

COCOON DATA HOLDINGS LIMITED [ACN 127 993 300]

Supplementary Target's Statement

1. Introduction

- 1.1 This document is a supplementary target's statement under section 644 of the *Corporations Act 2001* (Cth). It is the first supplementary target's statement ("Supplementary Target's Statement") issued by Cocoon Data Holdings Limited [ACN 127 993 300] ("Cocoon" or "the Company") in relation to the off-market takeover bid for all the issued ordinary shares of Cocoon by Prime Minerals Limited [ACN 120 658 497] (ASX: PIM) ("Prime"). This Supplementary Target's Statement supplements, and should be read together with, Cocoon's Target's Statement dated 29 August 2014 ("Target's Statement").
- 1.2 Words and phrases defined in the Target's Statement have the same meaning in this Supplementary Target Statement (unless otherwise defined).

2. Evaluation leading to recommendation of the Offer

The key reasons Cocoon Directors consider it appropriate to recommend Cocoon Shareholders accept the Offer (in the absence of a Superior Proposal and in the absence of a variation or waiver of an Essential Bid Condition) are set out in the Target's Statement, including in the Chair's Letter and section 6.

In determining the content of the Target's Statement, including the recommendation, Cocoon's Board took into account the factors which are relevant to assessing an offer. The Board of Cocoon has a mix of technical and commercial skill sets and specifically considerable experience in the emerging technology sector. The Board also consulted extensively with its financial and legal advisers when evaluating the Offer and deciding whether it should recommend the Offer to holders.

The Board concluded the following factors may affect an assessment of the value of Cocoon Shares:

- (a) There was no appropriate conventional methodology for valuing Cocoon Shares given the negative net asset position (as disclosed in the financial information in the Bidder's Statement), the absence of a secondary market as Cocoon's shares are not listed or otherwise traded in a liquid market, and the inability to make reasonably based assumptions about future financial performance which would be required if, for example, attempting to apply a discounted cash flow method of valuation.

- (b) The substance of the transaction was to achieve a listing of the Cocoon business whereby the overwhelming majority of the listed Merged Entity would be held by existing Cocoon holders.
- (c) The transaction terms were negotiated at arm's length with the Bidder having no pre-existing voting power in Cocoon.
- (d) There is no market price or liquidity for Cocoon Shares in the absence of the Offer.
- (e) Without providing tax advice to Cocoon shareholders, on general principles the Board considered it likely that the transaction would be largely tax neutral for most Cocoon Shareholders.
- (f) There is no apparent special value of Cocoon for Prime to consider as Prime is essentially a shell company.
- (g) There are no apparent alternative bidders and therefore the likelihood of an alternative offer is low.

The structure of the Merged Entity will imply a value for Cocoon Shares in terms of the market Capital Raising to be undertaken by Prime in conjunction with the Offer, as described in the sections 4.4 and 6.2 of the Target's Statement and in section 2.1 of the Bidder's Statement, noting the further information about Performance Shares set out in section 3 of this Supplementary Target's Statement, below. Specifically, the notional price of the Cocoon Shares under the Offer is calibrated to the price of the Capital Raising so that a successful Capital Raising will validate the pricing inherent in the structure. If the Capital Raising does not succeed then the Essential Bid Conditions of the Offer will not be met, and no Cocoon Shares will be acquired from Cocoon Shareholders by Prime.

As a result of the change in the valuation of the Performance Shares as described in the following section 3 of this Supplementary Target's Statement, the value offered by the Offer for Cocoon Shares now depends on the value attributed to Performance Shares.

On that basis, the Offer, which offers 0.6547 Prime Shares and 0.0953 Performance Shares per Cocoon Share (on a post-Consolidation basis) values each Cocoon Share at between:

- (a) \$0.13094 (if Performance Shares are assumed to have a nil value); and
- (b) \$0.15 (if Performance Shares are assumed to have a value of \$0.20).

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

Based on the 30 day VWAP for Prime Shares up to and including 19 September 2014, the value of a Prime Share is \$0.0228. This is equivalent to a price per Prime Share of \$0.2277 (on a post-Consolidation basis), and gives an implied value for each Cocoon Share under the Offer of:

- (a) \$0.1491 (if a Performance Shares is assumed to have a nil value); and
- (b) \$0.1708 (if a Performance Shares is assumed to have a value equal to \$0.2277).

A further factor in considering the Performance Shares and their relevance to the issues before holders is that they represent only approximately 12.7% of the total consideration.

The Cocoon Board considers that when the information in this Supplementary Target's Statement including the following sections 3 and 4 regarding Performance Shares is taken into account, Cocoon shareholders have enough reliable information to enable them to assess the merits of the Offer, including the value if any of the Performance Shares given the requirement that a Milestone must be fulfilled within 3 years of the issue of the Performance Shares if they are to have any value.

