Pty Ltd has not been engaged to provide a recommendation to shareholders in relation to resolutions other than Resolutions 1 and 2 (but we have been requested to determine whether the proposals pursuant to Resolutions 1 and 2 are fair and/or reasonable to those shareholders not associated with the Jin Group and the Zhang Group respectively). The responsibility for such a voting recommendation lies with the directors of LML.

11.2 In any event, the decision whether to accept or reject Resolutions 1 and 2 is a matter for individual shareholders based on each shareholder's views as to value, their expectations about future market conditions and their particular circumstances, including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. If in any doubt as to the action they should take in relation to the proposal under Resolutions 1 and 2 shareholders should consult their own professional adviser.

11.3 Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in LML. This is an investment decision upon which Stantons International Securities Pty Ltd does not offer an opinion and is independent on whether to accept the proposals under Resolutions 1 and 2. Shareholders should consult their own professional adviser in this regard.

## **12. Sources of Information**

12.1 In making our assessment as to whether the proposals pursuant to Resolutions 1 and 2 are fair and reasonable, we have reviewed relevant published available information and other unpublished information of LML which is relevant in the current circumstances. In addition, we have held discussions with management of LML about the present state of affairs of LML. 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 Company and publicly filed information on the financial position of the Company lodged via the ASX website.

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

- drafts of the June/July 2017 Notice of General Meeting of Shareholders of LML (and drafts of the EN attached);
- discussions with management of LML;
- shareholding details of LML;
- share prices of Lincoln as traded on the ASX from 1 September 2016 to 3 August 2017;
- announcements made by LML to the ASX from January 2015 to 4 August 2017;
- the latest set of reviewed consolidated accounts of LML for the half year ended 31 December 2016;
- Annual Report of LML for the year ended 30 June 2016;
- The Subscription Agreements between LML and each Subscriber;
- The Maynard Valuation Report and discussions with Al Maynard; and
- The budget and cash flow forecasts for 2017/18.

12.3 Our report includes Appendices A and B and our Financial Services Guide, attached to this report.

Yours faithfully

**STANTONS INTERNATIONAL SECURITIES PTY LTD**  
**(Trading as Stantons International Securities)**



Stantons International Securities

**John P Van Dieren - FCA  
Director**

For personal use only

## **APPENDIX A**

### **AUTHOR INDEPENDENCE**

This annexure forms part of and should be read in conjunction with the report of Stantons International Securities Pty Ltd (trading as Stantons International Securities) dated 4 August 2017 relating to Resolutions 1 and 2 outlined in the Notice of Meeting of Shareholders and the accompanying EN to be distributed to shareholders of LML in August 2017.

At the date of this report, Stantons International Securities Pty Ltd does not have any interest in the outcome of the proposals. There are no relationships with LML or the Subscribers other than acting as an independent expert for the purposes of this report. There are no existing relationships between Stantons International Securities Pty Ltd and the parties participating in the transactions detailed in this report which would affect our ability to provide an independent opinion. The fee to be received for the preparation of this report is based on the time spent at normal professional rates plus out of pocket expenses and is estimated not to exceed \$25,000 (excluding GST). The fee is payable regardless of the outcome. With the exception of that fee, neither Stantons International Securities Pty Ltd nor John Van Dieren or Martin Michalik have received nor will or may they receive any pecuniary or other benefits, whether directly or indirectly for or in connection with the making of this report. Stantons International Securities Pty Ltd and Stantons International Audit and Consulting Pty Ltd or any directors of Stantons International Securities Pty Ltd and Stantons International Audit and Consulting Pty Ltd do not hold any securities in LML. There are no pecuniary or other interests of Stantons International Securities Pty Ltd that could be reasonably argued as affecting its ability to give an unbiased and independent opinion in relation to the proposal. Stantons International Securities Pty Ltd has consented to the inclusion of this report in the form and context in which it is included as an annexure to the Notice.

### **QUALIFICATIONS**

We advise Stantons International Securities Pty Ltd is the holder of an Australian Financial Services Licence ("AFSL") (No 448697) under the Corporations Act relating to advice and reporting on mergers, takeovers and acquisitions involving securities. A number of the directors of Stantons International Audit and Consulting Pty Ltd are the directors and authorised representatives of Stantons International Securities Pty Ltd. Stantons International Securities Pty Ltd and Stantons International Audit and Consulting Pty Ltd (trading as Stantons International) have extensive experience in providing advice pertaining to mergers, acquisitions and strategic and financial planning for both listed and unlisted companies and businesses.

Mr John Van Dieren FCA and Martin Michalik ACA the persons responsible for the preparation of this report, have extensive experience in the preparation of valuations for companies and in advising corporations on takeovers generally and in particular on the valuations and financial aspects thereof, including the fairness and reasonableness of the consideration offered. The professionals employed in the research, analysis and evaluation leading to the formulation of opinions contained in this report, have qualifications and experience appropriate to the tasks they have performed.

