

PRIME MINERALS LIMITED

ACN 120 658 497

SUPPLEMENTARY BIDDER'S STATEMENT

1. IMPORTANT INFORMATION

This document is a supplementary bidder's statement (**Supplementary Bidder's Statement**) made under section 643 of the *Corporations Act 2001* (Cth) (**Corporations Act**) and is supplementary to the bidder's statement dated and lodged with the Australian Securities and Investments Commission (**ASIC**) on 26 August 2014 (**Original Bidder's Statement**) issued by Prime Minerals Limited (ACN 120 658 497) (**Prime** or **PIM**) in relation to its off-market takeover offer for all of the fully paid ordinary shares (**Shares**) in the capital of Cocoon Data Holdings Limited (ACN 127 993 300) (**Cocoon**) (**Offer**).

This Supplementary Bidder's Statement was lodged with ASIC on 18 September 2014. Neither ASIC nor its any of its officers take any responsibility for the contents of this Supplementary Bidder's Statement.

This Supplementary Bidder's Statement must be read together with the Original Bidder's Statement. If there is a conflict between the Original Bidder's Statement and this Supplementary Bidder's Statement, this Supplementary Bidder's Statement will prevail. Unless the context otherwise requires, terms defined in the Original Bidder's Statement have the same meaning in this Supplementary Bidder's Statement.

Please consult your legal, financial or other professional adviser if you do not fully understand the contents of this Supplementary Bidder's Statement.

A copy of this Supplementary Bidder's Statement will be available on the company announcements platform of Prime (ASX: PIM) on the ASX website (www.asx.com.au).

2. VALUATION OF PRIME PERFORMANCE SHARES

In accordance with the Original Bidder's Statement, Prime's Offer is to acquire all of your Shares in Cocoon for 0.6547 PIM Shares and 0.0953 Performance Shares per Cocoon Share on a post-Consolidation basis.

The Original Bidder's Statement gives each Prime Share and Performance Share a value of \$0.20 each (on a post Consolidation basis).

ASIC has advised Prime that it does not consider Prime has a reasonable basis for valuing Prime Performance Shares at \$0.20 each unless it is certain that at least one of the three milestones for the Performance Shares will be met within the three year term of the Performance Shares, resulting in the Performance Shares vesting into Prime Shares.

Prime based its assumed value of the Performance Shares at \$0.20 in the Original Bidder's Statement on a number of factors, including the application of Australian Accounting Standards Board standard AASB 2, *Share based payments* (**AASB 2**).

ASIC has advised that it does not consider AASB 2 is necessarily the most relevant guide in relation to this valuation, and considers that, in accordance

with ASIC Regulatory Guide 111.11(a), a willing buyer would apply a discount if it was not certain that at least one of the milestones may be met.

The milestones for the Performance Shares have been agreed on an arm's length basis and after extensive negotiations with Cocoon. The milestones were agreed with the intention that at least one of the three milestones should reasonably be expected to be achieved in due course (and within the three year life of the Performance Shares), resulting in the Performance Shares vesting into Prime Shares.

However, it is not certain that at least one of the milestones will be satisfied.

As there is a risk the Performance Shares will not vest, Prime has agreed, given ASIC's concerns, to issue this Supplementary Bidder's Statement qualifying its earlier comments on the assumed value of the Performance Shares.

The Prime Board considers that there is no definitive way to value the Performance Shares for the purposes of the Takeover Offer.

One methodology for valuing the Performance Shares is to assign a probability to the likelihood of one of the milestones being achieved, and discounting the value of the Performance Shares to reflect this probability. However, Prime's Board is not in a position to forecast with any reasonable certainty the precise probability that at least one of the milestones will be satisfied within three years.

In reality, the Performance Shares will either:

- (a) vest (due to one of the three milestones being satisfied within three years of the Performance Shares being issued , in which case they will have a value of \$0.20 each (assuming each PIM Share has a value of \$0.20); or
- (b) not vest (because none of the three milestones is satisfied within the three year period), in which case the Performance Shares will have a nil value.

Cocoon Shareholders should, in assessing the valuation of Performance Shares, take the above into account, along with the following factors:

- (a) **Dividends:** the Performance Shares carry no rights to dividends. However, Cocoon is a loss making business at present, has never paid dividends and is not anticipated to pay dividends during the three year life of the Performance Shares as it will be going through a growth phase;
- (b) **Voting Rights:** the Performance Shares have limited voting rights. However, the holders of the Performance Shares will be ex-Cocoon shareholders who will, post merger, have significant voting power in Prime through the Prime shares issued to them as part of the Offer. Each ex-Cocoon shareholder's voting power in Prime will not be materially affected by the fact their Performance Shares will have limited voting rights; and
- (c) **Not Quoted** –there is no liquid market for the Performance Shares. However, while there will initially be no liquid market for the Performance Shares, when one of the milestones is achieved and the Performance Shares are converted into Prime ordinary shares, a liquid market will exist.