3. Performance Shares - Equivalence

The Chair's Letter and sections 4.4 and 6.2 of the Target's Statement, and the Bidder's Statement, contain the assumption that Performance Shares issued by Prime are equivalent in value to Prime Shares.

ASIC has advised Cocoon that because Performance Shares were valued as equivalent to Prime Shares that necessarily meant Cocoon management had concluded that it is certain that one of the

three Milestones will be met and therefore all the Performance Shares will convert within 3 years of their issue. ASIC was concerned that it cannot be said with certainty that one of the Milestones will be met.

On the basis of the above concerns, the Cocoon Board considers that there is no definitive way to value the Performance Shares for the purposes of the Offer. References in the Target's Statement to a value of Performance Shares (whether express or implicit) should be disregarded.

It is inherently uncertain that at least one of the Milestones will be met.

The Milestones are set out in the following section 4 of this Supplementary Target's Statement. The Performance Shares will lapse (without holders receiving any consideration or compensating) and not convert into ordinary Prime Shares unless at least one Milestone is fulfilled within three years from the date of issue of the Performance Shares. All the Performance Shares will convert if at least one Milestone is fulfilled within the three year period.

Also as referred to in the following section, Performance Shares are not tradeable and will not be quoted, and carry no dividend, distribution or voting rights (until and unless converted to ordinary Prime Shares if a Milestone is fulfilled).

It is not possible to assign a probability to the likelihood of one of the Milestones being achieved. It is therefore not possible to attempt to attribute a value based on such a probability.

In negotiating the structure of the Merged Entity, and therefore the price for Cocoon Shares inherent in the Offer, Prime sought to qualify a relatively small proportion of the consideration as Performance Shares. In negotiating the terms of the Milestones upon which those Performance Shares convert to ordinary shares, Cocoon Directors sought to establish Milestones the achievement of one or more of which would be, in their view and without indicating or implying that any of the Milestones will necessarily be achieved, a realistic and reasonable goal. It would have been artificial and substantially meaningless to agree to a Performance Share component of the consideration or to Milestones were that not the case.

If a Milestone is achieved in the 3 year period, the Performance Shares will convert to Prime Shares, and therefore have the same value as a Prime Share (\$0.20, assuming Prime Shares have a value of \$0.20 as described in the Bidder's Statement and Target's Statement). The actual value will depend on the Share price of PIM Shares at the time a Performance Share vests. Otherwise if none of the Milestones are achieved in that period and the Performance Shares will lapse and not convert, and therefore the Performance Shares would have a nil value.

4. Risks – Performance Shares

As referred to in section 4.3 of the Target's Statement, the Performance Shares will convert into Prime Shares upon the satisfaction of any one of the Milestones attaching to the Performance Shares.

As set out in section 3.21 of the Bidder's Statement, the Milestones are:

- (a) Cocoon receives annualised revenue over three consecutive calendar months equivalent to at least \$20,000,000 (based on Cocoon's half yearly financial statement for the relevant period) on an annual basis, and such revenue is confirmed by the signed attestation of a registered company auditor, or such revenue is properly included in Cocoon's audited financial statements;
- (b) deployment on a revenue generating basis of Target's "Covata Platform", "Covata Safe Share" and/or "Covata SDK" software services in the internal or cloud-hosted IT infrastructure of a multinational corporation included on the S&P 500 Index or the FTSE500; or
- (c) deployment of Target's "Covata Platform", "Covata Safe Share" and/or "Covata SDK" software services in the internal or cloud-hosted IT infrastructure on a proof-of-concept basis with at least:
 - (i) twenty (20) corporations, each having an annualised revenue of at least \$200,000,000;
 - (ii) twenty (20) G20 (permanent) member governments (or a department of such government); or
 - (iii) twenty (20) of a combination of (i) and (ii) above,

and such deployment on a revenue generating basis with ten (10) of (i), (ii) or (iii) above.

If none of the above 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.

It is therefore a risk of the Offer that Performance Shares will lapse and not convert into ordinary Prime Shares unless at least one Milestone is fulfilled within three years from the date of issue of the

Performance Shares. Holders of Performance Shares which lapse will not receive any consideration or compensation for the lapse of their Performance Shares.

The Performance Shares are not 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.

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. Cocoon Loan Plan Shares

Prime Shares and Performance Shares (including Prime Shares issued upon conversion of the Performance Shares if at least one Milestone is fulfilled) received as consideration for Loan Plan Shares will:

- (a) be subject to the same transfer restrictions as applied to Loan Plan Shares, until the corresponding loan has been repaid; and
- (b) continue to be used as security to secure each employee's loan in respect of the acquisition of Loan Plan Shares.