### **DECLARATION**

This report has been prepared at the request of a director of the Company in order to assist the shareholders of LML to assess the merits of the proposals (Resolutions 1 and 2) to which this report relates. This report has been prepared for the benefit of the LML shareholders and those persons only who are entitled to receive a copy for the purposes of ASX Listing Rule 10.11 and Chapter 2E of TCA and does not provide a general expression of Stantons International Securities Pty Ltd's opinion as to the longer-term value of LML. Stantons International Securities Pty Ltd does not imply, and it should not be construed, that it has carried out any form of audit on the accounting or other records of LML or any of its subsidiaries. Neither the whole, nor any part of this report, nor any reference thereto may be included in or with or attached to any document, circular, resolution, letter or statement, without the prior written consent of Stantons International Securities Pty Ltd to the form and context in which it appears.

#### **DUE CARE AND DILEGENCE**

This report has been prepared by Stantons International Securities with due care and diligence. The report is to assist shareholders in determining the fairness and reasonableness of the proposals set out in Resolutions 1 and 2 to the Notice and each individual shareholder may make up their own opinion as to whether to vote for or against Resolutions 1 and 2.

#### **DECLARATION AND INDEMNITY**

Recognising that Stantons International Securities may rely on information provided by the directors of LML, its officers and other parties (save whether it would not be reasonable to rely on the information having regard to Stantons International Securities experience and qualifications), the directors (on behalf of LML) has agreed:

- (a) to make no claim by it or its officers against Stantons International Securities (and Stantons International Audit and Consulting Pty Ltd) to recover any loss or damage which LML may suffer as a result of reasonable reliance by Stantons International Securities on the information provided by the directors; and
- (b) to indemnify Stantons International Securities (and Stantons International Audit and Consulting Pty Ltd) against any claim arising (wholly or in part) from the directors, officers and LML providing Stantons International Securities any false or misleading information or in the failure of the directors, LML and their officers in providing material information, except where the claim has arisen as a result of wilful misconduct or negligence by Stantons International Securities.

A draft of this report was presented to the Directors for a review of factual information contained in the report. Comments received relating to factual matters were taken into account, however the valuation methodologies and conclusions did not alter.



**FINANCIAL SERVICES GUIDE  
FOR STANTONS INTERNATIONAL SECURITIES PTY LTD  
(Trading as Stantons International Securities)  
Dated 4 August 2017**

1. Stantons International Securities Pty Ltd (ABN 42 128 908 289 and AFSL Licence No 448697) ("SIS" or "we" or "us" or "ours" as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

2. **Financial Services Guide**

In the above circumstances, we are required to issue to you, as a retail client a Financial Services Guide ("FSG"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our Australian Financial Services Licence, Licence No: 448697;
- remuneration that we and/or our staff and any associated entities receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

3. **Financial services we are licensed to provide**

We hold an Australian Financial Services Licence which authorises us to provide financial product advice in relation to:

- Securities (such as shares, options and notes)

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

4. **General Financial Product Advice**

In our report, we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

5. **Benefits that we may receive**

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither SIS, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

6. Remuneration or other benefits received by our employees

SIS has no employees and Stantons International Audit and Consulting Pty Ltd charges a fee to SIS. All Stantons International Audit and Consulting Pty Ltd employees receive a salary. Stantons International Audit and Consulting Pty Ltd employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

7. Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

8. Associations and relationships

SIS is ultimately a wholly owned subsidiary of Stantons International Audit and Consulting Pty Ltd a professional advisory and accounting practice. From time to time, SIS and Stantons International Audit and Consulting Pty Ltd (that trades as Stantons International) and/or their related entities may provide professional services, including audit, accounting and financial advisory services, to financial product issuers in the ordinary course of its business.

9. Complaints resolution

9.1 Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to:

The Complaints Officer  
Stantons International Securities Pty Ltd  
Level 2  
1 Walker Avenue  
WEST PERTH WA 6005

Telephone: 08 9481 3188  
Facsimile: 09 9321 1204

When we receive a written complaint, we will record the complaint, acknowledge receipt of the complaints within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

9.2 Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service Limited ("FOSL"). FOSL is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOSL are available at the FOSL website [www.fos.org.au](http://www.fos.org.au) or by contacting them directly via the details set out below.

Financial Ombudsman Service Limited  
PO Box 3  
MELBOURNE VIC 8007

Toll Free: 1300 78 08 08  
Facsimile: (03) 9613 6399

For personal use only

**APPENDIX B**

**MAYNARD VALUATION REPORT ON THE MINERAL ASSETS OF LML**

For personal use only