Prime's Board considers Cocoon shareholders have enough reliable information to enable them to assess the merits of the Offer, including the valuation of the Performance Shares and the likelihood of the milestones being achieved, as they will, post merger, as a group, have control of Prime.

3. TAKEOVER OFFER VALUATION OF EACH COCOON SHARE

The Original Bidder's Statement states that the Takeover Offer values each Cocoon Share at \$0.15.

As a result of the above change in the valuation of the Performance Shares, the value offered by the Takeover Offer for each Cocoon Share now depends on the value attributed to a Performance Share.

Based on the above, the Takeover Offer, which offers 0.6547 PIM Shares and 0.0953 Performance Shares per Cocoon Share on a post-Consolidation basis, values each Cocoon Share at between:

- (d) \$0.13094 (if a Performance Shares is assumed to have a nil value); and
- (e) \$0.15 (if a Performance Share is assumed to have a value of \$0.20).

The above valuation assumes a PIM Share is valued at \$0.20. The actual value will depend on the Share price of PIM Shares at the time a Performance Share vests.

Based on the 30 day VWAP for PIM Shares up to and including 17 September 2014 (being the 30 day period up to and including the last trading day for PIM Shares on the ASX prior to the date of this Supplementary Bidder's Statement), the value of a PIM Share is \$0.0207. This is equivalent to a price per PIM Share of \$0.207 (on a post-Consolidation basis), and gives an implied value for each Cocoon Share under the Takeover Offer of:

- (a) \$0.1355 (if a Performance Shares is assumed to have a nil value); and
- (b) \$0.1552 (if a Performance Shares is assumed to have a value equal to \$0.207).

4. RISKS – PERFORMANCE SHARES

As noted above, if none of the milestones are met within three years from the date of issue of the Performance Shares, all the Performance Shares will lapse and will not convert into ordinary Prime Shares.

If this occurs, holders of Performance Shares which lapse will not receive any consideration or compensation for the lapse of their Performance Shares and the total consideration a Cocoon Shareholder will receive for their Cocoon Shares under the Offer will therefore be limited to 0.6547 PIM Shares for every Cocoon Share.

The value of this consideration will depend on the value of Prime Shares at the time the Performance Share vests, which may be greater or less than \$0.20.

In addition to the risk that none of the Performance Share milestones are met within three years of issue, Cocoon Shareholders should also be aware that:

- (a) the Performance Shares will not be tradeable and will not be quoted. There will be no market for Performance Shares and it will not be possible to sell, transfer or otherwise deal with Performance Shares. Only the ordinary Prime Shares which will be issued if at least one of the milestones is satisfied, and which are to be listed along with other ordinary Prime Shares will be able to be sold, transferred or otherwise dealt with; and
- (b) the Performance Shares will carry no dividend or distribution rights, and do not entitle the holder to vote at a meeting of ordinary shareholders of Prime Shares (until and unless converted to ordinary Prime Shares if a milestone is fulfilled).

5. ATTRACTIVENESS OF OFFER

Prime considers it has a reasonable basis for its opinion that the Offer value is attractive to Cocoon shareholders, notwithstanding that the revised valuation set out above indicates that (assuming a PIM Share is valued at 0.20 each):

- (c) the Performance Shares are valued between nil and \$0.20 on a post Consolidation basis; and
- (d) the value offered for a Cocoon Share is therefore between \$0.13094 and \$0.15 each.

In support of this view, Prime notes that:

- (a) the Original Bidder's Statement states that the Takeover Offer values Cocoon at circa AUD\$57 million. If Prime Performance Shares are now given a value of between nil and \$0.20 each, and PIM Shares are valued at \$0.20 each, the Takeover Offer values Cocoon at between \$50 million and circa \$57 million. This is still considered to be an attractive valuation for Cocoon given the factors below;
- (b) Cocoon is currently not generating any profits;
- (c) Cocoon's ability to generate profit in the future is uncertain and is subject to a number of risks (as detailed in the Bidder's Statement); and
- (d) there are other qualitative factors that add to the attractiveness of the offer (as outlined in Section 2.1 of the Bidder's Statement), including gaining access to liquidity and a better capitalised merged company.

6. CAPITAL RAISING CONDITION

The Bid Implementation Agreement provides that the Takeover Offer is conditional, amongst other things, on Prime raising at least \$5 million (less any Convertible Note Proceeds).

The Original Bidder's Statement provides that the Takeover Offer is conditional, amongst other things, on Prime raising at least \$2.5 million.

This change is due to the fact \$2.5 million in Convertible Note Proceeds were raised by Cocoon between the date of the Bid Implementation Agreement and the date the Original Bidder's Statement was lodged with ASIC.

7. DIRECTOR'S AUTHORISATION

This Supplementary Bidder's Statement has been approved by a resolution passed by the Directors of Prime.

**Signed for and on behalf of
Prime Minerals Limited
Michael Scivolo
Director**