As a result, assuming the Offer is successfully completed, employees who held Loan Plan Shares, or entitlements to those shares, will hold the number of Prime Shares and Performance Shares that is calculated on the same basis as other Cocoon Shareholders who accept the Offer receive their Prime Shares and Performance Shares. Consistent with the arrangements under which the employees hold their Cocoon Loan Plan Shares:

- (a) the Prime Shares they receive will not be listed and will be escrowed until such time as the holder would have become fully entitled to the equivalent Cocoon Shares under the Cocoon Loan Plan Shares plan; and
- (b) as provided for in the terms of the Performance Shares, the Performance Shares they receive will not be listed. Prime Shares into which the Performance Shares convert upon achievement of a Milestone applicable to the Performance Shares

would be escrowed until such time as the holder would have become fully entitled to the equivalent Cocoon Shares under the terms of Cocoon Loan Plan Shares plan.

6. Cocoon Convertible Note Holders and Cocoon Warrants

6.1 Cocoon advises that:

- (a) The Cocoon convertible notes described in the Bidder's Statement as "Existing Convertible Notes" have converted into 116,777,776 ordinary paid shares of Cocoon. The holders of the Cocoon Shares issued upon conversion are eligible to accept the Offer.
- (b) The conversion occurred either in accordance with the terms of the notes or by agreement between the note holders and Cocoon.
- (c) Of the above Cocoon Shares, 33,333,332 were issued to TPG Telecom Limited ("TPG") under the terms of the notes held by TPG. Cocoon did not enter into any arrangement with TPG varying the terms of its notes nor providing for TPG to agree to accept the offer.
- (d) The recipients of the remaining 83,444,444 Cocoon Shares agreed to accept the Offer no later than five business days of the Offer becoming or being declared Unconditional.
- (e) As at 19 September 2014 (being the business day before the date of this Supplementary Target's Statement), Prime had informed Cocoon that no acceptances had been received in respect of the Cocoon Shares issued upon conversion of those notes.

6.2 New Convertible Notes have not yet converted. As set out in Note 5 to the table in section 4.6 of the Bidder's Statement (on pages 50-51) those notes (together with interest owing) will automatically convert directly into Prime Shares if Completion occurs. If the Offer closes on the date specified in the timetable in the Bidder's Statement (page 7) and the Target's Statement (page 3) no more than the 13,500,000 Prime Shares set out against "New Convertible Notes" in the table in section 4.6 of the Bidder's Share's Statement will be

issued. If completion of the Offer is delayed and interest accrues for more than 4 months, additional Prime Shares will be issued at the conversion rate of \$0.20 (20 cents) per Prime Share. For example if an additional fifth month's interest were payable an additional approximately 270,600 Prime Shares would be issued (or approximately 9,020 additional Prime Shares per day, assuming a 30 day month).

6.3 Consistent with Note 3 to the table in Section 4.6 of the Bidder's Statement (page 50), all holders of warrants in Cocoon have now, as part of a plan of recapitalisation, agreed to automatic cancellation of their warrants in consideration for the issue of Cocoon Shares (effective as at the date of the Offer becoming or being declared Unconditional) and to accept the Offer no later than five business days after the issue of those Cocoon Shares. As the Offer is still conditional that conversion has not occurred. As set out in the table in section 4.6 of the Bidder's Statement, 26,000,000 Cocoon Shares are to be issued upon cancellation of the warrants.

7. References to the Capital Raising minimum of \$2.5 million

The Target's Statement refers to a minimum Capital Raising of \$2.5 million as a Bid Condition in paragraphs 4.9(b) and 10.2(c). The \$2.5 million figure is the balance of the minimum \$5 million capital required to satisfy the Bid Condition set out in section 1.8(a)(iv) of Annexure A of the Bidder's Statement ("Prospectus Offer Condition") after the amount of Convertible Note Proceeds as provided for in the Prospectus Offer Condition.

Cocoon received \$2.5 million as Convertible Note Proceeds prior to the date of the Bidder's Statement and the Target's Statement. Accordingly the figure in paragraphs 4.9(b) and 10.2(c) Target's Statement, being the balance of \$2.5 million, is the minimum amount required to be raised by the Capital Raising to complete fulfilment of the Prospectus Offer Condition.

8. Correction of information in Section 7.1(c) "Dilution of your shareholding"

The figure "78.19%" appearing in section 7.1 (c) of the Target's Statement (on page 16) should be "86.32%", consistent with the figure in section 6.2 on page 14 of the Target's Statement.

9. Date & Lodgement with ASIC

This Supplementary Target's Statement is dated 22 September 2014. A copy of this Supplementary Target's Statement was lodged with ASIC on the same date. Neither ASIC or any of its officers take any of responsibility for its contents.

10. Authorisation

This Supplementary Target's Statement has been approved by a resolution passed by the Board of Cocoon.

Signed for and on behalf of Cocoon:

Date: 22 September 2014

Signature: 

Name: Charles Archer

Position: Executive Chairman